

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our operating results and financial position should be read in conjunction with our unaudited financial statements for the quarter ended March 31, 2008 and related notes (collectively, "financial statements"), which have been prepared in accordance with accounting principles generally accepted in Canada ("GAAP").

Forward-Looking Statements

Certain information in this discussion and analysis contains forward-looking statements and assumptions, such as those related to results of operations and financial condition, 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 as a result of a variety of factors, including without limitation, those described in the "Risk Factors" section of our most recent Annual Information Form and the following:

- prices of oil and natural gas may be subject to significant fluctuations;
- operating results following our acquisitions may not be as expected;
- competitive pressure among companies in the industry in which we operate may increase significantly;
- costs or difficulties related to the integration of businesses we acquire may be greater than expected;
- changes in the interest rate environment may adversely affect our asset values or increase our borrowing costs;
- general economic conditions, whether nationally or in the market areas in which we conduct business, may be less favorable than expected;
- legislation or regulatory changes may adversely affect the business in which we are engaged;
- the effects of technological changes or obsolescence relating to our products and services;
- the effects of government regulation or shifts in government policy;
- the reserve estimates presented in this discussion will differ from our actual results;



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- the uncertainty of the productivity of drilled oil and natural gas wells may adversely affect our ability to produce oil and/or natural gas in commercial quantities;
- if we cannot meet our substantial capital requirements, our growth and operations may be hindered;
- weather disturbances or natural occurrences such as earthquakes could disproportionately affect our production or transportation due to our geographic concentration;
- significant changes in the cost or availability of gathering systems, pipelines and processing facilities may affect our ability to produce and market oil and natural gas;
- adverse changes may occur in the securities markets generally; and
- conditions in the equity and debt markets, or our financial condition, may render us unable to achieve desired reductions in our debt burden or overall cost of debt.

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. We disclaim any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events, or otherwise, subject to our obligations under applicable securities laws.

Overview

We are an independent oil and gas production and development company with operations in both onshore and offshore California and Alaska. We are focused on the acquisition, exploitation, exploration and development of oil and gas properties. Our strategy is two fold: first, to develop our large inventory of proved undeveloped reserves and second, to focus on acquiring assets with low risk exploitation and development potential (proved undeveloped reserves) at below market multiples. We plan to supplement this low risk exploitation strategy from time to time by participating in exploration projects.

Our revenues increased as a result of price and production increases for both crude oil and natural gas and acquisitions completed over the last quarter and beyond. Because we cannot predict the certainty of sustained commodity prices in the future, we have entered into hedge contracts to ensure a minimum amount of cash flow is generated. We believe this minimum amount is sufficient to cover our existing debt service. The remaining unhedged portion as well as new production brought on line in the future remain subject to risk associated with the potential volatility and uncertainty around the underlying commodity prices. We may realize lower revenues if commodity prices decline and/or we are not able to sustain or increase our oil and natural gas production volumes. Since crude oil represents greater than 98% of our revenue, we are most at risk for declining revenues if crude oil prices or production falls. If crude oil prices are sustained or increase over time,



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we expect increased revenue. However, any price increases may be offset by decreased production volumes, existing hedge contracts, increased production costs, increased competition for drilling rigs potentially leading to higher drilling costs, and increased competition for producing properties. If crude oil prices decline, production costs may decrease, but at a slower rate than the rate at which the crude oil prices decline, reducing profitability.

Overall Performance

Our focus continues to be on two major areas: the reduction of the overall amount and cost of debt and operational activities including Platform Eureka Return to Production (RTP) and Alaska operations including both managing the ongoing Chevron Plan of Development as well as planning for drilling off of Platform Osprey. We are pleased to report on a number of fronts the accomplishments of the first quarter of 2008.

