

## Pacific Energy Res. (PFE-T, \$2.60; PFE.S, \$2.20)

## Recommendation: Buy

Malcolm Shaw, P.Geol. (416) 640-4949; [mshaw@wwcm.com](mailto:mshaw@wwcm.com)Kyle Hunter, MBA (416) 640-4953; [khunter@wwcm.com](mailto:khunter@wwcm.com)WELLINGTON WEST  
Capital Markets Inc.

November 6, 2007

All values in C\$ unless otherwise noted.

Current Price	\$2.60
Target Price (12-Month)	\$3.00
Implied Capital Gain	15%

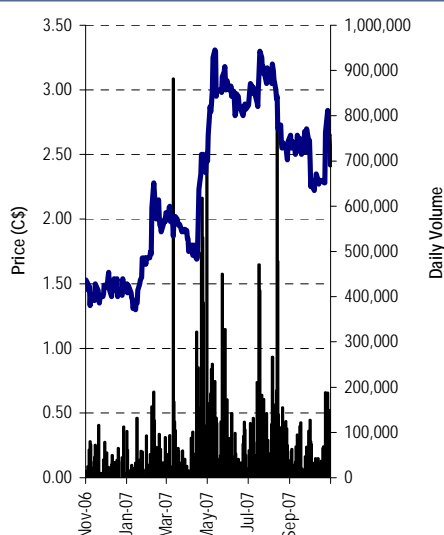
## Changes

	Old	New
Production (boe/d) '07E	n.a.	5,243
CFPS FD 2007E	n.a.	\$0.11
Production (boe/d) '08E	n.a.	11,329
CFPS FD 2008E	n.a.	\$0.34
Recommendation	n.a.	Buy
Target Price	n.a.	\$3.00

## Company Profile

Pacific Energy is an oil exploration and production company based out of Long Beach, California. Core operating areas are in California, Alaska, and Wyoming. The company has a large, established, long-life reserve base of 34 years currently producing ~8,300 boepd. Plans are to ramp-up production by redeveloping proven producing fields and drilling selected high-impact exploration plays on company owned lands.

## Price Chart



Source: PCQuote

## Surf's Up on a Big Reserves as Pacific Energy Plans to Bring More Oil Down the Pipeline

- 104 mmboe 2P reserves with a 34-year RLI in need of re-investment**  
 Core California & Alaska assets have been starved of capital by previous owners. Prod<sup>n</sup> of 8,300 boepd expected to grow to 14,500 by Q4 2008.
- High-impact exploration plays in Alaska and Wyoming add sizzle**  
 PFE plans to drill the 500 Bcf Corsair exploration target (100% W.I.) in Alaska in mid-2008. Wyoming gas play has up to 3 Tcf gross potential.
- Attractive average reserves acquisition costs of \$6.43 per 2P boe**  
 PFE has acquired 85.4 mmboe\* of 2P reserves through 2 key transactions in the last year. PFE is an opportunistic buyer at discount prices.
- Initiating coverage with a Buy recommendation - \$3.00 target**  
 Our target is driven by risked NPV/sh of \$1.93 and exploration-weighted EMV/sh of \$7.07. Corsair & Wyoming success case upside of >\$10/sh.

## Financial Summary

Shares O/S (FD, M)	229.7	52-Week Trading Range	\$1.30-\$3.75
Market Capitalization (M)	\$563	Average Weekly Volume	465,454
Net Debt - 2007E (M)	\$487	Market Float (M)	\$531
Enterprise Value (M)	\$1,050	Risked NPV/Share	\$1.93
<b>Forecasts</b>	<b>2006</b>	<b>2007E</b>	<b>2008E</b>
Production (BOE/d)	705	5,243	11,329
% Gas	2%	4%	5%
Weighted Avg. Realized Price (US\$/bbl)	\$44.69	\$60.34	\$63.91
Revenues (M)	\$11.5	\$123.2	\$264.0
DACF (M)	(\$2.8)	\$46.8	\$118.5
CAPEX (M)	\$36.7	\$30.7	\$46.5
EPS (FD)	(\$0.17)	(\$0.12)	\$0.09
CFPS (FD)	\$0.07	\$0.11	\$0.34
<b>Valuation</b>	<b>2006</b>	<b>2007E</b>	<b>2008E</b>
EV/DACF		22.4x	8.9x
EV/BOE/d (per unit production)		\$200,240	\$92,664
P/E		n/m	26.2x
Target EV/DACF		35.7x	13.8x

Source: Company reports, Wellington West Capital Markets Inc.

Please see disclaimers at the end of this report.

## Investment Summary and Outlook

Pacific Energy has grown rapidly in a short period of time by employing a strategy of acquiring assets with established long-life reserves and solid production growth potential, at below market prices, while also capturing considerable exploration and delineation upside. 100% of the company's assets are in the United States and are spread around 3 core areas in California, Alaska and Wyoming. Over the last 12-months the company has purchased 85.4 mmboe\* (~93% oil) of 2P reserves at a cost of US\$6.43/boe. We expect the Pacific Energy's production to increase from the current level of ~8,300 boepd to ~14,500 boepd by Q4 2008 as the company executes on field revitalization programs and brings value forward through acceleration of field depletion plans. We calculate a risked NPV/sh of \$1.93 for the company's asset portfolio which encompasses 104.4 mmbbls\* of 2P reserves. Going forward, we foresee sustainable production growth as the company focuses on developing its existing reserve base with the potential for significant reserves increases through exploration programs in Alaska and Wyoming.

### Investment Highlights

#### *Focus on development & exploration in the Western U.S. and Alaska*

**Pacific Energy has core operating areas in California, Alaska and Wyoming with aggregate current production of ~8,300 boepd and a large reserve base.** The company has 2P reserves of 104.4 mmboe\* (94% oil) and 3P reserves of 146.6 mmboe\* (94% oil), split fairly evenly between California and Alaska. Wyoming is an early-stage emerging gas play with multi-Tcf potential where the company's primary partners are Shell and Wolverine Oil and Gas. Pending successful execution of their business plans, we believe the company's reserve base is capable of supporting sustainable production growth for years to come with the potential for significant reserves additions through exploration success.

#### *Focus on acquisition of significant resources at discount prices*

**Over the last 10 months, Pacific Energy has acquired 85.4 mmboe\* (~93% oil) of 2P reserves at an average cost of US\$6.43/boe; on a 3P basis, the company has acquired 123.2 mmboe\* (93% oil) at a cost of US\$4.46/boe.** Two key transactions have transformed Pacific Energy within the last year. The first transaction was the acquisition of a 100% interest in the Beta Unit, offshore California, from Aera Energy (a Shell-Exxon JV) and Noble Energy for the price of one dollar plus the posting of US\$91.8 million in abandonment, lease, and development bonds. As of January 1, 2007, the Beta Unit had 2P and 3P reserves of 31.5 mmboe and 62.6 mmboe respectively and was producing about 2,100 bopd of 14-15° API crude. The most recent transaction was the purchase of Forest Alaska Holding LLC (a subsidiary of Forest Oil Corp.) for US\$457.5 million. As of January 1, 2007 the Forest Alaska Holding LLC assets had 2P and 3P reserves of 53.9 mmboe\* and 60.6 mmboe\* respectively and were producing ~5,250 bbls/d of medium to light crude and ~4.5 mmcf/d of gas.

### *Solid growth potential underpinned by large reserve base*

**At current production levels the company's 2P reserve life index is 28 years in Alaska\* and 50 years in California; plans call for production to ramp up to ~15,000 boepd by early 2009.** In California, the offshore Beta Unit has been producing since 1981 from a structure with estimated OOIP of 590 million barrels. To date, 96 million barrels have been produced, representing a 16% recovery factor. Through execution of the current development plan, the company believes offshore California production can be increased to up to 10,000 bopd within 18 months and that the recovery factor can ultimately be increased to approximately 30%, which would represent 82.6 mmbbls of incremental recovery (~20 mmbbls greater than current 3P reserves). Onshore California, the company has 19 mmboe of 2P reserves which are currently producing at a rate of 875 bopd with plans to take that to 2,500 bopd by 2012. The onshore production comes from acreage in the giant (8 Bbbl OOIP) Wilmington oil field that underlies the city of Long Beach and the company's interests in 4 fields in the San Joaquin basin. In Alaska the company has interests in 7 producing fields with multiple redevelopment, optimization, and exploration (>1 Bboe unrisks potential) opportunities. Exploration aside, current plans call for ~10,000 bopd of net production in Alaska by 2010.

### *Management has proven their ability to identify & monetize solid assets*

**Vladimir and Darren Katic were instrumental in the acquisition, privatization, redevelopment, and recent sale of one of Kazakhstan's largest oilfields.** We believe management has recently demonstrated their ability to identify, capture, develop, and monetize undercapitalized assets through a deal that saw them sell one of Kazakhstan's largest oilfields to Nations Energy that was then subsequently sold to Chinese conglomerate CITIC for US\$1.91 billion in late 2006. Given the opportunistic nature of the Beta Unit and Forest Alaska Holding LLC acquisitions, we believe Pacific Energy has the necessary ingredients to create significant value without relying on high-risk exploration.

### *Attractive valuation based on 2P reserve base and exploration upside*

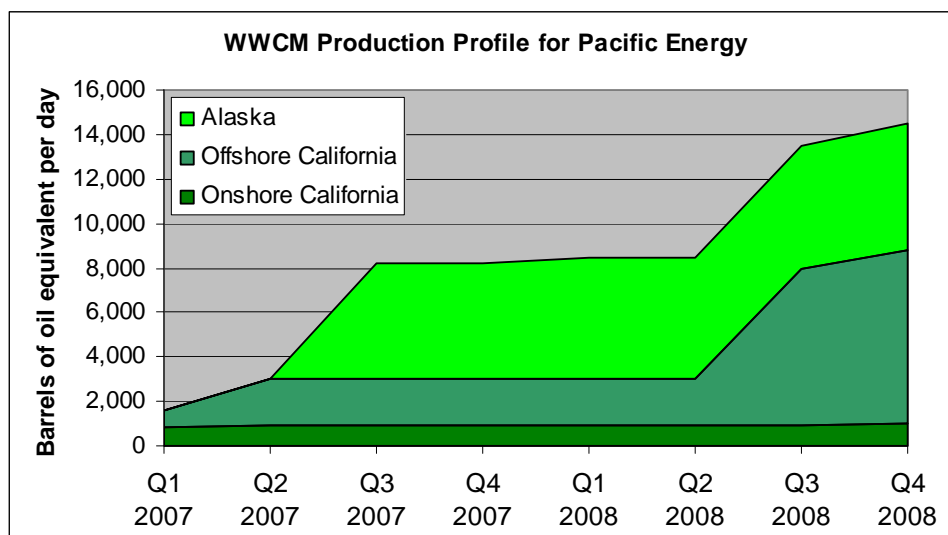
**We calculate a risked NPV/sh of \$1.93 with exploration upside potential of \$10.46/sh if the Wyoming gas play is successful and Corsair proves up to meet pre-drill estimates in Alaska.** The aforementioned \$10.46/sh in upside potential is based on two main exploration targets: 1) 3 Tcf of gas potential in Wyoming and 2) a 113 mmboe target in the Alaskan Cook Inlet (e.g., the 100% interest Corsair prospect). We believe investors can gain exposure to the existing asset base at a discount with a "free option" on the speculative upside potential in Wyoming and Alaska. The blue-sky scenario in Alaska includes some 500+ mmboe of exploration upside.

## Valuation and Summary Recommendation

**We are initiating coverage on Pacific Energy with a \$3.00 target and a Buy recommendation.** With the acquisition of all of Forest Oil's assets in the Cook Inlet now complete, we expect Pacific Energy to focus on the task of unlocking value from the company's large reserve base with particular focus on offshore California and Alaska.

**We expect the company to ramp up production from current levels of ~8,300 boepd to 14,500 boepd (93% oil) by the end of 2008 (Exhibit 1).** Two key milestones in our projections over the next 12 months are: 1) the re-establishment of production from the Eureka platform in the Beta field, offshore California (shut in at 4,400 boepd in 1999), and 2) the drilling of 3 successful development wells from existing platforms at the Beta field. In our projections we also account for one successful gas well in Alaska over the next 6 months, as well as minor production growth through recompletions and remedial work at Reboubt Shoal, West Foreland, McArthur River, and/or Trading Bay fields in Alaska.

### Exhibit 1: Production Projections Driving WWCM DCF Estimates



Source: Company reports, Wellington West Capital Markets Inc.

**We estimate risked NPV/sh of \$1.93 and exploration driven risked EMV/sh of \$7.07 (Exhibit 2 & 3).** With regards to the risked NPV component of our target, our model incorporates a risked resource base of 113.4 mmboe which compares favourably with the company's 2P reserves of 104 mmboe\* and 3P reserves of 147 mmboe\*. Our risked NPV/sh is based on our estimates of the risked NPV of the company's producing assets net of current long-term debt (Exhibit 2). Our exploration-weighted risked EMV/sh is driven by net risked resource potential of ~229 mmboe.

**Exhibit 2: WWCM Risked NPV/sh Valuation Breakdown**

Prospect/Field	Risked NPV	Risked NPV/sh	WWCM Net Risked resource estimate (mmbbls)
Alaska	\$358,775,657	\$1.56	46.8
Beta Unit	\$385,967,758	\$1.68	49.0
Wilmington	\$123,840,797	\$0.54	13.7
San Joaquin Basin	\$47,680,723	\$0.21	3.1
Long Beach	\$5,368,910	\$0.02	0.3
Rosecrans	\$7,672,834	\$0.03	0.6
Net Debt	\$487,000,000	(\$2.12)	
<b>TOTAL</b>	<b>\$442,306,679</b>	<b>\$1.93</b>	<b>113.4</b>

Source: Company reports, Wellington West Capital Markets Inc.

