

## **PACIFIC ENERGY RESOURCES LTD.**

### **MANAGEMENT DISCUSSION AND ANALYSIS**

The following discussion and analysis is for the six month period ended June 30, 2004 compared with the six month period ended June 30, 2003. This information is current to August 30, 2004 and has not been reviewed by the Company's auditors.

#### **Introduction**

The discussion and analysis of the operating results and financial position of the Company should be read in conjunction with the attached Financial Statements and related Notes ("the Financial Statements"), which have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) (see Summary of Significant Accounting Policies and Nature of Operations). This discussion and analysis may contain forward-looking statements about the Company's future prospects, and the Company provides no assurance that actual results will meet management's expectations.

#### **Results of Operations**

The Company has net income of \$202,343 in 2004 (\$0.01 per share) compared with a loss of \$370,388 in 2004 (\$0.01 per share). During the quarter ended June 30, 2004 the gross revenue and expenses from production were \$255,373 and \$174,039 respectively. Revenue included a gain of \$125,360 from an agreement to abandon six wells and three leases with production of about 60 barrels per day. The net return in oil and gas revenue from their California Joint Venture for the quarter was \$353,891. Costs associated with evaluation of new prospects are expected to continue in the near future, while production revenue should increase as the redevelopment plan progresses.

The following is a summary of the key exploration projects the Company has been working on:

Pacific Energy Resources Ltd. (PER, or the Company) is an independent oil and gas production and development company with operations in California. The Company has developed a business plan focused on the acquisition and enhancement of mature oil and gas fields that would realize increased production utilizing current engineering and production technology.

The California operations of Pacific Energy Resources Ltd. are held by a 25% interest in the Pacific Energy Joint Venture project (JV), and the Company is in discussions with its partners to merge the remaining 75% of the JV into the company.

The Pacific Energy JV is the lessee and operator of onshore fields located in the Los Angeles Basin in southern California that currently produce over 400 barrels of oil per day ("BOPD") with reserves in excess of 15 million barrels (*DeGolyer and MacNaughton Appraisal Report as of July 1, 2003*). The majority of the productive acreage held by the JV is contained within the giant Wilmington Oil Field, in the Pico and Refinery leases, located in the city of Long Beach, California.

Phase I of the pilot redevelopment began in May 2003. This program called for the drilling and completion of 5 wells. To date the Company has drilled and completed 4 wells. The fifth is permitted to begin drilling in the fall. The pilot program initially increased production in the Pico Lease (Wilmington Oil Field) by approximately 150 barrels per day, but this has dropped back as the company has been evaluating the wells and testing various zones. The current plan calls for the re-drilling of up to 20 wells in packages of 5. The next "5 spot" (4 producers and 1 injector) is expected to be started by the end of 2004. The cost of the development is currently estimated at \$2.5 million and is expected to

raise the production of oil by 250 barrels per day. With the current high oil prices, the Company feels that current cash flow and debt capacity should be adequate to fund 2004 development program.

The Company continues to evaluate acquisition targets within the Wilmington field in the Long Beach area, and will close one acquisition at the end of August. Pacific Energy Resources Ltd., along with its partners have acquired additional oil-producing acreage adjacent to the Wilmington Oil Field. The acquisition price of US\$2,000,000, which includes a new US\$220,000 permitted 70-kilowatt electric co-generation plant, has been funded from cash on hand.

Wells on the new property currently produce 100 barrels of oil per day. Management estimates Proven Developed Producing (PDP) oil reserves and Proven Un-Developed (PUD) oil reserves are in the 2,000,000 barrels range.

The main objective of the Company is to see the Joint Venture exceed 1000 barrels oil per day production, and to accomplish this through both the redevelopment of current assets, and completion of the acquisition mentioned above.

The Company and its partners continues to be active in Russia and they are currently evaluating and negotiating on a number of opportunities.

### **Capital Resources and Liquidity**

During the six month period ended June 30, 2004, related party transactions consist of \$138,386 in cash advances on settlement made by the Company in debt relating to the Joint Venture.

The Company has no outstanding stock options.

There is however, no assurance that any future funding can be accomplished as it would be wholly dependent on the state of the capital markets for junior exploration companies. The Company does not anticipate the payment of dividends in the future.

### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

### **Related Party Transactions**

Details of these related party transactions, including the purpose and recorded amounts of the transactions are identified in Note 5 to the Financial Statements.

### **Changes in Accounting Policy**

The Company adopted in 2002 the transitional provisions of Canadian Institute of Chartered Accountants' Handbook Section 3870 on stock-based compensation on a prospective basis. The Company accounts for the derived value of stock-based compensation to all employees and consultants.

## **Financial and Other Instruments**

The Company's financial assets and liabilities consist of cash, short-term investments, receivables, accounts payable and accrued liabilities, which are denominated in Canadian dollars. These accounts are recorded at their fair market value.

The Company has placed its cash and cash equivalents in liquid bank deposits which provide a variable rate of interest.

## **Outstanding Share Data**

The Company has one class of common shares: as at June 30, 2004, there were 38,736,966 common shares outstanding. On August 26, 2004 the Company announced that it is proceeding with a share consolidation approved by the shareholders. The Company's share capital will be consolidated on a three old for one new share basis.

The Company has a stock option plan: As at March 31, 2004, there were no stock options outstanding.

## **Subsequent Events**

On May 2004 the company announced that it had arranged a non brokered private placement of two million shares at a price of 20 cents per unit. Each unit consists of one common share and one share purchase warrant with each entitling the holder to acquire a further common share for a period of two years at a price of 20 cents per share. The proceeds will be used to fund the pilot redevelopment program and general working capital.

On August 26, 2004 the Company announced that it is proceeding with a share consolidation approved by the shareholders. The Company's share capital will be consolidated on a three old for one new share basis.

## **Risk and Uncertainties**

Except for historical information contained in this discussion and analysis, disclosure statements contained herein are forward-looking, which statements are subject to risks and uncertainties, which could cause actual results to differ materially from those in such forward-looking statements.

The Company is a mineral exploration and development company and is exposed to a number of risks and uncertainties that are common to other companies in the same business; some of these risks have been discussed elsewhere in this report.

The Company's financial success is subject to general market conditions which affect mining and exploration companies. The value of the Company's mineral resources and future operating profit and loss is affected by fluctuations in gold prices, over which the Company has no control, although it may choose to hedge some of its future production. The Company also competes with other mining companies which are larger and have more economic resources to acquire prospective exploration properties or producing mines.

The Company also faces certain risks and uncertainties specific to its circumstances. The Company's ability to obtain financing to explore for mineral deposits and to continue and complete the development of those properties it has classified as assets is not assured; nor is there assurance that the expenditure of funds will result in the discover of an economic mineral deposit. The Company has not completed a feasibility study on any of its deposits to determine if it hosts a mineral resource that can be economically developed and profitably mined. While the Company has used its best efforts to endure title to all its properties and secured access to surface rights, these titles or rights may be disputed.