- Our 2007 year end total proved reserves increased by 383%
- Gross revenue for the quarter was \$60.3 million up 786.8% from the year ago period and 15.5% from the previous quarter.
- In January, we completed an incentive warrant offering of approximately \$20.6 million.
- We continued ongoing discussions with potential and existing lenders regarding debt syndications, particularly our first lien Alaska debt.
- We reached new terms with our current lenders extending the maturity of our Second Lien Alaska debt and providing additional flexibility for debt repayment and restructuring.
- We gained regulatory approval from the State of Alaska and the Department of Natural resources to become an approved operator in the Alaska Cook Inlet and for Platform Osprey.
- In February, we filed with the US Securities and Exchange Commission on Form S-1 our registration statement for our current outstanding share base.
- On February 26, 2008 we were recognized by the Department of Minerals Management Service (MMS) and awarded the 2007 Safety Award for Excellence for the California district for our operation of Platforms Elly, Ellen, and Eureka.
- In March, we announced regulatory approval from the Department of Minerals Management to complete the initial return to production of Platform Eureka.



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- In April, we gained a 20 year right of way extension on our 100% owned San Pedro Bay Pipeline business with the State of California.
- On April 17, we turned on partial production from Platform Eureka in excess of 700 barrels of oil per day.

Beta Assets (offshore San Pedro, California)

We continue to make significant progress during the first quarter of this year on returning Platform Eureka to production and announced in March that we received the regulatory approvals necessary to finalize the operations. On April 17, we announced that the first barrels of oil began flowing. As of May 11, 2008, we were averaging just over 700 barrels of oil of incremental production from Platform Eureka. We are continuing to do platform and well work sufficient to turn on additional production with a full return to production in excess of 4,000 incremental barrels of oil per day expected in the 3rd quarter of this year. Additionally, we began producing gas from Platform Eureka which is being used to power some of our platform generators reducing our dependence on diesel fuel purchases. We are currently saving in excess of \$150,000 per month with this early gas production. In April 2008 we received a right of way extension on our 100% owned San Pedro Pipeline business for an additional 20 years.

Alaska Assets

Operated Assets

In January 2008, we were approved by the Alaska Department of Natural Resources and State Lands Commission as an operator of our Alaskan assets. That was the required event for us to convert the retained Forest Oil employees, as well as additional hires, over to full-time employees. As such, we are no longer obligated to pay a monthly management fee of approximately \$900 thousand to Forest Oil. We have been working to optimize our operations, including cost reduction programs as well as initiating new drill sites. We plan to drill two wells off of the Redoubt Shoal Platform beginning in the third quarter of 2008.

Non-Operated Assets

We continue to manage the ongoing operations of the approved Chevron Plan of Development. Chevron has been aggressively working to ready the platforms for drilling operations. We are expecting some production interruptions during 2008 while maintenance work, submersible pump replacements, and drilling upgrades are completed to optimize the platforms for drilling in late 2008 and early 2009. As such, we do not expect to see any significant production increase for the non-operated properties until 2009.



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Exploration Activity

The State of Alaska has accepted an amendment to the plan of exploration under the Corsair Unit to extend our deadline to initiate drilling of the Corsair Unit and Valkyrie prospect from December 31, 2008 to June 30, 2009, with a second well to be drilled immediately if the first well is successful. We recently completed an independent third party review of the Alaskan exploration targets which we will use to help determine the optimal plan of development including bringing in additional parties to share in the project.

LA Basin and San Joaquin Basin Redevelopment

Production for these regions decreased by 8% and 13% respectively but these declines in production were offset by increases in the underlying realized price of 7.3% and 16.2% respectively. We are currently evaluating options for these assets that include divestiture options in addition to drilling additional wells.

Results of Operations

Results of Operations—For the Quarter Ended March 31, 2008

Factors Affecting Comparability

We acquired or commenced operations of the vast majority of our assets at various dates in 2007. Our results of operations from period to period are not comparable because of the effects of the various acquisitions that we have completed as well as the increased costs associated with these acquisitions and our limited history of operating these assets. Our expected growth through planned development of our assets is likely to continue to limit the comparability of our results of operations for these periods.