**Exhibit 3: WWCM EMV Valuation Breakdown**

Prospect/Field	Net Interest	Chance of Success	WWCM Gross Unrisked resource estimate (mmboe)	WWCM Net Risked resource estimate (mmboe)	Net Risked EMV	Net Risked EMV/sh	Net Unrisked EMV/sh
Alaska (net producing)	100%	80%	60.6	48.5	\$371,459,093	\$1.62	\$2.02
Beta Unit	100%	60%	100.0	60.0	\$464,952,194	\$2.02	\$3.37
Long Beach	100%	100%	0.4	0.4	\$6,225,553	\$0.03	\$0.03
Rosecrans	50%	70%	2.0	0.7	\$9,598,314	\$0.04	\$0.06
San Joaquin Basin	100%	70%	5.0	3.5	\$53,568,573	\$0.23	\$0.33
Wilmington	100%	70%	20.0	14.0	\$125,499,561	\$0.55	\$0.78
Wyoming	26%	20%	500.0	26.0	\$253,920,000	\$1.11	\$5.53
Corsair	100%	45%	113.0	50.9	\$497,500,000	\$2.17	\$4.81
Alaska Upside	100%	5%	500.0	25.0	\$327,500,000	\$1.43	\$28.51
				Net Debt	\$487,000,000	(\$2.12)	(\$2.12)
				<b>TOTAL</b>	<b>\$1,623,223,289</b>	<b>\$7.07</b>	<b>\$43.33</b>

Source: Company reports, Wellington West Capital Markets Inc.

**Our 2008E projected CFPS is \$0.34/sh and is driven by our projected production profile shown in Exhibit 1.** Our CFPS estimate for Q4 2008 is \$0.14/sh (\$0.56/sh annualized), so while the company currently trades at 7.2x 2008E cash flow we point out that it trades at 4.4x the cash flow run rate as of the end of next year. Additionally, we expect further production increases through 2009 and beyond, which will positively impact cash flow going forward.

**We believe Pacific Energy gives investors exposure to a large, long-life (34-year RLI at current production levels) resource base with significant development, step-out, and exploration upside.** We believe the long reserve-life of the assets underscores the potential for increased development and higher production levels currently identified in the company's plans. In our view the asset portfolio is well-balanced between development work and high-impact exploration potential in Wyoming and Alaska. Exploration aside, we believe the company has visibility on >20,000 boepd of production by 2010 based on the existing 2P reserve base\* if current development plans are executed as planned.

Malcolm Shaw P.Geol. (416) 640-4949; [mshaw@wwcm.com](mailto:mshaw@wwcm.com)Kyle Hunter, MBA (416) 640-4953; [khunter@wwcm.com](mailto:khunter@wwcm.com)

\*Note: All aggregated corporate reserves estimates, or those referring to Alaska alone, contain Alaskan reserve estimates as of January 1, 2007 in a preliminary report prepared by DeGolyer and MacNaughton dated July 27, 2007

**Exhibit 4: Summary Valuation Table (all numbers net of debt)**

Valuation Matrix	Forecast	Target Multiple	Value	Weighting	Weighted Value	
Risked NPV/share	\$	1.93	1.0	\$ 1.93	35%	\$ 0.67
2008E CFPS	\$	0.34	6.0	\$ 2.02	35%	\$ 0.71
Asset EMV/share	\$	7.07	1.0	\$ 7.07	20%	\$ 1.41
Acquisition Value	\$	1.67	1.0	\$ 1.67	10%	\$ 0.17
12 month target price					<b>\$ 2.96</b>	

Source: Company reports, Wellington West Capital Markets Inc. estimates

## History and Management

**Pacific Energy has assembled a strong management team and board of directors with >150 years of varied oil and gas experience geared towards the company's strategic objectives of developing proven reserves and acquiring low risk assets at attractive prices.** The company employs a strategy of acquiring assets with proven undeveloped reserves, at below market multiples, to significantly grow their production portfolio while continuing to search for exploration assets that offer considerable upside. The company was incorporated in 1980 as Yucana Oil Ltd. and changed names to Pacific Energy Resources Ltd. in August of 2003. Pacific Energy has acquired a portion of their executive management team through the acquisitions of PetroCal and Carneros Energy. The company is headed-up by Vladimir and Darren Katic, who were instrumental in the acquisition, privatization, and subsequent sale of key oil assets in Kazakhstan. Those assets were subsequently sold to Nations Energy who in turn sold them to China-based conglomerate CITIC for US\$1.91 billion.

**Pacific Energy grew their reserve base with the acquisitions of PetroCal in 2005 and Carneros in 2006.** The acquisition of PetroCal, for US\$3.5M, increased Pacific Energy's interest in the Wilmington and Long Beach fields to 100%. At the end of 2006, following the PetroCal transaction, the company's 2P reserves in the Los Angeles Basin were estimated to be 22.1 mmboc. Carneros, and their wholly-owned subsidiary, were acquired by Pacific Energy for US\$27.1M. Carneros owned 165 wells (126 are active) in four oil fields in Kern County, California that includes 8,792 in net undeveloped acreage. The four Carneros fields (McDonald, Anticline, Semitropic, Devils Den and Cymric) are estimated to contain 2.7 mmboc in 2P reserves, implying a purchase price of US\$10/boe. The company also acquired one of the largest seismic datasets in the San Joaquin basin as part of the acquisition, with 8 drill ready targets between 1 to 10 mmbbls in size already identified.

**In January 2006, Pacific Energy entered in a participation agreement with Shell and Wolverine Oil and Gas whereby the company agreed to fund the cost of a 130 mi<sup>2</sup> 3D seismic survey and 2 exploration wells in a 100,000 acre land package in the Green River Basin, Wyoming in exchange for a 40% working interest in 85,000 acres and a 28% working interest in 15,000 acres.** The total cost of the earn-in is expected to be approximately US\$20-25 million. Subsequent to signing the deal, Laurus Master Fund provided financing for the company and obtained the right to a 33% revenue interest in the project if an

Malcolm Shaw P.Geol. (416) 640-4949; [mshaw@wwcm.com](mailto:mshaw@wwcm.com)Kyle Hunter, MBA (416) 640-4953; [khunter@wwcm.com](mailto:khunter@wwcm.com)

\*Note: All aggregated corporate reserves estimates, or those referring to Alaska alone, contain Alaskan reserve estimates as of January 1, 2007 in a preliminary report prepared by DeGolyer and MacNaughton dated July 27, 2007

economic discovery is made, leaving Pacific Energy with an average 26% revenue interest. The Pacific Creek project is located ~20 miles southwest of the prolific Jonah gas field (~10 Tcf). The Pacific Creek project has between 3-10 Tcf (gross) of gas resource potential.

**One of Pacific Energy's milestone transactions was the purchase of a 100% interest in the Beta Unit in late 2006 (31.5 mmboe 2P reserves (97% oil), plus 31.1 mmboe possible (97% oil)), offshore California, for the price of one dollar plus the posting of US\$91.8 million in abandonment (US\$90 million), lease, and development (US\$1.8 million) bonds.** The company began negotiations with Aera Energy LLC (a Shell and ExxonMobil JV company) in 2005 to acquire interest in the Beta Unit, located in the San Pedro Bay area. Pacific Energy signed a purchase and sale agreement with Aera Energy in 2006 to acquire a 71% interest in the asset. Subsequently, the company acquired the remaining 29% interest in the Beta Unit from SWEPI LP (Shell) and Noble Energy giving Pacific Energy whole ownership of the asset. If we use the posted bonds as the cost of the acquisition, PFE purchased the Beta Unit reserves at a cost of \$2.91/boe on a 2P basis, or \$1.47/boe on a 3P basis. Management has laid out an aggressive development plan to substantially increase the production the Ellen and Eureka platforms.

**Most recently, the company was able to continue their opportunistic acquisition strategy with their purchase of Forest Alaska Operating LLC (FAO) from Forest Oil Corporation where 53.9 mmbbls\* of 2P reserves and ~5,300 boepd of production (plus processing & pipeline infrastructure) were acquired in a deal valued at US\$457.5 million.** The purchase price consisted of US\$400 million in cash (bridge financing secured from a blue-chip financing source in the U.S.), 10 million shares of PFE stock (valued at US\$2.75), and a US\$30 million 7-year zero coupon sellers note (valued at US\$60.75 million at maturity). FAO's Alaska assets provided Pacific Energy with established production and a low-risk opportunity to grow production through field re-development in the Cook Inlet, Alaska. If we place zero value on 1) the 100%-owned 20,000 bbl/d capacity Kustatan onshore facility and 2) the 50% interest in the Cook Inlet Pipeline Company (US\$7.3 million EBITDA in 2006), Pacific Energy acquired FAO's 53.9 mmboe\* (91% oil) in 2P reserves for \$8.49/boe. In addition, the acquisition included 972,000 net undeveloped acres containing 1.3 Bboe of net unrisked prospect potential, 4,642 km of 2D seismic, and 181 mi<sup>2</sup> of 3D seismic.

#### Exhibit 5: Details of Pacific Energy's Recent Acquisitions

Asset	Date Acquired	Cost (USD \$M)	Reserves (2P)	Unit Cost (US\$/boe2P)
PetroCal	2005	3.5	2.7	1.30
Carneros	2006	27.1	2.7	10.04
Beta Unit	2006	91.8	31.5	2.91
Forest Alaska Operating LLC	2007	457.5	53.9	8.49

Source: Company reports, Wellington West Capital Markets Inc.

Malcolm Shaw P.Geol. (416) 640-4949; [mshaw@wwcm.com](mailto:mshaw@wwcm.com)

Kyle Hunter, MBA (416) 640-4953; [khunter@wwcm.com](mailto:khunter@wwcm.com)

\*Note: All aggregated corporate reserves estimates, or those referring to Alaska alone, contain Alaskan reserve estimates as of January 1, 2007 in a preliminary report prepared by DeGolyer and MacNaughton dated July 27, 2007

**Exhibit 6: List of Management and Directors (see Exhibit 22 for detail)**

Management	Experience / Background
Darren Katic, President & CEO	Nations Energy, Petrocal Inc., 10 years oil and gs experience.
Vladimir Katic, Executive Chairman & COO	Aramco, GOM optimization, independent drilling contractor for NOIC, founder of Nations Energy. 40 years oil and gas experience.
Jeevan Anand, Senior Executive VP	Southern California Gas Company, consultant for Texaco, Chevron, Mobil, Occidental, and others. 30 years oil and gas experience.
Jerret Creed, CFO	Johnson & Johnson, Katman Petroleum, Petrocal Inc.
<b>Directors</b>	
Pat Devlin	Exhibit 22
Miroslav Vukovic	"
Matthew Hagen	"
James Watt	"
Grant Henderson	"

Source: Company reports, Wellington West Capital Markets Inc.

## Operating Areas – Western U.S. and Alaska

**Following the acquisition of Forest Alaska Holding LLC, Pacific Energy has production of approximately 8,300 bopd (~91% oil) with an average corporate 2P reserve life index of 34 years.** The company produces approximately 3,000 bopd of mostly heavy crude (14° API) from 5 fields in the Los Angeles and San Joaquin basins in California and ~5,300 bopd from their Alaskan assets, recently acquired from Forest Oil. All of the Californian assets are operated by Pacific Energy while the Alaskan assets are a mixture of operated and non-operated interests. In California and Alaska, the company has variable interests in significant onshore and offshore facilities and infrastructure and has plans in place to increase the production and utilization of their assets. In Wyoming, Pacific Energy has an average 38% working interest (26% net profit interest) in 99,000 acres of land known as the Pacific Creek Project. The Pacific Creek project has multi-Tcf potential and the company is currently testing their first well in the prospect.

### Corporate Highlights:

- **Focused on opportunistic acquisitions of assets that are non-core to sellers, purchasing assets at below market prices.** Recent purchases include 2P reserves of 85.4 mmboe\* at an average cost of US\$6.43/boe.
- **Large, long-life reserve base.** 2P reserves of 104.4 mmboe\* (94% oil) currently producing ~8,300 boepd, corresponding to a 34 year RLI. 3P reserves of 146.6 mmboe\* (Exhibit 8).
- **Multiple high-impact exploration plays.** 0.8 to ~3.0 Tcf net unrisked potential in Wyoming and 1.3 Bboe net unrisked potential in Alaska.
- **Low-risk, sustainable growth projected through increased development of proven reserve base.** Including Alaskan potential, corporate production potential is up to 35,000 bopd by 2012.
- **Share price backed by risked NPV/sh of \$1.93.**

Malcolm Shaw P.Geol. (416) 640-4949; [mshaw@wwcm.com](mailto:mshaw@wwcm.com)

Kyle Hunter, MBA (416) 640-4953; [khunter@wwcm.com](mailto:khunter@wwcm.com)

\*Note: All aggregated corporate reserves estimates, or those referring to Alaska alone, contain Alaskan reserve estimates as of January 1, 2007 in a preliminary report prepared by DeGolyer and MacNaughton dated July 27, 2007

- **Clearly-defined development and exploration milestones between now and the end of 2008.** Beta Unit offshore California is expected to ramp up to ~8,000 bopd by Q4 2008. Non-operated three-year field revitalization plan underway at McArthur River in the Alaskan Cook Inlet. Also in the Cook Inlet, the 100%-interest Corsair exploration well (113 mmboe potential) expected to be drilled in mid-2008.

