

CONSOLIDATED FINANCIAL STATEMENTS

for the period ended June 30, 2007

Pacific Energy Resources LTD Interim Report

PACIFIC ENERGY RESOURCES LTD.

CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2007 AND JUNE 30, 2006

**The June 30, 2007 financial statements have not
been reviewed by the Company's auditors.**

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

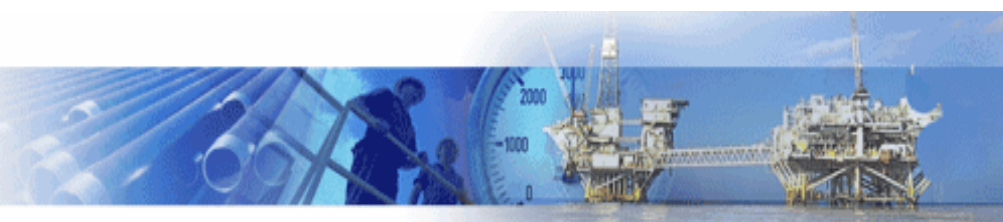
The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

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MANAGEMENT'S REPORT TO THE SHAREHOLDERS

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

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

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

Darren Katic



President



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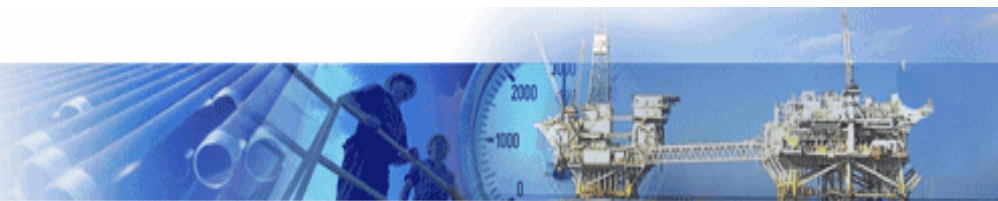
Consolidated Balance Sheet

(Stated in U.S. Dollars)

	June 30 2007 (unaudited)	December 31 2006 (audited)
ASSETS		
Current Assets		
Cash and equivalents	\$ 16,787,914	\$ 14,999,943
Accounts receivable	5,360,166	1,537,436
Prepays and other current assets	3,487,210	2,775,414
Derivative assets	-	916,768
	25,635,290	20,229,561
Long-term Assets		
Refundable deposits	96,232	-
Performance bonds	92,949,693	1,660,060
Cash - restricted	214,634	83,615,473
Asset retirement receivable	607,096	584,823
Deferred charges	-	8,091,501
Derivative assets	-	1,854,967
Property and equipment (Note 5)	4,684,795	351,807
Petroleum and natural gas properties (Note 5)	97,276,675	40,588,543
	195,829,125	136,747,174
Total Assets	\$ 221,464,415	\$ 156,976,735
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 13,862,058	\$ 10,537,400
Due to related parties (Note 9)	21,540	6,584
Note payable - current (Note 6)	1,500,000	1,500,000
Fair value of derivative financial instruments (Note 10)	350,356	
Other current liabilities	420,074	736,648
	16,154,028	12,780,632
Long-term Liabilities		
Note payable - long term (Note 6)	66,881,277	37,455,777
Asset retirement obligation (Note 7)	45,815,611	1,654,677
Fair value of derivative financial instruments (Note 10)	1,366,057	
Other liabilities	277,082	272,162
Total Liabilities	130,494,055	52,163,248



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Non-controlling interests (Note 13)	7,754,770	7,754,770
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SHAREHOLDERS' EQUITY

Common stock (Notes 12a & 12b)	14,117	7,760
Additional paid in capital (Note 12b)	106,346,525	39,531,568
Stock subscription receipts (Note 12c)	-	71,089,222
Stock warrants - equity (Note 12d)	15,334,812	6,796,895
Contributed surplus (Note 12c)	2,609,520	1,983,634
Deficit	(41,089,384)	(22,350,362)
Total Equity	83,215,590	97,058,717
Total Equity and Liabilities	\$ 221,464,415	\$ 156,976,735