Revenues

Revenues for the quarter ended were up 786.8% from the year ago period and 15.5% from the previous quarter at \$60.3 million. The increase from the previous year was attributable to increased production as a result of the Beta Unit and Alaskan Assets acquisitions as well as increases in the underlying price for our crude oil. The increase from the previous quarter was due primarily to increases in the realized price for the underlying unhedged crude price. Our average realized price for the current period was \$92.53 versus \$83.13 for the prior quarter. The additional production attributable to the partial return of Platform Eureka will be reflected in the second quarter numbers.



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	Alaska	Beta Unit	LA Basin	San Joaquin	Total
Oil Production (Barrels)	391	165	55	31	643
Realized Price/ Barrel	\$96.79	\$84.96	\$86.13	\$90.56	\$92.53
Oil Revenue	\$ 37,851	\$ 14,025	\$ 4,750	\$ 2,844	\$ 59,470
Gas Revenue	823	-	6	-	829
Total Gross Revenue	\$ 38,674	\$ 14,025	\$ 4,756	\$ 2,844	\$ 60,299
% of Field Contribution \$'s	64.14%	23.26%	7.89%	4.72%	100.00%
% of Field Contribution Barrels	60.85%	25.68%	8.58%	4.89%	100.00%
LOE ⁽¹⁾	\$ 18,713	\$ 6,950	\$ 1,055	\$ 578	\$ 27,296
LOE/ Barrel	\$47.85	\$42.10	\$19.13	\$18.39	\$42.47

⁽¹⁾ Excludes transportation fees

Production Expenses

Production expenses increased to \$27.3 million from \$4.4 million for the year ago period representing a 420.5% increase. Production expenses compared to the previous period were up slightly 4.2% from \$26.2 to \$27.3 million. The increase in expenses for the year ago period is the result of increased production associated with the Beta Unit and Alaskan Assets. The slight increase from the previous quarter is the result of increased activity on the non operated assets as part of the Chevron Plan of Development. This slight increase in costs is despite a decrease in overall Alaska production. The decreased production in Alaska is due to various topside improvements being conducted by Chevron as part of our joint Plan of development. Production expenses as a percentage of gross revenue were down to 45.3% versus 55.8% of gross revenue for the previous period.

Transportation Expense

Transportation expense is primarily due to the tariff paid to the Cook Inlet Pipeline Company (CIPL) of which we are a 50% owner. The expense is recognized as a revenue on the financial statements of the CIPL. We expect that the Transportation expense related to the CIPL will increase during 2008 as a result of the transportation tariff being reset to a higher level. Transportation expenses for the quarter ended were \$1.1 million mainly for Alaskan production. While the CIPL does maintain a greater than \$20 million cash balance, no disbursements are expected to be made at this time.

Royalty Expense

Royalties are paid by us primarily to the State of Alaska for Alaska operations, the MMS for Beta Unit operations, lender overrides as conditions for loans. Royalty expenses were up 954.5% at \$11.6 million versus \$1.1 million from the year ago period as a result of adding the Beta Unit and Alaskan Assets acquisitions and the subsequent lender overrides.

Hedging Expense

Our exposure to gains and losses on hedging is primarily due to the hedges we have in place for the Beta Unit and Alaska properties production. See the Financial and Other Instruments section for a schedule of the material hedge contracts currently in place. We have not entered into any new hedges during the 2008 period, but will evaluate entering into new hedge contracts in 2008 as additional production from the Beta Unit and Alaska properties are initiated. We continue to evaluate the effectiveness of our risk management policies particularly as it relates to commodity prices. For the quarter ended, we had a realized loss of \$10.9 million attributable to our Beta and Alaska (\$8.2



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million was attributable to Alaskan contracts) hedge contracts for crude oil. While the volumes of these hedge contracts decrease over time, this loss is tied to the increase or decrease of the market price of the underlying crude oil. As commodity prices continue to rise, we expect this realized loss to increase proportionately until the volumes that are covered by these hedge contracts taper off.