**Exhibit 7: Map of Locations of Active Project Areas**



Source: worldatlas.com, Wellington West Capital Markets Inc.

**Exhibit 8: Corporate Reserves Summary by Region**

Reserves Summary					
Reserves Category	Proven (mmboe)	Probable (mmboe)	Possible (mmboe)	Total 3P (mmboe)	Current Production
Onshore California	11.1	7.9	4.3	23.3	1,000
Offshore California	20.1	11.4	31.1	62.6	2,000
Alaska*	26.1	27.8	6.7	60.6	5,300
<b>Totals</b>	<b>57.3</b>	<b>47.1</b>	<b>42.2</b>	<b>146.6</b>	<b>8,300</b>

Source: Company reports, Wellington West Capital Markets Inc.

## California – Developing Large Proven Resources

### California highlights:

- Pacific Energy is the operator in all 5 of their active projects in California (Exhibit 9 & 10).
- 50.5 mmboe net 2P reserves with current net production of ~3,000 bopd and a 46-year reserve life. Net 3P reserves total 85.9 mmboe.
- Infrastructure, facilities, and development plans all in place.
- Low risk production growth through infill drilling on well-defined producing fields with long and predictable production histories. The company’s development plans involve minor step-outs and mostly infill wells with low geological risks.
- Planned 2008 exit production of ~8,800 bopd.

### Exhibit 9: California Operating Areas



Source: Company reports

Malcolm Shaw P.Geol. (416) 640-4949; [mshaw@wwcm.com](mailto:mshaw@wwcm.com)

Kyle Hunter, MBA (416) 640-4953; [khunter@wwcm.com](mailto:khunter@wwcm.com)

\*Note: All aggregated corporate reserves estimates, or those referring to Alaska alone, contain Alaskan reserve estimates as of January 1, 2007 in a preliminary report prepared by DeGolyer and MacNaughton dated July 27, 2007

**Exhibit 10: Summary of Pacific Energy's Assets in California**

Fields	Status	Role	Oil Gravity (°API)	Net Production (boepd)
Onshore				
Wilmington	Producing	Operator	14	600
San Joaquin Basin	Producing	Operator	25-30	325
Long Beach	Producing	Operator	25-35	65
Rosecrans	Producing	Operator	30-35	80
Offshore				
Beta Unit	Producing	Operator	14	2,100
<b>TOTAL</b>				<b>3,170</b>

Source: Company reports, Wellington West Capital Markets

**Offshore Beta Unit**

Pacific Energy holds a 100% interest in the Beta Unit, offshore California (Exhibits 11 & 12), where the company produces ~2,100 bopd and has booked 2P reserves of 31.5 mmboe. On a 3P basis, the Beta Unit reserves are 62.6 mmboe. At current production levels, the 2P and 3P reserves correspond to reserve-life indexes of 41 years and 82 years respectively. We believe the long reserve life of the field represents significant potential for accelerated development, corresponding to increased production levels. The oil gravity is heavy, at 14° API, and contains 4% sulfur. The crude currently sells at a 15% discount to WTI. Pacific Energy's net revenue interest in the field is 75%.

**Exhibit 11: Summary of Pacific Energy's Offshore California Reserves**

Offshore California (Beta Field)			
Reserves Category	Bcf	mmbbls	mmboe
Proved Producing	0.7	2.9	3.0
Proved Non-Producing	0.0	0.0	0.0
Proved Undeveloped	2.7	16.6	17.1
<b>Total Proved</b>	<b>3.3</b>	<b>19.6</b>	<b>20.1</b>
Probable	2.0	11.1	11.4
Possible	4.8	30.2	31.1
<b>Total Reserves (3P)</b>	<b>10.1</b>	<b>61.0</b>	<b>62.6</b>

Source: Company reports, Wellington West Capital Markets

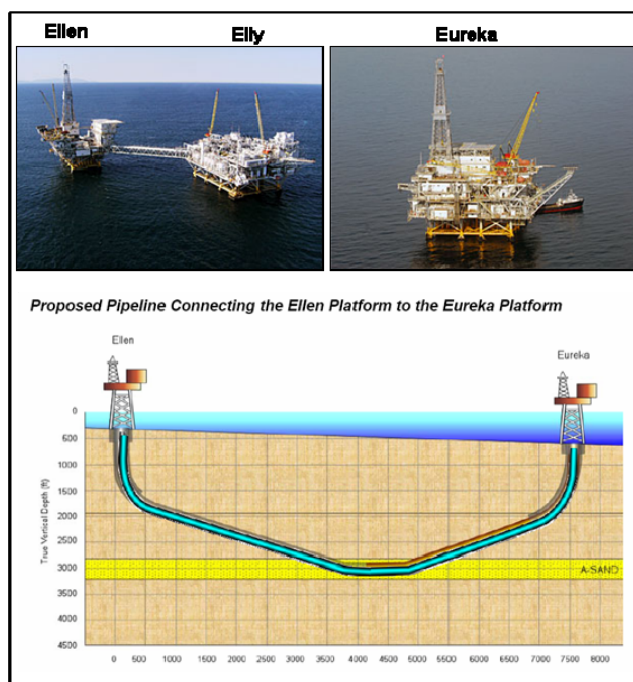
The field is estimated to have had OOIP of 590 million barrels and has produced 96 mmbbls to date, representing a 16% recovery factor. Management believes that infill drilling and implemental of a hot-water



**The Beta Unit was previously owned by Aera Energy LLC (a Shell-Exxon JV) and Noble Energy; Pacific Energy bought the field for the price of one dollar, plus the cost of posting US\$91.8 million in abandonment, development, and lease bonds.** The asset was non-core to Aera and was in need of replacement of the pipeline between the Eureka and Ellen platforms. At current production levels the field is marginally economic at best. Pacific Energy has a plan in place to re-establish production from the Eureka platform and implement an infill drilling and waterflood program in the field. At its peak, the Beta field produced 20,800 bopd.

**Plans call for increasing production from the current level of 2,100 bopd to up to 12,000-14,000 bopd by re-establishing production from the Eureka platform and implementing a field-wide infill drilling and waterflood program.** The Eureka platform was shut down due to pipeline integrity issues in 1999. Pacific Energy has consulted with Halliburton on an innovative method of re-establishing production without having to lay a new subsea pipeline between the Eureka and Ellen platforms. The company plans to drill a horizontal well from each of the Eureka and Ellen platforms that connect at a depth of about 3000 feet (Exhibit 13). Once the wellbores have connected, the company plans to run a production liner along the full length of the borehole to be used as an inter-platform pipeline. The total cost of the “wellbore connect” project is expected to be ~US\$20 million. Current operating costs are north of \$30/bbl, but with full field production of 10,000-12,000 bopd those costs are expected to drop to ~\$15-20/bbl. At a production rate of 12,000 bopd, the 2P reserve life of the field would be 7 years, jumping to 14 years on a 3P basis.

**Exhibit 13: Beta Unit Platforms and Wellbore Connect Schematic**



Source: Company reports, Wellington West Capital Markets

Malcolm Shaw P.Geol. (416) 640-4949; [mshaw@wwcm.com](mailto:mshaw@wwcm.com)

Kyle Hunter, MBA (416) 640-4953; [khunter@wwcm.com](mailto:khunter@wwcm.com)

\*Note: All aggregated corporate reserves estimates, or those referring to Alaska alone, contain Alaskan reserve estimates as of January 1, 2007 in a preliminary report prepared by DeGolyer and MacNaughton dated July 27, 2007

**It is expected that completion of the “wellbore-connect” pipeline plan will allow for production of ~4,400 bopd to resume from the currently shut-in Eureka platform (Exhibit 13).** Additionally, the company plans to drill infill and waterflood wells to increase and optimize field production. New wells are expected to cost US\$2.4 million and are expected to come onstream at approximately 300-350 bopd each with decline rates of ~10%. The infill production wells are expected to payout in about 20 months at US\$70 WTI. Once shut-in production resumes and has produced 200,000 bbls, Pacific Energy will be required to make a one-time payment to the vendors of US\$7 million. Recent plans have also considered restoring partial production from the Eureka platform by retrofitting existing water lines with liners so that they can be used to transport crude. This would positively impact our near-term production estimates.

**The Beta field production & reserves are currently derived from the upper Miocene unconsolidated sandstones of the Monterey/Fuente formations and there is the potential for the discovery of additional reserves in the underlying lower Miocene San Onofre Breccia.** Analysis of play types in the San Pedro Bay area suggests the San Onofre Breccia could be productive beneath the Beta field. Pacific Energy may evaluate this deeper potential in due course.

#### *Onshore Fields (Wilmington, San Joaquin, Rosecrans and Long Beach)*

**Pacific Energy holds interests in 4 producing regions onshore California that, in aggregate, currently produce ~1075 boepd (~93% oil) and have booked 2P reserves of 19 mmboc (23.3 mmboc 3P) net to the company (Exhibit 14).** The majority of the production comes from the mature Wilmington (605 boepd) and San Joaquin Basin fields (325 boepd). Most of the Wilmington field underlies the onshore region north of the San Pedro Bay area in the southern reaches of Los Angeles County while the San Joaquin fields are located near Bakersfield in the southern reaches of the Central Valley (a.k.a., the San Joaquin Valley).

#### **Exhibit 14: Summary of Pacific Energy’s California Onshore Reserves**

<b>Onshore California</b>			
<b>Reserves Category</b>	<b>Bcf</b>	<b>mmbbls</b>	<b>mmboc</b>
Proved Producing	0.2	3.5	3.5
Proved Non-Producing	0.1	0.0	0.1
Proved Undeveloped	0.0	7.5	7.5
<b>Total Proved</b>	<b>0.3</b>	<b>11.1</b>	<b>11.1</b>
Probable	0.5	7.8	7.9
Possible	1.9	4.0	4.3
<b>Total Reserves (3P)</b>	<b>2.6</b>	<b>22.9</b>	<b>23.3</b>

Source: Company reports, Wellington West Capital Markets

Malcolm Shaw P.Geol. (416) 640-4949; [mshaw@wwcm.com](mailto:mshaw@wwcm.com)

Kyle Hunter, MBA (416) 640-4953; [khunter@wwcm.com](mailto:khunter@wwcm.com)

\*Note: All aggregated corporate reserves estimates, or those referring to Alaska alone, contain Alaskan reserve estimates as of January 1, 2007 in a preliminary report prepared by DeGolyer and MacNaughton dated July 27, 2007

**The company has a 100% interest in 743 acres over a portion of the giant Wilmington field; the Wilmington field has an estimated OOIP of 8 Bbbls of 14° API crude of which 2.2 Bbbls have been produced from the field's 5,000 foot-thick sand-rich Miocene interval.** Plans call for the drilling of 72 wells (57 producers and 15 injectors) over the coming years in order to fully develop the company's Wilmington acreage, taking production to 2,000 bopd by 2010 and 2,700 bopd by 2012. Gross per well costs are estimated at US\$1.3 million and are expected to have initial production of 50 bopd, which was confirmed by 7 wells drilled since late last year (375 bopd combined). Payout for new Wilmington wells is expected to take about 3 years at US\$60 WTI.

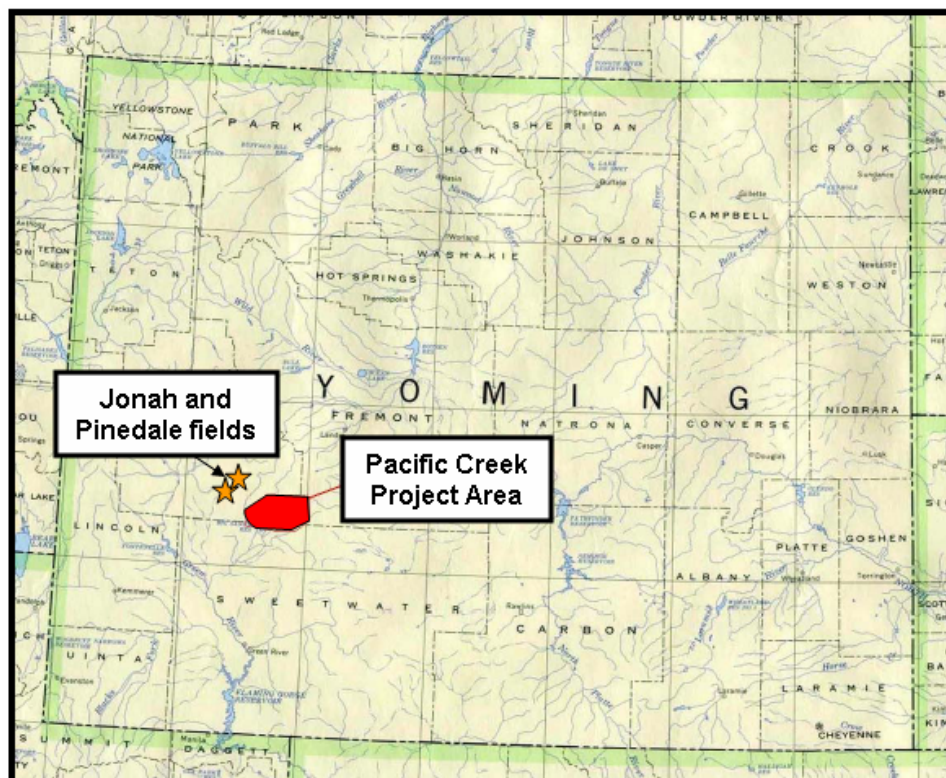
**Net production from the company's fields in the Los Angeles Basin (Wilmington, Long Beach, and Rosecrans fields) is currently ~750 boepd and the company's San Joaquin Basin properties produce ~325 boepd.** At current production rates the company has a combined onshore California reserve-life-index of 50 years on a 2P basis and 60 years on a 3P basis. In addition to the established reserve base, the company has identified 8 ready-to-drill exploration targets imaged by 3D seismic on the San Joaquin acreage (8,792 net undeveloped acres) ranging from 1 to 10 million barrels each which the company intends to farm-out. Aside from the major oil companies, Pacific Energy has one of the largest 3D databases in the San Joaquin Basin.