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PACIFIC ENERGY RESOURCES LTD.
Consolidated Statements of Operations
(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2007	2006	2007	2006
Revenues:				
Gross oil and gas revenue	\$ 14,292,783	\$ 2,333,949	\$ 21,137,822	\$ 4,390,115
Royalties	(3,109,142)	(61,032)	(4,474,941)	(111,302)
Unrealized gain/(loss) on derivatives (Note 11)	(3,853,860)	-	(4,488,148)	-
Realized gain/(loss) on derivatives (Note 11)	(70,458)	-	129,004	-
Other revenue	492,516	46,046	1,379,678	105,871
Net oil and gas income	7,751,839	2,318,963	13,683,416	4,384,684
Expenses:				
Production expenses	8,048,728	622,767	12,498,680	1,294,449
General and administrative	1,176,297	1,163,369	2,437,856	1,866,432
Stock compensation (Note 14c)	312,943	135,802	625,886	271,604
Interest and financing	2,818,738	499,344	5,521,386	782,285
Depreciation, depletion and accretion	7,676,790	414,069	11,303,704	793,854
	20,033,496	2,835,351	32,387,512	5,008,624
Loss Before Income Tax	(12,281,657)	(516,388)	(18,704,097)	(623,940)
Income tax expense (recovery)	10,026	(24,208)	34,926	1,505
Net Income (Loss):	<u>(\$12,291,683)</u>	<u>(\$492,180)</u>	<u>(\$18,739,023)</u>	<u>(\$625,445)</u>
Basic income (loss) per share	<u>\$ (0.10)</u>	<u>\$ (0.01)</u>	<u>\$ (0.16)</u>	<u>\$ (0.01)</u>



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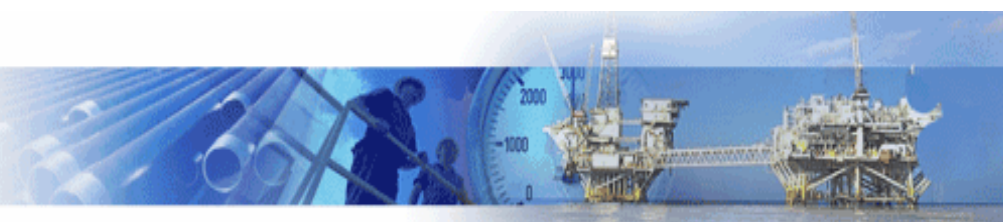
Consolidated Statements of Accumulated Deficit and Comprehensive Income (Loss)

(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2007	2006	2007	2006
Accumulated Deficit:				
Accumulated Deficit, beginning of period	(\$28,797,701)	(\$11,202,342)	(\$22,350,361)	(\$11,069,077)
Net Loss for the period	<u>(12,291,683)</u>	<u>(492,180)</u>	<u>(18,739,023)</u>	<u>(625,445)</u>
Accumulated Deficit, end of period	<u>(\$41,089,384)</u>	<u>(\$11,694,522)</u>	<u>(\$41,089,384)</u>	<u>(\$11,694,522)</u>
Comprehensive Income (Loss):				
Net Loss for the period	(\$12,291,683)		(\$18,739,023)	
Other Comprehensive Income (Loss)				
Comprehensive Income (Loss)	(12,291,683)		(18,739,023)	
Accumulated Other Comprehensive Income (Loss):	-		-	
Accumulated Other Comprehensive Income (Loss), beginning of period	-		-	
Changes during the period	<u>-</u>		<u>-</u>	
Accumulated Other Comprehensive Income (Loss), end of period	-		-	



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PACIFIC ENERGY RESOURCES LTD.
Consolidated Statements of Cash Flows
(Unaudited)

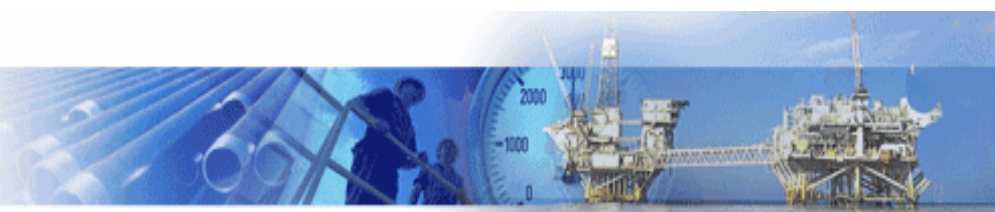
For the three months ended June 30		For the six months ended June 30	
2007	2006	2007	2006