General and Administrative Expenses

General and Administrative expenses decreased to \$4.4 million down from \$6.0 million from the prior quarter representing a 26.7% decrease. In addition our general and administrative expenses as a percentage of gross revenue were down to 7.3% versus 11.5% for the prior quarter. The reduction of expenses despite significant acquisition activity is a result of the normalization of our personnel and office space for our current operating size and complexity as well as the elimination of the management fee payable to Forest Oil during the operational transition..

Stock Compensation

Stock Compensation increased to \$1.3 million representing a 315.5% increase from the year ago period. Stock compensation expense as a percentage of gross revenue was down to 2.2% versus 4.6% from the year ago period. As mentioned previously, we believe that ownership in the Company by all employees at all levels is essential to our future success. As such we expect to continue to issue options including options to any newly hired employees.

Liquidated Damages

The Liquidated Damages Shares represent the fair value of the underlying shares that we have issued and additional shares we could be liable to issue. As part of the private placement closed in January 2007, certain registration rights were granted along with the shares. These registration rights obligated us to file a Form S-1 Registration Statement with the US Securities and Exchange Commission by the end of August 2007. If this deadline was not met, the agreement provided for liquidated damages shares payable in the amount of 1% of the total shares purchased per month to shareholders who had not sold until the statement was filed. There is a maximum of 10% of the total shares purchased to be issued. On February 12, 2008, we announced that we filed the required form with the US SEC. We have since had several follow-up discussions with the SEC and are preparing our updated submission. We expect to file this within the coming weeks.

Interest Expense

Interest expense increased from \$4.8 million (70.6% of gross revenue) to \$32.4 million (53.7% of gross revenue) from the year ago period. The additional expense represents a 575.0% increase in expense. The increase is primarily due to the additional debt incurred as a result of the Alaska acquisition financing and a penalty payable to the holders of the Alaskan 1st lien debt of \$3 million per quarter until the 1st lien debt is syndicated. See the New Debt section for a detailed breakdown of the current debt burden.

The reduction of debt is a strategic priority for us, and we are continuing to explore ways in which the debt burden can be reduced. By way of example, we are exploring the use of additional credit facilities, refinancing current facilities, divestitures of non-core assets, access to restricted cash and excess cash flow from incremental Beta and Alaska production. We aim to reduce our debt burden by 20-25% throughout 2008 as well as reduce our overall cost of debt by several points.



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Depreciation, Depletion, and Amortization

Depreciation, Depletion, and Amortization expense increased from \$1.5 million (22.1% of gross revenue) to \$9.4 million (15.6% of gross revenue) as a result of the Beta Unit and Alaska assets additional facilities and production. This increase represents a 526.7% increase from the year ago period.

(Thousands)	Alaska	Beta Unit	LA Basin	San Joaquin	Total
Depreciation/Depletion	\$6,157	\$193	\$232	\$530	\$7,112
ARO Asset Amortization	\$122	\$353	\$32	\$28	\$535
ARO Accretion	\$742	\$801	\$14	\$10	\$1,568
General Exploration	\$200	\$0	\$0	\$0	\$200
Total DDA	\$7,221	\$1,348	\$278	\$568	\$9,415
Wyoming Drilling Costs					\$22
Company Total					\$9,436

Net Loss

We recorded a \$39.3 million net loss for the quarter ended up from a \$6.4 million net loss from the year ago period 2007 representing a 514.1% increase. Our Net Loss for the quarter of \$37.4 million includes a \$10.9 million charge for realized losses on hedge contracts and \$13.9 million of the non-cash expenses of unrealized losses on hedge contracts; stock compensation; liquidated damages; and depreciation, depletion, and amortization. When adjusted for these items, the Net Loss for the quarter was \$12.6 million.

Balance Sheet

Our cash position decreased from \$10.7 million from the year ended December 31, 2007 to \$9.6 million for the quarter ended with an additional \$47 million available to us under our various credit agreements subject to certain conditions being met including collateral coverage ratios and lender approval.