## Wyoming – High-Impact Gas Play: Results Pending

### Wyoming (Pacific Creek Project) highlights:

- **3 Tcf gross unrisks potential.** Pacific Energy is currently earning an average 38% working interest (~26% revenue interest) in a highly prospective 99,000 acre area of mutual interest in the Green River Basin, Wyoming.
- **Close to regional infrastructure and proven analogous fields (~10.5 Tcf Jonah gas field is located 20 miles to the northwest, Exhibit 15).**
- **Testing program on 419 foot-thick net sand interval currently underway.**
- **Risked EMV/sh of \$1.11 based on a 3 Tcf gross (800 Bcf net) discovery risked with a 20% chance of success.** In our view, investors at current levels get a “free option” on this play.
- **Success case upside of \$5.63 per share based on \$10/boe valuation and 3 Tcf potential.**

### Exhibit 15: Pacific Creek Project Location and Proximity to Jonah Field



Source: Company reports, Wellington West Capital Markets

#### *Wyoming Pacific Creek Natural Gas Play*

**Pacific Energy is currently testing their Pacific Paladin 15-18 well in the Pacific Creek project in the Green River Basin, Wyoming – the play has gross unrisked resource potential of ~3 Tcf and, if successful, we believe it could be worth ~\$5.60 per share using a \$10/boe valuation.** The well was drilled to a total depth of 13,851 feet in mid-February before suspending the well for several months to accommodate the sage grouse mating season (Bureau of Land Management regulations stipulate that all equipment must be off site between March 15 and July 15). The company started testing the well in the third week of July and testing operations are ongoing. In total, the company expects to perforate, frac, and flow test a total 419 feet of sandstone in the Lance and Mesa Verde formations which exhibited log porosities greater than 6% (often used as the cutoff in the region for potential productivity). Completions in tight gas plays can be complex, and we expect it may take some time (and additional wells) to determine the economic potential of the Pacific Creek play.

**The company is currently earning a 40% working interest in 85% of a 99,000 acre area of mutual interest (AMI) and a 28% working interest in 15% of the AMI by shooting 3D seismic over the area (completed at a cost of US\$4 million) and drilling (and completing/testing) 2 wells at a cost of roughly US\$7 million each.** As mentioned above, Pacific Energy has already

Malcolm Shaw P.Geol. (416) 640-4949; [mshaw@wwcm.com](mailto:mshaw@wwcm.com)

Kyle Hunter, MBA (416) 640-4953; [khunter@wwcm.com](mailto:khunter@wwcm.com)

\*Note: All aggregated corporate reserves estimates, or those referring to Alaska alone, contain Alaskan reserve estimates as of January 1, 2007 in a preliminary report prepared by DeGolyer and MacNaughton dated July 27, 2007

drilled one well and test results are pending. A second well (the Ranger 7-21 well) will be considered once the results of the Paladin well are known. The Ranger 7-21 well is currently expected to be drilled to a depth of 21,000 feet in order to evaluate deeper formations shown by other operators (e.g., Questar Corp.) and historical wells (e.g., the Federal 1-34 well drilled in 1978) in the area to have ~5,000 feet of additional prospective stratigraphy. The total cost of the earn-in is expected to be approximately US\$18-20 million, but the company believes that the prospectivity and magnitude of the play warrant the significant capital outlay. Pacific Energy's partners in the play are Shell (40%) and Wolverine Oil and Gas.

**The Paladin 15-18 well yielded gas shows over a gross interval of 725 feet (225 feet in the Lance formation and 500 feet in the Mesa Verde formation) and subsequent logging identified 419 feet of net sandstone with porosities greater than 6%.** During drilling and prior to running 4½-inch production casing, 20 to 30 foot high gas flares were noted over 10-20 minute time periods. We believe that the Pacific Creek play is moderately prospective in light of the early indications from the Paladin 15-18 well, though no guarantees can be made at this stage with respect to the economic viability of the well or the play. The company has already set up gas processing facilities and run a 12 mile-long 6-inch gas pipeline to a regional gas sales pipeline to allow for gas sales during testing in the event that flow can be established.

**The Pacific Creek play is roughly 20 miles southeast of the prolific Jonah gas field (~10.5 Tcf) and the southern end of the Pinedale field – Pacific Creek is believed to be analogous to the Jonah field with respect to the trapping mechanism and need for finding the “sweet spots” of reservoir quality sandstones.** The play is dependent upon trapping along two subtle strike-slip faults similar in configuration to the Jonah field. Areas of potentially higher porosity (needed for potentially economic flow rates) are defined by a 130 mi<sup>2</sup> 3D seismic survey shot over the area by Pacific Energy late in 2005 and the Paladin 15-18 well appears to confirm the seismic interpretation with respect to reservoir quality sand distribution. Prior wells drilled by Shell in the region were centered on a structural high south of what is now interpreted as the main reservoir quality sand fairway. The Shell wells proved to be uneconomic, but given the new seismic data over the play we feel that the Shell wells are not indicative of the overall potential.

**In the event of an economic discovery, Pacific Energy's 38% net working interest corresponds to an average net revenue interest in the Pacific Creek play of ~26%.** The company completed a financing in late 2005 with Laurus Master Fund and assigned a 33% revenue interest in the play to Laurus as part of the financing terms.

## Alaska – Acquired an Entire Core Operating Region

### Alaska (Cook Inlet) highlights:

- **Purchase of assets with ~5,500 boepd of production and 53.9 mmboe\* of 2P reserves for US\$457.5 million (Exhibit 16).** The purchase price implies that the company paid \$8.49/boe on a 2P basis for reserves with a 27 year reserve-life-index.
- **Significant exploration upside of up to 1+ Bboe of unrisks potential with a risked value of \$3.59 per share.** One of the highest priority exploration targets, Corsair, is on trend with known producing fields and has 113 mmboe of potential.
- **Visibility on doubling net production by 2010 (10,000-11,000 boepd of based on established 2P reserve base\*.**
- **Assets were sold by Forest Oil as they exited the region and focused entirely on onshore gas plays.** As a result, we believe Pacific Energy was able to buy the assets at a discount to market prices.
- **Risked NPV/sh of \$1.56 for producing assets with success case exploration upside of \$4.83 per share based on a \$10/boe valuation on the Corsair prospect.**
- **Transaction closed on August 27, 2007**

### Exhibit 16: Summary of Pacific Energy's Alaskan Reserves\*

Alaska			
Reserves Category	Bcf	mmbbls	mmboe
Proved Producing	6.4	10.2	11.3
Proved Non-Producing	1.1	2.4	2.5
Proved Undeveloped	0.4	12.2	12.2
<b>Total Proved</b>	<b>7.9</b>	<b>24.7</b>	<b>26.1</b>
Probable	20.9	24.3	27.8
Possible	15.5	4.1	6.7
<b>Total Reserves (3P)</b>	<b>44.4</b>	<b>53.2</b>	<b>60.6</b>

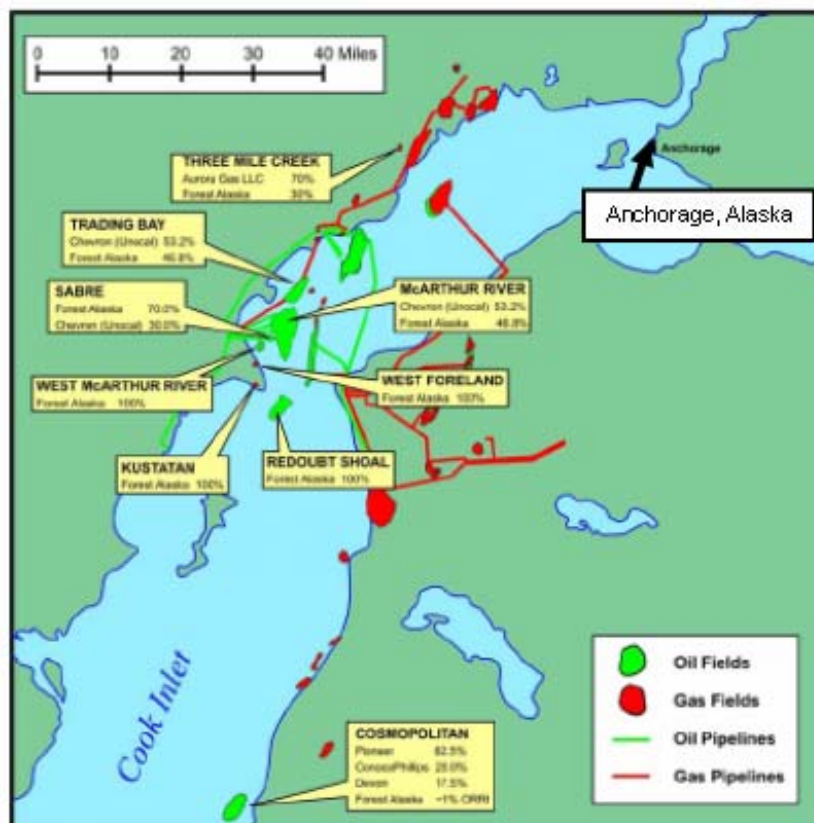
Source: Company reports, Wellington West Capital Markets

Malcolm Shaw P.Geol. (416) 640-4949; [mshaw@wwcm.com](mailto:mshaw@wwcm.com)

Kyle Hunter, MBA (416) 640-4953; [khunter@wwcm.com](mailto:khunter@wwcm.com)

\*Note: All aggregated corporate reserves estimates, or those referring to Alaska alone, contain Alaskan reserve estimates as of January 1, 2007 in a preliminary report prepared by DeGolyer and MacNaughton dated July 27, 2007

**Exhibit 17: Oil and Gas Fields in the Cook Inlet, Alaska (fields where PFE has a working interest are named with text boxes)**



Source: Company reports, Wellington West Capital Markets

### *Alaskan Cook Inlet*

**Pacific Energy and Forest Oil Corporation agreed to a purchase and sale agreement whereby Pacific Energy acquired 100% of Forest Alaska Holding LLC, an operating subsidiary of Forest Oil Corp with assets in the Alaskan Cook Inlet, for total consideration of US\$457.5 million.** Pacific Energy closed the transaction on August 27, 2007. The purchase price consisted of US\$400 million in cash, 10 million shares of Pacific Energy at a price of US\$2.75, and a seven-year zero coupon seller's note with a face value of US\$30 million (US\$60.75 million at maturity in 2014). The assets represented a non-core operating region for Forest and we suspect the sale will strengthen Forest's balance sheet in light of the company's recent \$1.5 billion purchase of Houston Exploration. Financing for the bulk of the deal was secured from a blue-chip financing source in the United States. Pacific Energy's Cook Inlet fields and working interests are summarized below in Exhibit 18.

**Exhibit 18: Summary of Pacific Energy's Alaskan Assets\***

Alaska Asset Summary*				
Alaska Production by Field (Net)	BOE/d	Operator	PFE Net Working Interest	PFE Net 2P Reserves (mmboe)
McArthur River / Trading Bay Unit	2,947	Chevron	46.8%	25.2
Trading Bay Field	386	Chevron	46.8%	9.1
West McArthur River	956	Pacific Energy	100%	4.9
West Foreland	633	Pacific Energy	100%	0.9
Redoubt Unit	388	Pacific Energy	100%	6.1
Kustatan	12	Pacific Energy	100%	0.0
Three Mile Creek	41	Aurora	30%	0.2
Sabre	0	Pacific Energy	70%	5.2
Cosmopolitan	0	Pioneer	~1%	2.3
<b>Total Daily Production</b>	<b>5,363</b>		<b>Total 2P reserves</b>	<b>53.9</b>

Source: Company reports, Wellington West Capital Markets

**The assets purchased currently produce approximately ~5,300 boepd (86% oil) and have 2P reserves of 53.9 mmboe\* (~91% oil) and 3P reserves of 60.6 mmboe\* (Exhibit 17 & 18).** At current production levels the assets have a 28 year reserve-life-index suggesting an opportunity for increased capital investment and higher production levels. Based on a preliminary reserves report by DeGolyer and MacNaughton, we believe the assets are capable of producing ~10,000 boepd by 2010. On a production volume basis, approximately half of the assets would be operated by Pacific Energy, with the other half being operated by Chevron.

**In mid-July, Chevron (as operator) announced a ~\$US200 million 3-year plan to revitalize and increase production at the McArthur River and Trading Bay fields; we expect Pacific Energy to benefit as a result.** The Alaskan assets include a 46.8% working interest (non-operated) in these two fields which are responsible for about half of the 5,300 boepd of current production. We expect Pacific Energy would benefit from the field redevelopment program in the form of production increases once work resumes. Wells in the fields have produced at initial rates of up to 3,400 bopd with selected wells coming on at rates as high as 7,000 bopd – typical wells are in the 500 bopd range. Pacific Energy would be responsible for their share of the field redevelopment costs, but the project is not expected to be a big draw on management's time due to the non-operated nature of the project. The McArthur River and Trading Bay fields account for 34.3 mmboe\* of the 53.9 mmboe\* 2P reserves in the Alaskan asset package.