CASH FLOWS FROM OPERATING ACTIVITIES

Net income (loss)	(\$12,291,683)	\$ (492,180)	\$(18,739,023)	\$ (625,446)
Adjustment for operating activities not involving cash:				
Depletion, depreciation and accretion	6,983,062	428,200	11,303,704	822,670
Stock option compensation	312,943	135,802	625,886	271,604
Unrealized loss on derivatives	3,853,860	-	4,488,148	-
Noncash investment income	(103,590)	-	(788,028)	-
Deferred income taxes	-	-	24,901	-
Changes in operating assets and liabilities:	-	-	-	-
Cash restricted	-	2,596,967	-	2,576,073
Accounts receivable	(3,527,259)	16,684	(3,822,730)	74,182
Prepaid expenses and other current assets	926,000	269,363	164,966	12,100
Refundable deposits	(600)	-	(96,232)	-
Accounts payable & accrued liabilities	3,392,241	614,911	3,324,658	225,586
Other liabilities	(129,711)	-	(311,654)	-
Due to related parties	6,084	(54,652)	14,957	(54,786)
Net Cash Provided by Operating Activities	(578,653)	3,515,095	(3,810,447)	3,301,983

CASH FLOWS FROM INVESTING ACTIVITIES

Cash paid for restricted and performance bonds	(310,710)	-	(1,128,949)	-
Petroleum and natural gas properties	(10,560,889)	(1,130,864)	(18,694,712)	(1,407,467)
Payments of asset retirement obligation	(141,745)	-	(360,621)	-
Deferred charges	-	10,103	-	(61,658)
Cash acquired from Carneros acquisition	-	2,046,483	-	2,046,483
Investment in Carneros Acquisition Corp.	-	(6,125,000)	-	(6,125,000)
Net Cash Used in Investing Activities	(11,013,344)	(5,199,278)	(20,184,282)	(5,547,642)



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CASH FLOWS FROM FINANCING ACTIVITIES

Cash received for common shares issued	1,570,700	-	1,570,700	333,702
Payments on notes payable	(126,568)	-	(126,568)	-
Other liabilities	-	-	-	(14,415)
Cash received for notes payable and convertible Debentures issued	-	(115)	-	-
	-	-	24,338,568	-
Net Cash Provided by Financing Activities	1,444,132	(115)	25,782,700	319,287
NET CHANGE IN CASH	(10,147,865)	(1,684,298)	1,787,971	(1,926,372)
CASH, BEGINNING OF PERIOD	26,935,779	4,166,940	14,999,943	4,409,014
CASH, END OF PERIOD	\$16,787,914	\$ 2,482,642	\$ 16,787,914	\$ 2,482,642

See accompanying notes to the consolidated financial statements.

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NOTE 1 – Nature and Continuance of Operations

Pacific Energy Resources LTD. ("PER") is engaged in the exploration, development and production of petroleum and natural gas in Wyoming and California.

In March of 2007 PER completed its purchase of the Beta Unit and 100% of the common stock of San Pedro Bay Pipeline Company. (see Note 3)

Economic dependence

The Company's primary source of borrowings is the notes payable and credit facility from J. Aron and Syndicate. The notes and facility contain certain covenants and restrictions which provide these parties the ability to restrict the Company's cash sources through the lockbox mechanism as well as certain recourse in the event of default. The Company's ability to continue viable operations is dependent upon maintaining good standing under these agreements. As at the date of these financial statements the Company believes that it is in compliance with all covenants and restrictions.

NOTE 2 - Summary of Significant Accounting Policies

The unaudited interim financial statements of the Company have been prepared by Management in accordance with Canadian generally accepted accounting principles, following the same accounting policies and methods of computation as the audited financial statements of Pacific Energy Resources LTD for the year ended December 31, 2006 except as noted in Note 3. These audited interim financial statements should be read in conjunction with the audited financial statements of Pacific Energy Resources LTD for the year ended December 31, 2006.

Use of Estimates

As the determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these financial statements requires the use of estimates and assumptions which have been made using careful judgment. Actual results may differ from those estimates, in the opinion of management, these financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

NOTE 3 – Change in Accounting Policy

The Company has adopted the new CICA accounting standards related to Comprehensive Income (section 1530), Equity (3251), Financial Instruments Recognition and Measurement (section 3855), Financial Instruments Disclosure and Presentation (section 3861) and Hedges (section 3865). As required by the standards prior periods have not been restated.