Our total asset base remained flat from the year ended December 31, 2007 at \$692.8 million versus \$691.9 million as at year end.

Our equity makeup changed during the quarter as a result of the incentive warrant offering that closed in January 2008. See Warrants Exercised and Outstanding Share Data sections for additional detail.

Other Opportunities

We continue to actively evaluate and pursue potential producing reserve acquisitions in our strategic areas of operation. We are also pursuing strategic relationships to exploit our exploration projects in the Alaskan Cook Inlet area as well as divestiture opportunities for our non-core assets to reduce debt and potentially fund accelerated working capital. During the first quarter of 2008, we made progress on all of these fronts which we will be reporting about further in the coming weeks.

Capital Resources and Liquidity



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Historically, we have financed our capital expenditures primarily through debt and equity financing. In the future, we may finance these capital expenditures first through cash flow from operations then from the proceeds of any future equity offerings, borrowings under our existing credit facilities or one or more lines of credit we may pursue, possible asset divestitures or a combination of these methods. Future cash flows and the availability of financing will be subject to a number of variables including if our efforts to bring Platform Eureka back on line are unsuccessful, our future production will be less than expected and we have substantial capital requirements that, if not met, may hinder our growth and operations.

The credit facilities require that we raise net cash proceeds of at least \$50 million by June 30, 2008 and an additional \$85 million by March 31, 2009 from the sale of our common stock (or, upon approval by the lenders, preferred stock or convertible debt), lender-approved divestitures or other capital-raising activities as may be reasonably satisfactory to the lenders. Our credit facilities requires that the funds raised by June 30, 2008 be used to fund a lender-approved plan of development, our working capital requirements or such other uses as may be approved by the lenders. Of the proceeds raised by March 31, 2009, at least \$85 million must be used to prepay indebtedness under the Alaska second lien credit agreement. Proceeds in excess of \$85 million that are not used to prepay the second lien credit agreement must be deposited into our credit facility lockbox accounts and may be used for exploration and development and working capital purposes as permitted by the approved plan of development or as otherwise permitted by our credit facilities.

Under the present environment in the energy industry and the strong prices for oil and natural gas, we believe we are in a reasonable position to raise capital at reasonable rates from outside sources while retaining enough cash from existing operations to meet foreseeable working capital needs, capital expenditures, long-term debt repayments, and other financing activities. We also expect to continue acquiring desirable oil and gas properties and therefore may need additional capital.

We have several sources of liquidity that we may need to consider accessing, including approximately \$35 million and \$12 million available under our credit facilities (subject to lender approvals), access to a portion of the restricted cash account via surety bond options, cash flow from incremental production, and potential asset divestitures. Each of our existing and projected sources of cash are affected by operational and financial risks that influence the overall amount of cash generated and the capital available, including, among other things, changes in commodity prices. If we are unsuccessful in accessing any or all of these additional sources of liquidity, we may be required to adjust the timing, location and number of wells to be drilled.

Cash Flows for the quarters ended March 31, 2008 and 2007

The following table summarizes our net cash provided by or used in our operating activities, investing activities and financing activities for the quarters ended March 31, 2008 and 2007.

(Thousands)	2008	2007
Net cash provided by (used in) operating activities	(8,081)	(3,232)



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Net cash provided by (used in) investing activities	(10,997)	(9,171)
Net cash provided by financing activities	18,001	24,338
Net change in cash	(1,077)	11,936

Uses of cash in operations and investing activities during the quarter remained equivalent from the prior quarter. Net cash provided by financing activities is the result of the incentive warrant offering that closed in January 2008.

New Debt

We incurred a significant increase in our outstanding debt burden during 2007 as a result of the Alaska acquisition. We have not incurred any additional debt during 2008 except for non-cash interest payable in kind that rolls into the outstanding principle balance.

The following schedule provides some detail of our current outstanding debt schedule including both interest bearing and non-interest bearing obligations (stated in thousands). Note that our Alaska 1st Lien debt matures on February 24, 2009, and is now classified as a current liability. We are currently in negotiations on syndicating out our 1st Lien Alaska debt that will extend this maturity.