**As part of the deal, Pacific Energy also acquired a 50% interest in the Cook Inlet Pipeline Company (CIPC), which generated US\$14.5 million in gross EBITDA in 2006 (US\$7.3 million net to Pacific Energy's interest).** The CIPC assets include a 43-mile long 17,500 bopd pipeline and the 150,000 bopd Drift River offshore terminal (Exhibit 19). All of the production from the company's fields is transported along this pipeline. If we apply a 3x to 7x EBITDA multiple on CIPC, we believe the company's net interest in CIPC asset is arguably worth approximately US\$20-\$50 million based on 2006 figures. The company intends to evaluate monetization options.

Malcolm Shaw P.Geol. (416) 640-4949; [mshaw@wwcm.com](mailto:mshaw@wwcm.com)

Kyle Hunter, MBA (416) 640-4953; [khunter@wwcm.com](mailto:khunter@wwcm.com)

\*Note: All aggregated corporate reserves estimates, or those referring to Alaska alone, contain Alaskan reserve estimates as of January 1, 2007 in a preliminary report prepared by DeGolyer and MacNaughton dated July 27, 2007

### Exhibit 19: Cook Inlet Pipeline Company (CIPC) Pipeline Route and Location of the Drift River Offshore Terminal



Source: Company reports, Wellington West Capital Markets

**There are a total of 6 offshore platforms with 7 drilling rigs in variable states of repair associated with the 3 of the Cook Inlet assets – each of these platforms have the potential for optimization and refurbishment.** We believe the acquisition metric of \$8.49 per 2P boe is particularly attractive given the advanced nature of the developments acquired. With facilities and infrastructure already in place, we believe Pacific Energy is exposed to high growth potential with moderate incremental capital investment. The platforms and rigs are associated with fields that currently produce ~63% of the company’s Cook Inlet production (McArthur River, Redoubt Shoal, and Trading Bay); we believe each of these fields is capable of higher production levels and/or recovery factors with additional capital investment.

**Interests in the >US\$100 million Kustatan (100%-operated) and Trading Bay (operated by Chevron) onshore processing facilities were also included in the deal.** Of particular note is the grossly underutilized 20,000 bopd capacity Kustatan facility. The state-of-the-art Kustatan facility was completed in 2001 and is currently handling < 1,000 bopd from the Redoubt Shoal field. The construction cost was reportedly in the US\$125 million range. We believe the Kustatan facility will figure prominently in Pacific’s plans in the Cook Inlet as it is by far the most modern and underutilized processing facility along the eastern shore of the Cook Inlet. Pacific essentially captured a “free option” on the use of Kustatan in future development plans as little value was placed on it in the asset purchase from Forest.

Malcolm Shaw P.Geol. (416) 640-4949; [mshaw@wwcm.com](mailto:mshaw@wwcm.com)

Kyle Hunter, MBA (416) 640-4953; [khunter@wwcm.com](mailto:khunter@wwcm.com)

\*Note: All aggregated corporate reserves estimates, or those referring to Alaska alone, contain Alaskan reserve estimates as of January 1, 2007 in a preliminary report prepared by DeGolyer and MacNaughton dated July 27, 2007

---

**Exhibit 20: Pacific Energy's Offshore Platforms in the Alaskan Cook Inlet**

---



Source: Company reports, Wellington West Capital Markets

**The Forest Oil assets include almost 1 million net acres with approximately 1,300 mmboe of unrisksed exploration potential. Blue-sky aside, we carry \$2.17/sh in risksed EMV for 113 mmboe exploration upside that is expected to come into play by mid-2008.** Our risksed EMV/sh valuation of the near-term Alaska exploration upside is based solely on a 45% chance of success on the 100% owned Corsair prospect. In the full success case at Corsair, we believe the discovery could be worth as much as ~\$1.1 billion in market value, or \$4.83/share. We also carry an additional \$1.43/sh of value based on a 5% chance of success on the 500 mmboe blue-sky exploration prospect portfolio.

**Review of geological and geophysical data on the company's acreage has identified 18 prospects in variable stages of drill-readiness.** The company has identified 3 high-priority exploration targets named Corsair (113 mmboe unrisksed potential), Valkyrie (~65 mmboe unrisksed), and Raptor (potential extension of Middle Ground Shoal field), all of which are on trend with or nearby known producing fields. In addition to proven play types, a Jurassic exploration play is currently being developed in the region. Data suggest that oil in the Cook Inlet has migrated from a Jurassic source rock, but very little exploration has ever focused on finding reservoirs in the Jurassic section. If the Jurassic play starts to bear fruit, we believe the company's acreage position would give them excellent exposure to the play.

---

Malcolm Shaw P.Geol. (416) 640-4949; [mshaw@wwcm.com](mailto:mshaw@wwcm.com)

Kyle Hunter, MBA (416) 640-4953; [khunter@wwcm.com](mailto:khunter@wwcm.com)

\*Note: All aggregated corporate reserves estimates, or those referring to Alaska alone, contain Alaskan reserve estimates as of January 1, 2007 in a preliminary report prepared by DeGolyer and MacNaughton dated July 27, 2007

**The 100%-interest 113 mmboe Corsair prospect (risked EMV/sh of \$2.17) is one of the company's highest priority exploration targets and is expected to be drilled in mid-2008.** The Corsair prospect is located 12 miles southwest of the producing North Cook Inlet field on an anticlinal (arch-shaped) structure measuring 2.5 miles wide by 9 miles long. The target is estimated to have potential of 500 Bcf of gas and up to 137 million barrels of oil in two deeper zones. Corsair exhibits 3D seismic amplitude anomalies suggestive of gas-charge within a ~26,700 acre land package 100% controlled by the company. The prospect is in shallow water depths and requires a jack-up rig for drilling. Pacific Energy is actively engaged in sourcing a jack-up rig for the drilling of the Corsair prospect. Under the terms of the Corsair Unit agreement, an exploration well must be drilled by December 31, 2008. We believe that if the company sources and mobilizes a jack-up rig to the Cook Inlet, there may be farm-in of JV opportunities with other unit holders in the area. Currently, there are no jack-up rigs in the Alaskan Cook Inlet.

**In general, we believe the market has yet to digest the impact of the Forest acquisition.** We suggest that investors are generally unaware of the asset package purchased and the strategic value of a "ready made" new core operating region. The company has kept the majority of the Forest staff including key employees who have been with the assets since the 1990's. We believe the non-operated nature of the McArthur River and Trading Bay fields will allow the company to participate in production growth through Chevron's field redevelopment plans while the company focuses on optimizing and developing their operated assets.

## Operating and Financial Forecasts

**We carry \$1.93/sh in risked NPV in our model for Pacific Energy, net of current debt.** Our risked NPV estimate is associated with fields with current production and a total 2P reserve base of 104 mmboe\*.

**We expect the company to exit 2007 with production of ~8,300 boepd (86% oil) with exit 2008 production projected to be ~14,500 boepd.** The vast majority of the expected production growth over the next 14 months is expected to result from: 1) the re-establishment of production from the company's Eureka platform at the Beta field in offshore California (4,500 bopd assumed), and 2) the drilling of 3 successful infill wells in the Beta field each producing ~500 bopd (1,500 bopd total). Minor production additions are expected to come from the company's planned onshore drilling program at the Wilmington field and form remedial work on select wells in Alaska.

**Our 2007E and 2008E CFPS estimates are \$0.11/sh and \$0.34/sh respectively.** We expect cash flow growth to ramp up significantly in Q3 2008 as production from the Eureka platform is re-established. A projected reduction in operating costs also has a positive impact on our cash flow estimates. We expect operating costs to drop to an average in the mid-US\$20/bbl range by the end of 2008 from the current level in the low-US\$30/bbl range. The drop in

operating costs is expected to stem from increased production at the Beta field in offshore California and the addition of lower-cost production in Alaska.

**We believe that an investment in Pacific Energy gives investors exposure to risked resource potential of 229 mmboe with a risked EMV/sh of \$7.07.** In our view, investors entering the stock at current levels are well-supported by the underlying asset value of the 104 mmboe\* 2P reserve base. We see incremental upside potential of ~\$10/sh based on a 3 Tcf gross (0.8 Tcf net) low-case discovery in Wyoming and a 113 mmboe discovery at the company's Corsair prospect in Alaska. At current share prices, we believe investors effectively get a "free option" on the exploration upside potential.

**Our 12-month target price of \$3.00/sh is driven by a 35% weighting to our estimated risked NPV/sh and a 35% weighting to our 2008E CFPS estimate – we assign 20% and 10% weightings to risked EMV/sh and acquisition value respectively (Exhibit 21).** Only a minor weighting is assigned to the potential acquisition value of the company at this stage as we feel this is an unlikely outcome in the near future. We believe Pacific Energy is poised for a phase of production growth driven by exploitation of the company's existing reserve base with high-impact upside potential from the current exploration portfolio. Based on the company's current reserve base, we believe a production target of 30,000 boepd is attainable by 2012 pending the successful execution of field re-development plans.

#### Exhibit 21: Summary Valuation Table (all numbers net of debt)

Valuation Matrix	Forecast	Target Multiple	Value	Weighting	Weighted Value	
Risked NPV/share	\$	1.93	1.0	\$ 1.93	35%	\$ 0.67
2008E CFPS	\$	0.34	6.0	\$ 2.02	35%	\$ 0.71
Asset EMV/share	\$	7.07	1.0	\$ 7.07	20%	\$ 1.41
Acquisition Value	\$	1.67	1.0	\$ 1.67	10%	\$ 0.17
12 month target price					<b>\$</b>	<b>2.96</b>

Source: Company reports, Wellington West Capital Markets Inc. estimates

**We point out that although the company's balance sheet is highly leveraged, (Debt/2008E cash flow of ~6.8x) we believe the company is well-positioned to improve its balance sheet significantly over the next 6-12 months.** Potential sources of funds to reduce the debt load and/or provide working capital include the sale of the Alaskan CIPC asset (estimated value of ~US\$20–US\$50 million), potential disposition of onshore producing oil properties (estimated value ~US\$100 million), and the release of approximately ½ of the ~\$100 million reclamation bond currently posted for the Beta Unit in exchange for a commitment letter from Pacific backed by the assets of the company. A fourth option includes the sale of the Beta Unit pipeline infrastructure that carries the crude onshore, though we expect the company would first ramp-up offshore production to maximize the value of that asset to an acquisition candidate. We feel it is important to point out that Pacific Energy has also garnered strong support from their core shareholders and the lending community.

## Operational Risks

While we believe the established reserve base provides solid support to the Pacific Energy share price, early stage E&P companies are speculative by nature and there are a number of risks associated with their activities that could result in them failing to create value for shareholders. Specific to Pacific Energy, these risk factors may include:

- **Geologic risk** – Reserves estimates are made based on all available engineering and technical data, but unforeseen reservoir heterogeneities or errors in geophysical interpretation could have a material impact on ultimate recoverable resource potential and production capabilities. Given the established production histories at Pacific Energy’s producing assets we believe these risks are largely mitigated. At the company’s exploration projects, trap, hydrocarbon charge, and reservoir risk that the company can be quantified, but these risks cannot be eliminated.
- **Offshore operating environments** – A significant portion of Pacific Energy’s assets and exploration targets are located in offshore environments where equipment and labor availability are currently under stress in the North American market. Projects could face significant cost pressures and the company may or may not be able to source rigs, materials, and/or approvals in a timely manner, or at all.
- **Geohazards** – Two out of three of Pacific Energy’s core areas are located in seismically active areas. Both California and Alaska are located in regions with significant earthquake activity that could cause production disruptions, infrastructure damage, environmental impacts, and other associated impacts which could delay or halt the company’s development and production plans.
- **Regulatory risk** – While the United States is currently experiencing increased pressure to discover and develop domestic hydrocarbon resources, California has tendencies towards limiting offshore hydrocarbon E&P activity. Fortunately, the offshore Beta Unit falls under federal jurisdiction and is subject to rules similar to those in the Gulf of Mexico. Regulatory changes and/or failure to acquire environmental approvals could result in delays or halts in production plans, increased operating costs, or significant retrofitting costs to existing facilities and infrastructure.
- **Technical risk** – Much of Pacific Energy’s growth plans are centred on the redevelopment and rehabilitation of existing fields. An innovative wellbore-connect is planned between the Ellen and Eureka platforms and there can be no guarantee that the planned “underground pipeline” will not encounter unexpected difficulties or perform as expected.
- **Facilities risks** – The Beta Unit and associated infrastructure were acquired on an “as is, where is” basis. Despite the company’s best efforts during the due diligence period, deficiencies could arise that could delay or halt production.

## International E&P Checklist

The following checklist is used to review the controlling elements of risk in every international oil and gas venture. Given that Pacific Energy's assets are entirely within the United States, most of the typical "international" risks are minimal.