Financial Instruments

The Company classifies its financial instruments into one of the following categories: held-for-trading (assets and liabilities), assets available-for-sale, loans and receivables, assets-held-to-maturity and other financial liabilities. All financial instruments are measured at fair value on initial recognition. Transaction costs are included in the initial carrying amount of financial instruments except for held-for-trading items in which case they are expensed as incurred. Measurement in subsequent periods depends on the classification of the financial instruments.



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Financial assets and liabilities "held-for-trading" are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets "available-for-sale" are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of tax (the Company has no assets classified as "available-for-sale at June 30, 2007).

Financial assets "held-to-maturity", "loans and receivables", and "financial liabilities "other financial liabilities" are subsequently amortized using the effective interest rate method.

Cash equivalents are classified as "held-for-trading and are measured at carrying value which approximates fair value due to the short-term nature of these instruments. Accounts receivable and certain other assets that are financial instruments are classified as "loans and receivables". Accounts payable and accrued liabilities, other long-term obligations and current and long-term debt are classified as "other financial liabilities".

Financial instruments that are derivative contracts are considered "held-for-trading" unless they are designed as a hedge. The Company as of June 30, 2007 has not designated any derivative contracts as hedges.

Comprehensive Income and Equity

Section 1530 provides for a new statement of Comprehensive Income and establishes accumulated other comprehensive income (AOCI) as a separate component of shareholders' equity. The statement of Comprehensive Income reflects the changes in AOCI. The Company currently has no AOCI.

Initial Adoption of Standards

These accounting standards require prospective adoption of the standards and since the Company does not use hedge accounting the adoption of the required standards had no material impact on the financial statements.

The adjustment required to the balance sheet to implement the change in accounting standards was to reclassify loan fees of \$8,163,188 from an asset to a reduction of long term debt.

Note 4 - Acquisition of Beta Unit

In March of 2007 PERL completed its acquisition of the Beta Unit (Platforms Eureka, Elly, Ellen, and 100% of the common stock of San Pedro Bay Pipeline Company common stock). The agreement required PERL to fund an initial \$90 million escrow account for abandonment & decommissioning purposes, provide an operating offshore bond of \$1.5 million, a working interest owner offshore bond of \$300,000, five years of insurance premiums for third party liability and well control of \$12,000,000, a one time payment of \$6.933 Million when certain production levels are met as defined in the agreement and a new lease agreement with Mineral Management Services ("MMS") of the United States Department of the Interior.

The acquisition had an effective date of November 1, 2006 and was recorded as follows:

Assets Acquired:	
Petroleum and natural gas properties	\$ 58,812,810
Other assets	<u>24,900</u>
	58,837,710
Liabilities Assumed:	
Asset retirement obligation	(<u>43,209,786</u>)
	<u>\$ 15,627,924</u>



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Payment for Net Assets Acquired:

Long term debt, production notes	\$ 5,605,262
Cash	<u>10,022,662</u>
	<u>\$ 15,627,924</u>

NOTE 5 – Property and Equipment, and Petroleum and Natural Gas Interests

The asset categories of property and equipment are as follows:

<u>2007</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Vehicles	\$ 181,521		
Office equipment and software	514,959		
Other	<u>4,188,105</u>		
	<u>\$ 4,884,585</u>	<u>\$ 199,790</u>	<u>\$ 4,684,795</u>

<u>2006</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Vehicles	\$ 163,602		
Office equipment and software	230,728		
Other	<u>4,526</u>		
	<u>\$ 398,856</u>	<u>\$ 47,049</u>	<u>\$ 351,807</u>

The asset categories of petroleum and natural gas interests are as follows:

<u>2007</u>	<u>Cost</u>	<u>Accumulated Depletion</u>	<u>Net</u>
Petroleum and natural gas properties – U.S.	\$ 105,943,463	\$ 8,666,788	\$ 97,276,675
<u>2006</u>			
Petroleum and natural gas properties – U.S.	\$ 42,958,022	\$ 2,369,479	\$ 40,588,543

For the six months ended June 30, the Company did not record any asset write-downs due to impairment tests.