Corporate Debt Overview

Description	12/31/2007	3/31/2008
Goldman Sachs (Beta Sr. Secured)	\$ 65,000	\$ 65,000
Alaska 1st Lien	108,000	108,000
Alaska 2nd Lien	277,000	277,000
Laurus Note (Carneros)	20,656	19,527
Face Value of Notes Payable	470,656	469,527
Forest Zero Coupon Note	29,976	30,460
Accrued Interest	8,269	11,992
Total Face Value of Debt	\$ 508,902	\$ 511,979
Unamortized Transaction Costs	(27,944)	(24,037)
Current Portion of Long Term Debt	(430)	(110,400)
Note discounted - Goldman	(27,097)	(24,471)
Note Discounted - Laurus	(4,265)	(3,554)
Balance Sheet Long Term Debt	\$ 449,166	\$ 349,517

Capital Structure

We currently have 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. Our corporate goal is to reduce our overall amount of debt by 20-25% within the next 3 quarters. We also are in the final stages of syndicating out our 1st lien secured Alaska debt. Once these activities occur, we believe we will be in



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a position to optimize our capital structure including a reduced reliance on the debt markets for funding future growth. Our goal is to carry only conventional term 1st lien secured financings on the debt side. We believe this will bring down our overall cost of capital in the process. On the equity side, we are focused on increasing our top line and reducing operating expenses which will allow us to become earnings positive by the third quarter 2009 timeframe. This could occur sooner if commodity prices remain at current levels. Once we become earnings positive, we expect that our share price will become more stable and readily tied to our financial performance and underlying net asset value.

Warrants Exercised

We had warrants exercised during 2008 based on the following amounts:

	Number		APIC		\$/Share
Canadian Exercised (1/9/08)	10,000	\$	15,000	\$	1.50
Canadian Exercised (1/15/08)	625		938	\$	1.50
Total Exercised in 2008	10,625	\$	15,938	\$	1.50

Cash & Cash Equivalents

As of March 31, 2008 we had a cash balance of approximately \$9.6 million. Approximately 95% of the cash position is held in a lockbox account to be used for approved redevelopment projects and is subject to lender approvals for the money to be transferred to our operating account.

We will continue to evaluate our need to raise funds to execute on our development plans for the Beta Unit and the Alaskan assets. We are exploring recapitalization strategies that will reduce the overall debt burden, reduce the overall cost of debt, and allow for a partial use of funds for general working capital. In addition we are exploring the divestiture of non core assets to pay down debt and fund general corporate working capital. We believe that these non core assets can yield highly attractive multiples based on the current high crude prices and the inherent value of the underlying proved reserves.

Future Dividends

We have not declared or paid any cash dividends on our capital stock in the past, and we do not anticipate declaring or paying cash dividends on our common stock in the foreseeable future. In addition, our credit facilities prohibit the payment of dividends without lender consent.

We will pay dividends on our common stock only if and when declared by our board. Our board's ability to declare a dividend is subject to restrictions imposed by Delaware law. In determining whether to declare dividends, our board will consider these restrictions as well as our financial condition, results of operations, working capital requirements, future prospects and other factors it considers relevant.

Off-Balance Sheet Arrangements

We have entered into crude hedging contracts which are discussed below in the Financial and Other Instruments section in more detail. These production swap contracts require us to make a



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settlement payment for any rise in the market price of crude oil above the contract price (schedule below) regardless of our actual production levels. While we believe we have appropriately mixed our hedged and unhedged portion of our crude production, we are at risk for paying these settlement prices in the event of either significant increases in the market price of crude or decreases in our actual realized production volumes. Most of our hedge contracts are designated as cash flow hedges and are disclosed in the table below (Financial and Other Instruments).

Related Party Transactions

We report transactions with related parties at their fair value as determined by management.

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.

Changes in Accounting Policy

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. 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.