### *Pacific Energy*

- ✓ **Abundant risked resource potential** – Alaska's Cook Inlet holds considerable potential for future oil and gas discoveries. In 2004, the USGS estimated that only 4% of the oil believed to have been generated in the Cook Inlet basin has been identified. The U.S. Department of Energy reported in 2006 that there may be 13-17 Tcf of gas yet to be found in the area.
- ✓ **Cost of entry well below the asset value** – Pacific Energy has acquired the lion's share of their reserve base in the last ten months via acquisition. The Beta Unit and Forest Alaska acquisitions provided PFE with an additional 46.2 mmboe on a proven, 85.4 mmboe on a 2P and 123.2 mmboe on a 3P reserve basis; the 2P and 3P reserves were acquired for an implied price of US\$6.43/boe and US\$4.46/boe respectively. The US\$6.43/boe acquisition cost on a 2P basis is highly attractive for North American reserves.
- ✓ **Upside growth potential** – Pacific Energy has exposure to significant upside growth with their Pacific Creek project in Wyoming and the Forest Oil assets in Alaska. Pacific Creek carries ~3 Tcf in gross unrisked potential (800Bcf net to PFE). The Alaskan assets carry 1,300 mmboe in gross unrisked exploration upside, with the Corsair project potentially holding up to 200 mmboe in a full success case.
- ✓ **Strong partners** – Pacific Energy strives to operate 100% owned oil and gas properties; however, in the cases where they do not have 100% ownership or operational control they have chosen strong partners to work with. Chevron is currently the operator of the McArthur River and Trading Bay fields located in Alaska, which hold ~64% of the 2P reserves in the asset package.
- ✓ **Legal contract in-place** – The U.S. operates under a concessionary system that provides legal title to any crude production against which taxes and royalties are paid.
- ✓ **Political stability and rule of law** – The United States continues to be one of the leading countries with a stable self-governing, political system.
- ✓ **Stable macro-economic indicators** – The United States remains the most powerful economy in the world and continues to exhibit consistent real GDP growth (3.2% in 2006), low unemployment (4.8% in 2006),

Malcolm Shaw P.Geol. (416) 640-4949; [mshaw@wwcm.com](mailto:mshaw@wwcm.com)

Kyle Hunter, MBA (416) 640-4953; [khunter@wwcm.com](mailto:khunter@wwcm.com)

\*Note: All aggregated corporate reserves estimates, or those referring to Alaska alone, contain Alaskan reserve estimates as of January 1, 2007 in a preliminary report prepared by DeGolyer and MacNaughton dated July 27, 2007

and low inflation. The U.S. is heavily dependent on foreign countries for oil, importing two-thirds of the country's oil consumption.



**Positive corruption and human rights record** – The United States receives a favourable ranking of 20<sup>th</sup> (tied with Chile and Belgium) on Transparency International's 2006 Corruption Perceptions index (CPI), six rungs behind Canada, and three rungs ahead of Spain.



**Clear timing and magnitude of state equity in license** – The U.S. does not have provisions for mandated state equity in exploration permits. The state gains economic rent for produced hydrocarbons through simple taxes and royalties.



**Favorable fiscal terms (Tax-royalty, production sharing, or service contract)** – We believe that fiscal terms in Alaska are attractive, particularly in light of recent reforms which have been constructed to encourage E&P activity by emerging producers. There are tax credits for companies exploring in Alaska ranging from 20-40% of exploration well and seismic expenditures and there is a secondary market for these tax credits if the company does not have revenue on which those credits can be used. The royalty rate on Pacific Energy's Alaskan assets leases typically averages 15-20%. Additionally, there is a tax-holiday on the first \$12 million dollars of earnings that a company earns from operations in Alaska. Federal and state taxes total ~38% in California and 32% in Wyoming. Royalty rates average 22.5% and 20% in California and Wyoming, respectively.



**Profitable product quality** – Oil quality in the Cook Inlet ranges from 25-40° API. Crude quality from the McArthur River and Redoubt Unit is 34° API, and current production is selling at par with WTI. Oil quality in the California onshore and offshore basins is heavier than Alaska and ranges from 14-35° API. The majority of Pacific Energy's 3,000 bopd production in California is 14° API and has recently tracked WTI at a 15% discount.



**Minimal export restrictions** – There are no export restrictions in Alaska, Wyoming, or California.



**Presence of existing infrastructure** – Infrastructure and facilities are in place in the Cook Inlet with only moderate incremental capital investment required. Oil and gas is transported out of Cook Inlet via the Cook Inlet pipeline to the drift River terminal. The Pacific Creek project is close to regional infrastructure and is 20 kms south-east of the producing Jonah gas field. There is an abundance of infrastructure and facilities in place in California; however, Pacific Energy is still in the process of re-establishing production from their Eureka platform. Plans call for a pair of deviated wells to be drilled to connect the wellbores of the Ellen and Eureka platforms. The Beta Unit pipeline running onshore appears to be in good working condition based on the recent completion of a "smart pig" run designed to evaluate pipeline integrity.

- ✓ **Minimal legislated price controls** – There are no legislated price controls in any state where Pacific Energy operates.
- ✓ **Predictable differential to world market price** – We currently model Pacific Energy’s crude oil in Alaska selling at an 8% discount to the WTI price, while their California crude (14° API) sells at a 15% discount to WTI.
- ✓ **Unobtrusive physical operating conditions** – Operating conditions in Alaska, Wyoming and California are excellent; however, infrequent earthquakes in California or Alaska could impact production if one of sufficient magnitude were to occur.
- ✓ **Maturity of petroleum industry** – Alaska, Wyoming and California all have a long history of petroleum production with exploration dating back over 100 years.
- ✓ **Access to adequate services and labour** – In Alaska, skilled labour is available, but there are no offshore rigs currently operating in the region. Pacific Energy intends to source a jack-up rig for their Corsair prospect and for development work in the Cook Inlet. Pacific Energy has not experienced any issues in securing rigs or labour in California and Wyoming. Pacific Energy has retained virtually all field and office staff associated with the Forest Oil acquisition.
- ✓ **Management focus, patience and staying power** – Pacific Energy’s core management team has been in place for three years and has already demonstrated their patience in executing their low cost acquisition strategy with the Beta Unit and Forest Alaska acquisitions. We believe Pacific Energy is now in a position to see their long-term strategy, balanced between advancing the recovery of proven reserves and exploring areas with significant upside at low entry costs, come to fruition.
- ✓ **Strong relationship with partners and host government** – Pacific Energy is inheriting a solid working relationship with their partners in their development play in Cook Inlet and has established an open and mutually beneficial relationship with their partners in their exploration play in Wyoming. Chevron is the operator of the McArthur River and Trading Bay Unit fields, while Shell and Wolverine Oil and Gas are PFE’s partners in their Pacific Creek prospect.

**Conclusion:** We believe Pacific Energy offers investors exposure to producing assets with low acquisition costs, on a proven and 2P basis, and exploration prospects with significant upside in a politically and economically stable country. Pacific Energy has scored well on all of our International E&P metrics. Particular attention should be given to management’s low cost acquisition strategy; the company has displayed excellent progress in seeing their strategy come to fruition. We expect solid, predictable production growth for years to come as Pacific executes their field re-development plans.

## Investment Risks

Our fundamental outlook for oil and gas producers remains favorable, however, several normal industry risks do exist that could impact Pacific Energy's ability to achieve our forecasts, including:

- **Commodity price fluctuations** could have a material impact on the company's re-investment capacity, and hence ultimate growth potential. High netback gas reserves and low cost structure, along with a healthy balance sheet helps to mitigate commodity price exposure, coupled periodically with price protection through hedging strategies.
- **Adverse well or reservoir performance** in any one or a number of producing pools could result in abnormally high production decline rates impacting overall corporate volumes. Long life gas reserves, operated under prudent production practices, and more diversity in producing horizons helps mitigate exposure to high decline well/pool exposure.
- **Field operational hazards** such as well blowouts, explosions and fires within pipeline/gathering/facility infrastructure, mechanical equipment failures could lead to sour gas releases, spills, personal injuries and/or damage to the environment. Industry insurance policies, particularly those which include business disruption, help to mitigate financial exposure to such mishaps.
- **Industry capacity constraints** due to high levels of activities can result in shortages of services, products, equipment, or man power in many or all necessary components of the exploration and development drilling cycle. Increased competition leads to escalated land costs, along with other service costs during peak activity levels.
- **Political instability and changes in fiscal policy** can result in; a forced reduction in equity or nationalization of assets, higher taxes and royalties, endangerment to employees, and terrorist threats to physical assets (pipelines or processing facilities). Instability and changes can lead to a reduction in the company's share of profits and/or shut-down operations.
- **Extraordinary hazards** such as unusual swings in weather patterns, changes in regulatory operating terms, or actions by certain groups such as industry organizations, local communities, or militant groups could impact the company's ability to re-invest for future growth.
- **Financial risk.** Due to the highly levered nature of PFE's balance sheet, Pacific may be dependent upon asset sales and/or equity or debt markets in order to bridge gaps between future cash flow and capex projections. Inability to raise additional funds through these channels may adversely impact the company's ability to execute management's business plan.

---

Malcolm Shaw P.Geol. (416) 640-4949; [mshaw@wwcm.com](mailto:mshaw@wwcm.com)

Kyle Hunter, MBA (416) 640-4953; [khunter@wwcm.com](mailto:khunter@wwcm.com)

\*Note: All aggregated corporate reserves estimates, or those referring to Alaska alone, contain Alaskan reserve estimates as of January 1, 2007 in a preliminary report prepared by DeGolyer and MacNaughton dated July 27, 2007

---

## Exhibit 22: Management and Board of Directors

---

### **Darren Katic, President & CEO**

Mr. Katic graduated from the University of Southern California in 1996 with a Bachelor of Science in Accounting. Mr. Katic has spent his career as an oil professional focusing on finance and business development. In 1997 he joined Nations Energy Group and worked in Kazakhstan for 18 months on the completion of the company's privatization of a state owned Oil Company. While with Nations, Mr. Katic was directly responsible for the company's debt restructuring program and due diligence management with regard to potential investors and partners.

In 1999 Mr. Katic Founded PetroCal Incorporated, an independent oil and gas company based in Southern California. Mr. Katic served as the Company's President for 5 years after which its shareholders agreed to merge with Pacific Energy. In August of 2004 PetroCal and its shareholders agreed to merge with Pacific Energy, where Mr. Katic serves the company as President and director.

### **Vladimir Katic, Executive Chairman & COO**

Mr. Katic graduated from the University of Zagreb in 1966 with a degree in petroleum-chemical engineering. He worked for Syncrude in heavy oil projects in northern Canada before joining the Arabian American Oil Company ("ARAMCO") located in Saudi Arabia, in 1977 as an engineer in offshore drilling and production. Mr. Katic's team supervised 4 offshore "Jack up" platforms used to drill and completed over 100 wells in Saudi Arabia and was responsible for up to two million barrels of oil per day production, with an annual budget in excess of US\$ 100 million. Mr. Katic left ARAMCO in 1984 and worked as a consultant on offshore oil and gas development projects for Repsol, formerly Hispan Oil. While with Repsol Mr. Katic was in charge of a company owned semi-submersible offshore drilling rig which drilled and completed 12 wells in the deep Mediterranean Sea. These wells had sub-sea completions and production hook ups to fixed production platforms. Mr. Katic also supervised the development drilling and well completion on the multi-well Gatiova Gas Platform in the Atlantic Sea.

Along with his extensive offshore background Mr. Katic also has extensive experience in enhanced oil recovery from marginal both in North America and Internationally. In 1986, Mr. Katic was involved in the development of medium radius horizontal drilling technology which he successfully applied as an independent drilling contractor in both Texas and Iran. In 1988, Mr. Katic completed a US\$ 15 million exploration drilling program as a turn-key drilling contractor in the Pacific Ocean offshore Panama. Mr. Katic's company as an independent contractor successfully drilled and completed 53 wells for the National Iranian Oil Company ("NIOC") on a turn key basis, raising their incremental production by 350 thousand BOPD in less than one year.

In 1993, Mr. Katic founded Nations Energy Group Ltd. (formerly Triton/Vuko Energy Group) with the objective of participating in the large-scale privatization of oil and gas assets in the former Soviet Union. In 1996, Mr. Katic and his company successfully won the international tender for one of the Republic of Kazakhstan's largest oil and gas assets. It contained over 500 million barrels of recoverable reserves, and was producing over 30,000 BOPD. Mr. Katic is currently Chairman and Chief Executive Officer of Pacific Energy.

### **Jeevan Anand, Senior Executive Vice President**

Mr. Anand completed a Masters of Science in Petroleum Engineering from University of California, Berkeley in 1971 and a Masters of Business Administration from University of California, Los Angeles in 1991. In addition, Mr. Anand has taken extensive courses in Petroleum Engineering, Operations Research & Economics at University of Southern California, Los Angeles. Mr. Anand is a Registered Petroleum Engineer in the State of California. Mr. Anand has over 30 years of experience in the oil & gas industry. For 20 years, Mr. Anand worked for Southern California Gas Company, the largest gas utility company in the world, which operated oil & gas fields & gas storage fields in Southern California. He has worked as a Production Engineer, Drilling Engineer and Reservoir Engineer and has managed oil & gas organizations as Pipeline Manager, Drilling & Workover Manager & Division Manager. For the last 10 years, Mr. Anand has worked as an independent consultant, managing small & large projects with various companies. Among his clients are major oil producers, such as Chevron, Texaco, Mobil, Occidental and Pennsoil; and independents such as BreitBurn Energy (Provident Energy Trust), Duke Energy, Petroleum Development Corporation, Samedan Oil, and Stocker Resources (now Plains Resources). Mr. Anand has appeared as an expert witness before regulatory agencies and legal entities. Mr. Anand joined Pacific Energy in February 2005 and since that time has been responsible for all operations of the Company.