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Excluded from depletion calculation at June 30, 2007 are the following approximate amounts:

Undeveloped properties	\$ 1,411,000
Acquisition costs related to the Forest Alaska	7,155,000
Properties in process of development	<u>11,379,000</u>
	<u>\$19,945,000</u>

NOTE 6– Notes Payable

	Liability Component		Equity Component
	Face Value	Carrying Value	Fair Value
Balance at December 31, 2005	-	-	-
Proceeds	\$49,345,953	\$38,678,682	\$10,667,271
Accretion	-	706,675	-
Payments	(429,580)	(429,580)	-
Balance at December 31, 2006	48,916,373	38,955,777	10,667,271
Proceeds	42,653,290	35,221,668	7,431,622
Accretion	-	2,493,588	-
Payments	(126,568)	(126,568)	-
	91,443,095	76,544,465	18,098,893
Unamortized transaction costs	(8,163,188)	(8,163,188)	-
Balance at June 30, 2007	<u>\$83,279,907</u>	<u>\$68,381,277</u>	<u>\$18,098,893</u>

The future annual principal payments for all notes described above are as follows:

Year Ended December 31

2007	\$ 1,500,000
2008	\$ 1,500,000
2009	\$ 48,279,907
2010	\$ 40,163,188



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NOTE 7 – Accounting for Asset Retirement Obligations

The following table summarizes the changes in the Company's abandonment obligation:

	Asset Retirement Obligation	Asset Retirement Receivable	Net Amount
Balance at December 31, 2006	\$ 1,654,677	\$ 584,823	\$ 1,069,854
Acquisition of Beta Unit (Note 3)	43,209,786	--	43,209,786
Accretion	1,311,769	22,273	1,289,496
Retirement	(360,621)	--	(360,621)
Balance at June 30, 2007	\$ 45,815,611	\$ 607,096	\$ 45,208,515

NOTE 8 - Income Taxes

The reconciliation of provision for income taxes at the effective federal statutory rate is as follows:

	<u>2007</u>
Federal Statutory rate (34.0%)	(\$6,400,000)
Increase (decrease) in taxes resulting from:	
State income tax, net of federal benefit (8.84%)	(1,653,000)
Miscellaneous	20,000
Permanent differences	1,500,000
Change in valuation allowance	<u>6,567,926</u>
	<u>\$ 34,926</u>

The Company's net operating loss and other carry forwards for federal and California income tax purposes as of June 30, 2007 are as follows:

	Federal	California
Net Operating Loss	\$ 34,800,000	\$34,000,000
Statutory depletion	\$ 5,100,000	\$ 6,700,000

The Company's net operating loss carry forwards are subject to annual limitations on utilization and are available to reduce future years' taxable income and expire through 2024. The statutory depletion carry forwards can be utilized over an indefinite period.

NOTE 9 – Related Party Transactions

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



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- a) As of June 30, 2007 the Company owed \$21,540 to various related parties for amounts incurred by the Company on behalf of the related parties.
- b) During the first six months of 2007, the Company incurred legal costs of approximately \$152,000 with a company owned and operated by a Director of the Company with a balance owing of approximately \$10,800 at June 30, 2007.
- c) During the first six months of 2007, the Company paid approximately \$89,000 to an entity owned by an employee for an overriding royalty on its Wilmington property.

NOTE 10 – Commodity Derivative Instruments

The Company generally sells its oil and natural gas under short-term market-based contracts. Derivative financial instruments, options, and swaps may be used to hedge the impact of oil and natural gas price fluctuations.

A summary of these contracts in place at December 31, 2006 follows:

Crude Oil			
Expiry	Volume (bbl/period)	Type	Strike Price (US\$/bbl)
November 2007	118,429	Swap	52.87
November 2008	120,558	Swap	55.51
November 2009	112,374	Swap	55.13
November 2010	105,752	Swap	54.35

At June 30, 2007, the derivative liabilities on the consolidated balance sheet reflect the net unrealized loss position of \$1,716,413 for contracts outstanding at that date.

The financial impact on the settlement of contracts during the first six months of 2007 was a realized gain of \$129,004.

NOTE 11 – Commitments and Contingencies

Contractual obligations:

Operating Leases

The Company has non-cancelable operating leases for its office facilities. The leases have schedule increases, require the Company to pay its share of operating costs and expire from 2009 to 2011. The leases include an option to extend the term of the lease for three years.