Financial and Other Instruments

Our financial assets and liabilities consist of cash, short-term investments, receivables, accounts payables, notes payable, and accrued liabilities. We have placed its cash and cash equivalents in liquid bank deposits, which provide a variable rate of interest. We have significant bonding obligations for several of its operations which require the purchase of some form of surety. To date we have funded our bonding obligations by placing cash in restricted accounts and securing its obligation 100% by the estimated bonding amount. We have engaged an outside firm to evaluate its options for collateralizing some of its less liquid assets as a means to free up some of the restricted cash which currently are in excess of \$100 million.

Due to the historical volatility of crude oil and natural gas prices, as well as credit agreement



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requirements, we have an ongoing hedging strategy aimed at reducing the variability of the prices we receive on our production and providing a calculable minimum revenue stream. Currently, we have entered into production swaps aimed at ensuring a minimum amount of revenue is realized sufficient to cover our existing debt burden. As we layer on incremental and new production, we will review the effectiveness of our commodity risk management strategies. The following table provides an overview of the most material hedging contracts currently in place. These cover both the Beta and Alaska operations.

Alaska Oil Price Hedge Details				Beta Oil Price Hedge Details			
Year	Begin	End	Price per Bbl	Year	Begin	End	Price per Bbl
(monthly volume in Bbls)			(\$)	(monthly volume in Bbls)			(\$)
2008	92,899	81,482	68.16	2008	25,659	23,554	59.57
2009	80,536	71,029	67.21	2009	22,868	20,904	57.26
2010	70,235	41,255	67.21	2010	20,394	27,088	57.14
2011	38,399	15,578	67.21	2011	25,625	23,859	55.90
2012	15,410	14,090	67.21	2012	23,289	7,035	55.52

We are also required under our credit agreements to hedge against the interest rate risk associated with the variable portion of our long term debt facilities. We are currently evaluating strategies for providing protection against the risk of rising interest rates. Per our current credit agreements and the associated amendments, we were required to enter into interest rate hedges on or before March 22, 2008. We have currently not entered into any interest rate hedges at this time. We have been in discussions with our lenders to discuss the appropriate strategy, timing, and amount of interest to swap.

Outstanding Share Data

We issued additional stock, options, and warrants during the 2007 period. Additionally, warrants were issued in October 2007 as a result of the \$65.5 million private placement. The following tables represents our outstanding shares and options as of December 31, 2007.

	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



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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		-	2,252
Common stock issued	12,171		1	23,121
Balance – March 31, 2008	204,053	\$	20	\$ 237,706

The following tables summarize the information about options to purchase common shares at March 31, 2008

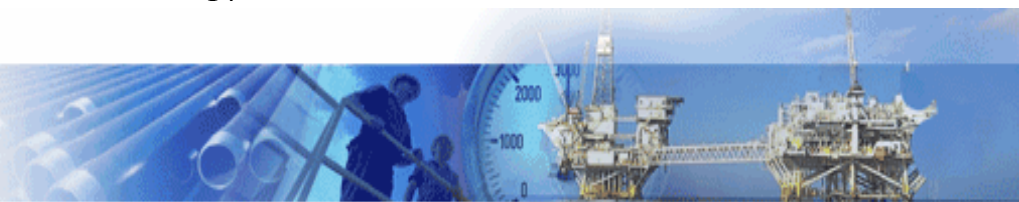
	Number of Options (in thousands)	Weighted Average Exercise Price per Share (CAD\$)
Outstanding, beg of year	12,002	\$1.15CAD
Granted during the period	5,057	\$1.46CAD
Forfeited during the period	(300)	\$0.84CAD
Outstanding, end of period	16,759	\$1.90CAD
Exercisable, end of period	4,086	\$1.12CAD

Below is the current outstanding share data as of March 31, 2008.