**Jerett Creed, CFO**

Mr. Creed has a bachelor of science in industrial engineering and a master of science in accounting both from the University of Miami. Mr. Creed started his career with Johnson & Johnson and has served in various roles ranging from product design & development to mergers and acquisitions with particular emphasis on financial due diligence, valuation, and deal structure. Most recently, Mr. Creed has served as the Director of Base Operations for a stem cell incubator within Johnson & Johnson with direct P&L responsibility for business development, research, clinical, and finance. Mr. Creed served as the Chief Financial Officer for Katman Petroleum which was acquired by Petrocal Inc. prior to its consolidation with Pacific Energy. In addition, Mr. Creed originally served as the Chief Financial Officer for Pacific Energy from 2005 through August of 2006 before rejoining the organization earlier this year. Mr. Creed has significant experience in financial due diligence, audits, and Sarbanes-Oxley implementation with a particular focus on internal controls.

**Pat Devlin, Director**

Mr. Devlin attended Simon Fraser University taking courses in Economics and Commerce. He then obtained a Diploma from the British Columbia Institute of Technology in Financial Management. Mr. Devlin began his career as a business auditor for Revenue Canada. He qualified as a Certified Management Accountant (CMA) in 1976 before entering law school. After receiving his law degree from the University of British Columbia in 1981, Mr. Devlin articulated with Ladner Downs. In 1987 he formed Devlin Jensen together with Peter Jensen and continues today as managing principal. Mr. Devlin's practice specializes in corporate and securities law. He has assisted in numerous clients structuring and completing complicated transactions involving acquisitions and mergers both nationally and internationally. He is also experienced in major regulatory filings and applications.

**Miroslav Vukovic, Director**

Mr. Vukovic graduated from the University of Belgrade in 1961 with a degree in mechanical engineering. He worked as an engineer for German companies before he founded VUKO Ltd. in Germany in 1970; a company specialized in pipe and pipeline engineering and construction within petrochemical facilities, refineries and power plants. As president of Vuko Ltd. he was responsible for business development and financing. With a staff of 1000 employees, Vuko Ltd. was involved in several petrochemical and energy projects in Germany, Switzerland, Sweden, Finland, France, Algeria, Libya, Iran and Iraq. Since 1990 he has been rendering consultancy services to companies and banks which would like to extend their business activities in CIS countries and South-Eastern Europe by developing business strategies for them as well as assisting in their implementation. In 1993 he co-founded together with Mr. Vladimir Katic Nations Energy Group Ltd. (formerly Triton/Vuko Energy Group). From 1993 until 30th November 2000 when they sold their entire interests, certain companies that are ultimately indirectly associated with the family of Mr. Vukovic, played a role, alongside various other private and institutional investors, in Nations Energy Company, Limited. Since 1999 Mr. Vukovic has been acting as an advisor for CIS countries and South Eastern Europe of the RWE Group, one of the biggest German multi utility companies with its core businesses in electricity, gas, water & wastewater, waste disposal & recycling.

**Matthew Hagen, Director**

Mr. Hagen completed both a Bachelor of Science, Honors Program, in International Business and Finance (Cum Laude) and a Bachelor of Arts Political Science (Cum Laude) from the University of Southern California. Mr. Hagen also received a Masters of Business Administration from the Harvard Business School. While completing his undergraduate work at USC, Mr. Hagen had the unique opportunity to work in the Office of Ronald Reagan where he served as the former President's Chief of Staff Intern. In August of 1997 Mr. Hagen joined Arthur Andersen LLP as an analyst in the Mergers and Acquisitions Advisory Services Division. His duties at Arthur Andersen included the due diligence effort for buy side transactions, development of acquisition strategies, and technical assistance on various accounting issues and financial forecasting. In August of 1998 Mr. Hagen joined Thunderbird Molding Company as a Vice President. His role is to devise strategies and solutions in finance, manufacturing, and distribution for the largest manufacturer of wood moldings in the United States. In 2002 Mr. Hagen became the President and COO of American Wood Molding LLC, the largest molding distributor in the United States with sales in excess of \$200 million. Mr. Hagen also holds a Directorship at his family's winery, Mount Eden Vineyards, and various international timber enterprises.

**James Watt, Director**

Mr. Watt is presently Chief Executive Officer of Dune Energy, Inc. (AMEX:DNE) and formerly Chief Executive Officer of Maverick Oil and Gas (OTCBB: MVOG). He began his career as a geophysicist with Amoco Production Company in 1971. From 1974-1991 he was employed by Union Texas Petroleum and had positions including Director of Geophysics, General Manager and Regional E & P

Malcolm Shaw P.Geol. (416) 640-4949; [mshaw@wwcm.com](mailto:mshaw@wwcm.com)

Kyle Hunter, MBA (416) 640-4953; [khunter@wwcm.com](mailto:khunter@wwcm.com)

\*Note: All aggregated corporate reserves estimates, or those referring to Alaska alone, contain Alaskan reserve estimates as of January 1, 2007 in a preliminary report prepared by DeGolyer and MacNaughton dated July 27, 2007

manager over various areas of the U. S. He became Vice President of Exploration and Exploitation for Nerco Oil and Gas in 1991 and when that company was sold he became Vice President of Exploration for Seagull Energy E & P. In 1997 he became President of Box Energy later renamed Remington Oil and Gas Corporation. He restructured Remington and developed it into a highly successful offshore oil and gas entity. Remington was sold to Helix Energy Solutions Group in June of 2005 in approximately a \$1.4 billion transaction. The initial market capitalization of Box when he took over was under \$100 million. Mr. Watt has over 35 years oil and gas experience and received a B. S. in Physics from Rensselaer Polytechnic Institute in 1971.

**Grant Henderson, Director**

Mr. Henderson is President of Talon Oil & Gas LLC. Prior to founding Talon he was Vice President of Worldwide Business Development and Vice President of Southern U.S. Exploration and Production for Kerr-McGee Oil and Gas Corp., a wholly owned affiliate of Kerr-McGee Corp. Mr. Henderson received a Bachelor of Business Administration degree in finance from Texas Tech University in 1981. Mr. Henderson began his tenure with Kerr-McGee as a result of the merger with Westport Resources Corporation in June of 2004. At Westport, he served as Executive Vice President and Southern U.S. Division Manager. Other positions he has held through the years include President and Chief Operating Officer and member of the Board of Directors of Belco Oil & Gas Corp., which merged with Westport; President and Chief Financial Officer and member of the Board of Directors of Coda Energy, Inc.; and Senior Vice President and Division Manager of the Energy Banking Group at NationsBank, now Bank of America.

Source: Company reports

**Exhibit 23: Consolidated Income Statement**

(in USD, except per share amounts)	2004	2005	2006	2007E	2008E
<b>Revenue</b>					
Oil and Gas Revenues	\$ 1,175,912	\$ 7,376,314	\$ 11,462,870	\$ 123,197,343	\$ 264,019,683
CIPC [EBITDA]				\$ 3,625,000	\$ 7,250,000
Royalties	\$ 26,343	\$ 132,467	\$ 226,965	\$ 24,886,845	\$ 52,803,937
	<u>\$ 1,149,569</u>	<u>\$ 7,243,847</u>	<u>\$ 11,235,905</u>	<u>\$ 101,935,498</u>	<u>\$ 218,465,747</u>
Interest and other income	\$ 12,318	\$ 35,777	\$ 1,436,957	\$ (1,960,190)	\$ 1,000,000
	<u>\$ 1,161,887</u>	<u>\$ 7,279,624</u>	<u>\$ 12,672,862</u>	<u>\$ 99,975,308</u>	<u>\$ 219,465,747</u>
<b>Expenses</b>					
Operating	\$ 842,314	\$ 6,918,912	\$ 4,072,917	\$ 50,414,691	\$ 88,987,080
General and Administrative	\$ 579,785	\$ 2,413,397	\$ 4,232,116	\$ 7,370,625	\$ 12,000,000
Stock based compensation	\$ -	\$ 58,956	\$ 1,652,126	\$ 1,225,886	\$ 1,200,000
Depletion and depreciation	\$ 88,932	\$ 372,256	\$ 1,327,186	\$ 26,059,521	\$ 49,620,480
Accretion	\$ 29,880	\$ 72,325	\$ 3,730,696	\$ 4,395,601	\$ 5,157,984
Foreign Exchange Loss (gain)	\$ -	\$ -	\$ -	\$ -	\$ -
Write-off of impaired assets	\$ -	\$ -	\$ -	\$ -	\$ -
Interest on long-term debt, and bank charges	\$ 75,291	\$ 370,626	\$ 6,655,502	\$ 26,152,600	\$ 41,000,000
Other expenses (income) non-cash items	\$ 12,278	\$ -	\$ -	\$ -	\$ -
	<u>\$ 1,628,480</u>	<u>\$ 10,206,472</u>	<u>\$ 21,670,543</u>	<u>\$ 115,618,924</u>	<u>\$ 197,965,544</u>
Income before taxes and dispositions	\$ (466,593)	\$ (2,926,848)	\$ (8,997,681)	\$ (15,643,616)	\$ 21,500,203
Gain (loss) on disposition of oil and gas properties	\$ 91,144	\$ -	\$ -	\$ -	\$ -
<b>Income before taxes</b>	\$ (375,449)	\$ (2,926,848)	\$ (8,997,681)	\$ (15,643,616)	\$ 21,500,203
Current taxes (recovery)	\$ (149,000)	\$ (1,255,964)	\$ 3,026,060	\$ 34,926	\$ -
Capital taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Future taxes	\$ -	\$ -	\$ -	\$ -	\$ -
	<u>\$ (149,000)</u>	<u>\$ (1,255,964)</u>	<u>\$ 3,026,060</u>	<u>\$ 34,926</u>	<u>\$ -</u>
<b>Net income</b>	<u>\$ (226,449)</u>	<u>\$ (1,670,884)</u>	<u>\$ (12,023,741)</u>	<u>\$ (15,738,542)</u>	<u>\$ 21,500,203</u>
<b>NI from Quarterly</b>			\$ (12,023,741)	\$ (15,678,542)	\$ 21,500,203
<b>DELTA</b>					
Minority Interest	\$ -	\$ -	\$ -	\$ -	\$ -
Dividends	\$ -	\$ -	\$ -	\$ -	\$ -
Net income to common	\$ (226,449)	\$ (1,670,884)	\$ (12,023,741)	\$ (15,738,542)	\$ 21,500,203
Retained earnings, beginning of period	\$ (8,429,288)	\$ (8,655,737)	\$ (10,326,621)	\$ (22,350,362)	\$ (38,088,903)
Redemption of shares	\$ -	\$ -	\$ -	\$ -	\$ -
Retroactive application of acct. change	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Retained earnings, end of period</b>	<u>\$ (8,655,737)</u>	<u>\$ (10,326,621)</u>	<u>\$ (22,350,362)</u>	<u>\$ (38,088,903)</u>	<u>\$ (16,588,700)</u>
<b>Earnings per common share</b>	\$ (0.02)	\$ (0.06)	\$ (0.22)	\$ (0.16)	\$ 0.12
<b>Earnings per fully diluted common share</b>	\$ (0.02)	\$ (0.04)	\$ (0.17)	\$ (0.12)	\$ 0.09
<b>EBITDA</b>	\$ (302,370)	\$ (2,183,966)	\$ (1,014,993)	\$ 36,590,778	\$ 112,120,683
<b>EBITDA per common share</b>	\$ (0.03)	\$ (0.08)	\$ (0.02)	\$ 0.25	\$ 0.61
<b>EBITDA per fully diluted common share</b>	\$ (0.02)	\$ (0.05)	\$ (0.01)	\$ 0.20	\$ 0.49

Malcolm Shaw P.Geol. (416) 640-4949; [mshaw@wwcm.com](mailto:mshaw@wwcm.com)

Kyle Hunter, MBA (416) 640-4953; [khunter@wwcm.com](mailto:khunter@wwcm.com)

\*Note: All aggregated corporate reserves estimates, or those referring to Alaska alone, contain Alaskan reserve estimates as of January 1, 2007 in a preliminary report prepared by DeGolyer and MacNaughton dated July 27, 2007