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

2007	\$296,078
2008	\$399,871
2009	\$397,298
2010	\$150,653
2011	\$ 66,543

Drilling Commitments

The Company shares interests in various oil and gas properties with other companies. The Company may be required to provide funds for drilling and completion costs related to these oil and gas properties. At June 30, 2007 the Company's total drilling commitment was approximately \$18,000,000.

NOTE 12 – Common Stock

- a) Authorized 500,000,000 common shares with par value of \$0.001 per share.
- b) Issued

	Number of Shares	Amount	Additional Paid in Capital
Balance – December 31, 2006	77,598,406	7,760	39,531,568
Shares issued	63,575,086	6,357	66,814,957
Balance – June 30, 2007	141,173,492	\$ 14,117	\$ 106,346,525

- c) Stock options

The Corporation has a stock option plan for its directors, officers, employees and key consultants. The total number of options issuable under the stock option plan is 5,878,299.

	Number of Options	Weighted Average Exercise Price per Share (CAD\$)
Outstanding, December 31, 2006	5,160,000	\$1.15
Exercisable, December 31, 2006	2,144,972	\$1.19
Granted in 2007	350,000	\$1.46
Forfeited in 2007	(200,000)	\$0.91
Outstanding, June 30, 2007	5,410,000	\$1.18
Exercisable, June 30, 2007	3,266,667	\$1.04



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c) Stock options (*Continued*)

The following table summarizes information about the Company's outstanding stock options at June 30, 2007:

Options Outstanding				Options Exercisable	
Exercise Price (CAD)	Number of Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
\$0.84	3,150,000	3.67	\$0.84CAD	2,362,500	\$ 0.84
\$0.84	100,000	1.67	\$0.84CAD	37,500	\$ 0.84
\$1.40 to 1.60	1,960,000	2.25	\$1.55CAD	866,667	\$ 1.55
	5,410,000	3.14	\$1.15CAD	3,266,667	\$ 1.19CAD

A modified Black-Scholes option pricing model, with the following weighted average assumptions, was used to estimate the fair value of options on the date of the grant, for the inclusion as stock based compensation expense:

	2007
Risk free interest rate (%)	4.84
Expected lives (years)	2.8 – 5
Expected volatility (%)	99.5
Dividend per share	0.0

The impact of stock based compensation on contributed surplus is:

Contributed surplus	2007	2006
Opening balance	\$ 1,983,634	\$ 58,956
Additions from issuance of stock options	625,886	1,652,126
Extinguishment of Laurus debt	-	272,552
Closing balance	\$ 2,609,520	\$ 1,983,634



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d) Warrants

	June 30, 2007		December 31, 2006	
	Number	Amount	Number	Amount
Balance, beginning of year	37,722,937	\$ 6,796,895	5,771,521	\$1,986,820
Granted during the year			2,401,400	2,981,525
Securities purchase agreement (Note 7)		8,537,917	25,451,364	2,909,264
Issued with US shares in escrow (Note 15b)			5,458,132	
Agent warrants on US private placements			818,720	
Finders fee per securities purchase Agreement			2,802,958	652,916
Converted on issuance of shares			(4,981,157)	(1,733,630)
Balance, end of period	37,722,937	\$15,334,812	37,722,937	\$6,796,895

June 30, 2007

Warrants Outstanding				Warrants Exercisable	
Exercise Price (CAD)	Number	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
\$1.60 to \$1.70 CAD	2,401,400	4.17	\$1.62CAD	2,401,400	\$ 1.62CAD
\$0.90 USD	790,363	1.74	\$0.90USD	790,363	\$ 0.90USD
\$1.42 CAD	28,254,322	4.65	\$1.42CAD	11,295,983	\$ 1.42CAD
\$1.70 CAD	5,458,132	2.75	\$1.70CAD	-	-
\$1.625 to \$1.95 CAD	818,720	2.75	\$1.79CAD		
	37,722,937	4.24		14,487,746	

NOTE 13 - Earnings Per Share

(a) **Basic:** Earnings per share are calculated using the weighted average number of shares outstanding during each of the periods presented in the consolidated financial statements. The following table sets forth the weighted average number of common shares outstanding for each of those periods.

Period	Weighted Average Shares Outstanding
First Six Months 2007	117,333,389



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(b) **Diluted:** The Company follows CICA Handbook Section 3500, "Earnings per Share". The statement requires the presentation of both basic and diluted earnings (loss) per share ("EPS") in the statement of operations, using the "treasury stock" method to compute the dilutive effect of stock options and warrants and the "if converted" method for the dilutive effect of convertible instruments. For the nine months ended September 30, 2006 the assumed exercise of outstanding stock options and warrants would have an anti dilutive effect on EPS.