Year	Outstanding
Three months ended March 31, 2008	200,587
Three months ended March 31, 2007	93,253

Selected Quarterly Information

The following tables show revenue and income data of the most recent eight quarters:



MANAGEMENT'S DISCUSSION AND ANALYSIS

(Thousands)	for the three months ended			
	June 30, 2007	September 30, 2007	December 31, 2007	March 31, 2008
Total Oil & Gas Revenues	\$7,752	\$31,829	\$52,237	\$60,299
Net Income (loss)	(\$12,292)	(\$20,309)	(\$59,700)	(\$39,253)

	June 30, 2006	September 30, 2006	December 31, 2006	March 31, 2007
Total Revenues	\$2,333	\$3,803	\$3,269	\$6,845
Net Income (loss)	(\$492)	(\$899)	(\$10,498)	(\$6,452)

Subsequent Events

We are required to submit quarterly and annual certificates of compliance to each of our lenders stating that we believe we are in compliance of all required loan covenants or what our plan of action may be in the event we are not fully in compliance with one or more loan covenants. We are required to submit these certificates later this month for the first quarter results. We have calculated that we are not in compliance with two required financial ratios; debt to EBITDA and the current ratio of current assets to current liabilities. We are currently in discussions with our lenders as to whether we have maintained full compliance with all other obligations and what our recourse will be. These negotiations will continue once we formally submit our certificates.

In the event that we are unable to cure these violations or receive waivers, and the lenders were to call our debt, and/or the potential violations remained outstanding, we could be required to classify our debt as a current liability and could be forced (if the debt were actually called by our lenders) to seek alternative capital or engage in asset sales in order to reduce or pay off that debt or pursue a restructuring of the company if no proceeds could be raised to pay off the called debt.

While we expect to negotiate an outcome satisfactory to all parties, we still maintain a risk that could place us in a position to have current debt that is due immediately to the various lenders.

Business Risks & Risks 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. Our long-term commercial success depends on our ability to find, acquire, develop, and commercially produce oil reserves. We attempt to reduce these risks through the combination of experienced personnel with local knowledge and careful evaluation. External factors beyond our control may affect the marketability of the oil and gas produced. We have selected appropriate personnel to monitor field operations and have 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, we insure against most of these risks (although not all such risks are insurable). We maintain liability insurance in an amount that we consider consistent with industry practice; although the nature of these risks is



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such that liabilities could potentially exceed policy limits. We also reduce risk by operating most of our current properties; as such we have control over the quality of work and performance.

We anticipate making substantial capital expenditures in the future for exploration, development, acquisition, and production of oil and gas reserves. If our revenues or oil and gas reserves decline, we 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. We mitigate this risk by monitoring expenditures, operations, and results of operations in order to manage capital effectively. In addition, we have significant commitments and contingencies that may impact our ability to grow in the future.

Future Prospects

We are optimistic about the growth potential of the Company. We have a large number of proven undeveloped locations in inventory to be drilled. The prospect of returning Platform Eureka to production should add substantial growth in proved reserves and production in 2008 and beyond. We have a significant acreage position with various attractive exploration targets. Although there are some mechanical/operational challenges inherent in areas of our operations, with proper risk management and careful evaluation, we believe that we can achieve growth in production and reserves.

Internal Disclosure Controls

We place considerable diligence on the appropriate capture and reporting of financial information. We further recognize the need for timeliness with respect to management reporting to the appropriate internal personnel, including the Chief Executive Officer and the Chief Financial Officer among others, and the importance of effectively communicating relevant information to the investor community. With that in mind, we have 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, we believe we have designed a system appropriate for the current level of complexity we are managing. While we believe that the current internal disclosure controls are adequate, we continue to focus considerable attention to further strengthening the segregation of duties along with the overall framework of internal control over financial reporting. As we have seen significant growth and transformation during 2007 through the present timeframe, we have further evaluated our processes and controls to ensure they are adequate for our organization. During the second half of 2007, we hired an independent firm to assess the overall strengths and gaps of our current internal control framework as well as to make recommendation based on financial risk. We have already begun addressing some of the recommendations and will continue to evaluate the need to augment our procedures over time.

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