**Exhibit 24: Consolidated Balance Sheet**

(in USD, except per share amounts)	2004	2005	2006	2007E	2008E
<b>Assets</b>					
<b>Current Assets</b>					
Cash	\$ 130,559	\$ 4,409,014	\$ 14,999,943	\$ 41,009,178	\$ 35,487,845
Cash - restricted	\$ 22,622	\$ 3,100,099	\$ 83,615,473	\$ 214,634	\$ 214,634
Prepaid and other current assets	\$ 681,532	\$ 379,969	\$ 2,775,414	\$ 3,487,210	\$ 3,487,210
Derivative assets			\$ 916,768	\$ -	\$ -
Accounts Receivable	\$ 210,284	\$ 952,286	\$ 1,537,436	\$ 5,360,166	\$ 5,360,166
	<u>\$ 1,044,997</u>	<u>\$ 8,841,368</u>	<u>\$ 103,845,034</u>	<u>\$ 50,071,188</u>	<u>\$ 44,549,855</u>
Plants, Properties and Equipment	\$ 1,677,600	\$ 8,556,071	\$ 40,940,350	\$ 584,457,830	\$ 616,337,350
Other Assets	\$ 1,836,402	\$ 5,091,120	\$ 12,191,351	\$ 93,653,021	\$ 93,653,021
	<u>\$ 3,514,002</u>	<u>\$ 13,647,191</u>	<u>\$ 53,131,701</u>	<u>\$ 678,110,851</u>	<u>\$ 709,990,371</u>
	<u><b>\$ 4,558,999</b></u>	<u><b>\$ 22,488,559</b></u>	<u><b>\$ 156,976,735</b></u>	<u><b>\$ 728,182,039</b></u>	<u><b>\$ 754,540,226</b></u>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Accounts Payable and Accrued Liabilities	\$ 903,673	\$ 1,573,531	\$ 10,537,400	\$ 13,862,058	\$ 13,862,058
Due to related parties	\$ 257,429	\$ 54,786	\$ 6,583	\$ 21,540	\$ 21,540
Notes payable	\$ 197,500	\$ 2,000,002	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
Income taxes payable	\$ -	\$ 119,500		\$ -	\$ -
Fair value of derivative financial instruments				\$ 350,356	\$ 350,356
Other current liabilities	\$ 2,985	\$ -	\$ 736,648	\$ 420,074	\$ 420,074
	<u>\$ 1,361,587</u>	<u>\$ 3,747,819</u>	<u>\$ 12,780,631</u>	<u>\$ 16,154,028</u>	<u>\$ 16,154,028</u>
Convertible debentures	\$ 1,039,225	\$ 283,051	\$ -	\$ -	\$ -
Notes payable	\$ -	\$ 7,472,812	\$ 37,455,777	\$ 95,381,277	\$ 93,881,277
Asset retirement obligation	\$ 241,201	\$ 1,176,430	\$ 1,654,677	\$ 48,394,603	\$ 53,552,587
Term Loan - Tranche A				\$ 108,000,000	\$ 108,000,000
Term Loan - Tranche B				\$ 277,000,000	\$ 277,000,000
Fair value of derivative instruments				\$ 1,366,057	\$ 1,366,057
Other liabilities	\$ -	\$ 65,402	\$ 272,162	\$ 277,082	\$ 277,082
	<u>\$ 1,280,426</u>	<u>\$ 8,997,695</u>	<u>\$ 39,382,616</u>	<u>\$ 530,419,019</u>	<u>\$ 534,077,003</u>
	<u><b>\$ 2,642,013</b></u>	<u><b>\$ 12,745,514</b></u>	<u><b>\$ 52,163,247</b></u>	<u><b>\$ 546,573,047</b></u>	<u><b>\$ 550,231,031</b></u>
Non-controlling interest	\$ -	\$ -	\$ 7,754,770	\$ 7,754,770	\$ 7,754,770
<b>Shareholders Equity</b>					
Share Capital	\$ 10,509,504	\$ 5,696	\$ 7,760	\$ 53,093	\$ 53,093
Subscriptions and subscriptions receipts		\$ -	\$ 71,089,222	\$ -	\$ -
Contributed surplus		\$ 58,956	\$ 1,983,634	\$ 3,209,520	\$ 4,409,520
Warrants		\$ 1,986,820	\$ 6,796,895	\$ 15,334,812	\$ 15,334,812
Convertible debentures	\$ 63,219	\$ 99,185	\$ -	\$ -	\$ -
Notes payable		\$ 1,809,610	\$ -	\$ -	\$ -
Additional paid in capital	\$ -	\$ 16,109,399	\$ 39,531,568	\$ 193,345,700	\$ 193,345,700
Deficit	\$ (8,655,737)	\$ (10,326,621)	\$ (22,350,362)	\$ (38,088,903)	\$ (16,588,700)
	<u>\$ 1,916,986</u>	<u>\$ 9,743,045</u>	<u>\$ 97,058,717</u>	<u>\$ 173,854,222</u>	<u>\$ 196,554,425</u>
	<u><b>\$ 4,558,999</b></u>	<u><b>\$ 22,488,559</b></u>	<u><b>\$ 156,976,735</b></u>	<u><b>\$ 728,182,039</b></u>	<u><b>\$ 754,540,226</b></u>
<b>Book Value</b>	\$ 1,916,986	\$ 9,743,045	\$ 104,813,488	\$ 181,608,992	\$ 204,309,195
<b>Book Value per share (common)</b>	\$ 0.15	\$ 0.29	\$ 1.71	\$ 1.55	\$ 1.11
<b>Book Value per share (diluted)</b>	\$ 0.12	\$ 0.15	\$ 1.04	\$ 0.86	\$ 0.97

Malcolm Shaw P.Geol. (416) 640-4949; [mshaw@wwcm.com](mailto:mshaw@wwcm.com)Kyle Hunter, MBA (416) 640-4953; [khunter@wwcm.com](mailto:khunter@wwcm.com)

\*Note: All aggregated corporate reserves estimates, or those referring to Alaska alone, contain Alaskan reserve estimates as of January 1, 2007 in a preliminary report prepared by DeGolyer and MacNaughton dated July 27, 2007

**Exhibit 25: Consolidated Statement of Cash Flows**

(in USD, except per share amounts)	2004	2005	2006	2007E	2008E
<b>Operating Activities</b>					
Net income	\$ (226,449)	\$ (1,670,884)	\$ (12,023,740)	\$ (15,738,542)	\$ 21,500,203
Items not involving cash					
Depletion and depreciation	\$ 88,932	\$ 372,256	\$ 1,327,186	\$ 25,365,793	\$ 49,620,480
Accretion	\$ 29,875	\$ 72,325	\$ 3,730,696	\$ 4,384,569	\$ 5,157,984
Write-off of impaired assets	\$ 57,833	\$ 288,895	\$ -	\$ -	\$ -
Stock based compensation expense	\$ -	\$ 58,956	\$ 1,652,126	\$ 1,225,886	\$ 1,200,000
Disposition of oil and gas properties	\$ -	\$ -	\$ -	\$ -	\$ -
Loss on extinguishment of debt	\$ -	\$ -	\$ 1,854,058	\$ -	\$ -
Other Non-cash expense		\$ 3,500,000	\$ 5,319,639	\$ 5,495,302	\$ -
Future income taxes	\$ (149,000)	\$ (1,375,464)	\$ 3,080,964	\$ 24,901	\$ -
	\$ (198,809)	\$ 1,246,084	\$ 4,940,929	\$ 20,757,909	\$ 77,478,667
Change in non-cash working capital items	\$ (356,974)	\$ (1,041,319)	\$ 1,880,302	\$ (185,243)	\$ -
	\$ (555,783)	\$ 204,765	\$ 6,821,231	\$ 20,572,666	\$ 77,478,667
<b>Financing Activities</b>					
Proceeds from common share issue	\$ 469,820	\$ 494,185	\$ 2,739,808	\$ 88,608,851	\$ -
Share subscriptions received	\$ -	\$ -	\$ -	\$ -	\$ -
Cash rec'd for Term Loan & Note payable				\$ 455,000,000	
Payments on Term Loan - Tranche B	\$ -	\$ -	\$ -	\$ (40,000,000)	\$ -
Payments on notes payable	\$ -	\$ (571,026)	\$ (2,113,031)	\$ (1,626,568)	\$ (1,500,000)
Cash rec'd for notes payable & conv. deb. issued	\$ 147,061	\$ 6,682,489	\$ 16,434,954	\$ 24,338,568	\$ -
	\$ 616,881	\$ 6,605,648	\$ 17,061,731	\$ 526,320,851	\$ (1,500,000)
Cash available for investing activities	\$ 61,098	\$ 6,810,413	\$ 23,882,962	\$ 546,893,517	\$ 75,978,667
<b>Investing Activities</b>					
Oil and gas properties	\$ (5,141)	\$ (158,484)	\$ (7,794,217)	\$ (30,694,712)	\$ (46,500,000)
Cash paid for restricted & short-term investments	\$ (37,064)	\$ (3,000,000)	\$ (515,111)	\$ (1,128,949)	\$ -
Acquisition	\$ -	\$ -	\$ (6,125,000)	\$ (486,200,000)	\$ -
Payment of asset retirement obligation	\$ -	\$ -	\$ -	\$ (360,621)	\$ -
Deferred charges	\$ 22,458	\$ -	\$ -	\$ -	\$ -
Cash acquired from acquisitions	\$ -	\$ 626,526	\$ 1,142,295	\$ -	\$ -
	\$ (19,747)	\$ (2,531,958)	\$ (13,292,033)	\$ (518,384,282)	\$ (46,500,000)
<b>Increase (decrease) in cash</b>	\$ 41,351	\$ 4,278,455	\$ 10,590,929	\$ 28,509,235	\$ 29,478,667
Cash and short-term deposits - beginning of period	\$ 89,208	\$ 130,559	\$ 4,409,014	\$ 14,999,943	\$ 43,509,178
Cash and short-term deposits - end of period	\$ 130,559	\$ 4,409,014	\$ 14,999,943	\$ 43,509,178	\$ 72,987,845
<b>Cash Flow per Common Share</b>	\$ (0.02)	\$ 0.04	\$ 0.09	\$ 0.13	\$ 0.42
<b>Cash Flow per Fully Diluted Share</b>	\$ (0.02)	\$ 0.03	\$ 0.07	\$ 0.11	\$ 0.34

Malcolm Shaw P.Geol. (416) 640-4949; [mshaw@wwcm.com](mailto:mshaw@wwcm.com)

Kyle Hunter, MBA (416) 640-4953; [khunter@wwcm.com](mailto:khunter@wwcm.com)

\*Note: All aggregated corporate reserves estimates, or those referring to Alaska alone, contain Alaskan reserve estimates as of January 1, 2007 in a preliminary report prepared by DeGolyer and MacNaughton dated July 27, 2007

## Disclaimers

The particulars contained herein were obtained from sources that we believe to be reliable, but are not guaranteed by us and may be incomplete or inaccurate. The opinions expressed are based upon our analysis and interpretation of these particulars and are not to be construed as a solicitation of offer to buy or sell the securities mentioned herein. Wellington West Capital Markets Inc. (“WWCM”) may act as financial advisor, fiscal agent or underwriter for certain of the companies mentioned herein, and may receive remuneration for its services. WWCM and/or its principals, officers, directors, representatives, and associates may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. This report may not be reproduced in whole or in part, or further distributed or published or referred to in any manner whatsoever nor may the information, opinions or conclusions contained herein be referred to without in each case the prior written consent of WWCM.

US Institutions may conduct business through our affiliate Wellington West Capital Markets (USA) Inc. Wellington West Capital Markets (USA) Inc. accepts the contents of this research report, however, the company that prepared this report may not be subject to U.S. rules regarding the preparation of research reports and the independence of research analysts.

This report will be forwarded to our affiliate Wellington West Capital Inc. (“WWCI”). Subject to WWCI management review and approval, this report may be distributed to clients of WWCI. WWCI and WWCM are members of the Canadian Investor Protection Fund (“CIPF”).

### *Wellington West Capital Markets Stock Rating System*

The rating system is based on the stock’s expected absolute total return over the next 12 months. Generally, Strong Buy rating is expected to produce a total return of 25% or more, Buy a total return of 10% to 25%, Market Perform a total return of 0% to 10% and Underperform a negative total return. Speculative Buy rating is expected to produce a total return of 25% or more, but is based on factors and forecasts that have high degrees of uncertainty. The distribution of the recommendations for the last three-month period and their relationship with investment banking business are available on request by emailing to [compliance@wwcm.com](mailto:compliance@wwcm.com).

### *Analyst Compensation*

Research analysts receive compensation based on a number of factors as determined by WWCM’s management. Compensation is affected by all of the firm’s business activities, including revenue generated from capital markets and investment banking. No part of the compensation of the analyst who authored this report is based on the specific recommendation or views expressed in this report.

### *Analyst Trading*

WWCM permits analysts to own and trade in the securities and/or derivatives of those companies under their coverage, subject to the following restrictions: no trades can be executed in anticipation of the initiation of coverage; no trades can be executed for five days after dissemination of launching coverage or a material change in recommendation; and no trades can be executed against an analyst's recommendation. Exceptions require prior approval of the Head of Research and can only be executed for a reason unrelated to the outlook of the stock.

### *Dissemination of Research*

WWCM endeavors to make all reasonable efforts to provide research, simultaneously and electronically to all eligible clients and potential clients.

Company Name	Ticker Symbol	Applicable Disclosure
Pacific Energy Resources Ltd.	PFE-T	2, 3, 11

### *Applicable Disclosure Details*

- 1) In the last 12 months, WWCM, or its affiliates, have managed or co-managed an offering of securities by the subject issuer.
- 2) In the last 12 months, WWCM, or its affiliates, have received compensation for investment banking and related services from the subject issuer.
- 3) The research analyst or a member of the research analyst's household, or any associate or individual preparing the report, has a long position in the shares and/or the options of the subject issuer.
- 4) The research analyst or a member of the research's household, or any associate or individual preparing the report, has a short position in the shares and/or the options of the subject issuer.
- 5) WWCM or its affiliates is a market maker, or is associated with the specialist that makes a market in the securities of the subject issuer.
- 6) WWCM or its affiliates own more than 1% of any class of common equity of the subject issuer.
- 7) WWCM has a conflict of interest with the subject issuer.
- 8) The research analyst(s) has a conflict of interest with the subject issuer.
- 9) Over the last 12 months, the research analyst has received compensation based on a specific investment banking transaction relative to the subject issuer.
- 10) The research analyst or a member of the research analyst's household serves as a Director or Officer or Advisory Board Member of the subject issuer.
- 11) The research analyst(s) has viewed the material operations of the issuer\*.  
 (\*toured Alaskan office and facilities in October 2007)
- 12) A portion of the travel expenses of the analyst were paid or reimbursed by the issuer.

### *Analyst Certification*

Each analyst of WWCM whose name appears in this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about any and all of the securities or issuers discussed herein that are within the analyst's coverage

universe and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly related to the provision of specific recommendations or views expressed by the research analyst in the research report.