NOTE 14 – Financial Instruments

Financial instruments consist primarily of accounts receivable, debt securities (performance bonds), accounts payable, accrued liabilities, long-term debt, and certain financial derivatives used to manage its exposure to fluctuations in commodity prices.

Credit risk and concentration

A Significant portion of the Company's revenues and trade receivables are from the oil and gas industry and, as such the Company is exposed to many of the risks associated with that industry.

All of the Company's accounts receivable are due from entities in the oil and gas industry and are subject to normal industry credit risk. Concentration of credit risk is mitigated by having concentrations with credit worthy customers. The Company's largest customer makes up 79% of the accounts receivable balance at June 30, 2007.

Interest rate risk

The Company is exposed to fluctuations in interest rates on its notes payable. The Company will be exposed to higher interest costs if the average prime rate should increase.

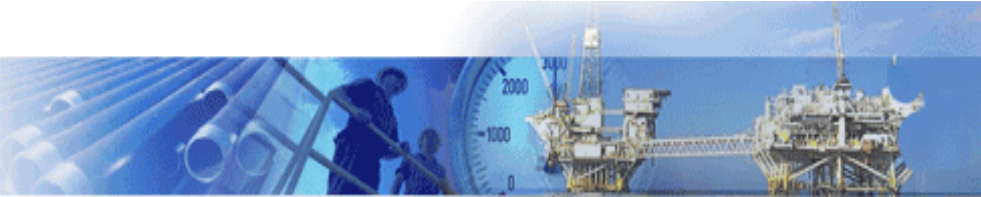
Commodity Derivative Instruments

The Company has elected to mark the value of the financial derivatives to market in accordance with the required standards and such difference is reflected in the net income/loss in the financial statements.

NOTE 15 – Subsequent Event

On May 29, 2007 the Company executed a purchase agreement with Forest Oil Corporation to purchase all of the oil and gas properties and operations owned by Forest and Forest Holding in Alaska. The Company will acquire 100% of the membership interests in Forest Alaska Operating LLC (FAO), which owns the majority of the Alaska properties and operations, plus certain additional Alaska assets owned by Forest, including an interest in the Cook Inlet Pipeline Company. The purchase price as amended August 1, 2007 consists of a payment of \$400,000,000, plus issuance of 10,000,000 shares of PER's common stock, and a seven year note to Forest with a net present value of approximately \$30,000,000. The transaction is scheduled to close August 24, 2007.

The FAO assets include nine fields located in the Cook Inlet area, Alaska covering the major fields of McArthur, Redoubt Shoal, West McArthur River and Trading Bay; and (ii) the minor fields of West Foreland, Three Mile Creek, Sabre, Kustatan and Cosmopolitan. De Golyer & MacNaughton, an independent consulting firm has estimated the fields have an estimated 26.06 million barrels equivalent (MMBOE) of net proved reserves (11.3 MMBOE of proved developed producing, 2.6 MMBOE of proved developed non-producing and 12.16 MMBOE of proved undeveloped), 27.82 MMBOE net probable reserves and 6.72 MMBOE of possible reserves for a total of 60.59 MMBOE of proved, probable and possible reserves, under current Nymex strip prices.



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In addition to the producing properties, the Forest assets to be acquired include nearly 1,000,000 net acres covering multiple exploration prospects including three offshore prospects of Corsair, Raptor and Valkyrie.

The agreement contains the customary representations, warranties, covenants and closing conditions, including deposits totaling \$5,200,000 paid to Forest that may be forfeited under circumstances that include the inability of the Company to obtain necessary financing.

To fund the transaction on June 21, 2007 the Company signed a commitment letter with a major financial institution to fund a \$465 million secured credit facility.

PER will also raise capital through a private placement of its common stock of CAD\$50 million. Pursuant to the terms of the placement, PER will sell shares of its common stock at a price to be determined in the context of the market and in consultation with its agents. A 15% over-allotment option (i.e. CAD\$7,500,000) will be granted to agents, a commission of 6% of total proceeds raised will be paid and in addition PER will issue 2.5% compensation options which will entitle the holder to acquire shares of common stock for two years at market price at the time of the closing.

