

CONSOLIDATED FINANCIAL STATEMENTS

for the period ended September 30, 2007

Pacific Energy Resources LTD Interim Report

PACIFIC ENERGY RESOURCES LTD.

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

**The September 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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The accompanying financial statements should be read in conjunction with the Notes to the financial statements.



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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 has approved the financial statements.

Darren Katic



President



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PACIFIC ENERGY RESOURCES LTD.
Consolidated Balance Sheet
(Stated in U.S. Dollars)

	September 30 2007 (unaudited)	December 31 2006 (audited)
ASSETS		
Current Assets		
Cash and equivalents	\$ 7,659,657	\$ 14,999,943
Accounts receivable	25,280,291	1,537,436
Prepays and other current assets	13,805,675	2,775,414
Derivative assets	-	916,768
	<u>46,745,623</u>	<u>20,229,561</u>
Long-term Assets		
Refundable deposits	78,269	-
Performance bonds	95,010,324	1,660,060
Cash - restricted	288,588	83,615,473
Asset retirement receivable	618,548	584,823
Deferred charges	-	8,091,501
Derivative assets	-	1,854,967
Equity investment	13,946,401	-
Property and equipment (Note 5)	4,691,095	351,807
Petroleum and natural gas properties (Note 5)	529,003,428	40,588,543
	<u>643,636,653</u>	<u>136,747,174</u>
Total Assets	<u>\$ 690,382,276</u>	<u>\$ 156,976,735</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 30,739,925	\$ 10,537,400
Due to related parties (Note 9)	54,260	6,584
Notes payable - current (Note 6)	1,500,000	1,500,000
Fair value of derivative financial instruments (Note 10)	11,603,618	-
Other current liabilities	220,334	736,648
	<u>44,118,137</u>	<u>12,780,632</u>
Long-term Liabilities		
Notes payable - long term (Note 6)	499,908,504	37,455,777
Asset retirement obligations (Note 7)	56,865,126	1,654,677
Fair value of derivative financial instruments (Note 10)	13,967,505	-
Other liabilities	278,384	272,162
	<u>615,137,656</u>	<u>52,163,248</u>
Total Liabilities	<u>615,137,656</u>	<u>52,163,248</u>
Non-controlling interests	<u>7,754,770</u>	<u>7,754,770</u>
SHAREHOLDERS' EQUITY		
Preferred stock	-	-
Common stock (Notes 12a & 12b)	15,608	7,760
Additional paid in capital (Note 12b)	131,223,287	39,531,568
Stock subscription receipts	-	71,089,222
Stock warrants - equity (Note 12d)	15,334,812	6,796,895
Contributed surplus (Note 12c)	4,278,138	1,983,634
Accumulated other comprehensive loss:	(21,963,806)	-
Accumulated deficit	(61,398,189)	(22,350,362)
	<u>67,489,850</u>	<u>97,058,717</u>
Total Equity	<u>67,489,850</u>	<u>97,058,717</u>
Total Equity and Liabilities	<u>\$ 690,382,276</u>	<u>\$ 156,976,735</u>



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

	For the three months ended September 30,		For the nine months ended September 30,	
	2007	2006	2007	2006
Revenues:				
Gross oil and gas revenue	\$ 31,829,402	\$ 3,803,049	\$ 52,967,224	\$ 8,193,164
Direct costs	(4,232,809)	(59,441)	(8,707,750)	(170,743)
Unrealized gain/(loss) on derivatives (Note 10)	(1,890,904)	-	(6,379,052)	-
Realized gain/(loss) on derivatives (Note 10)	(1,142,643)	-	(1,013,639)	-
Other revenue	1,792,517	46,065	3,172,195	151,936
Net oil and gas income	26,355,563	3,789,673	40,038,978	8,174,357
Expenses:				
Production expenses	19,951,320	1,220,584	32,450,000	2,555,905
General and administrative	1,721,100	1,557,126	4,158,956	3,382,687
Stock compensation (Note 12c)	1,668,617	135,802	2,294,503	407,406
Interest and financing	10,039,334	920,106	15,560,720	1,702,391
Depreciation, depletion, amortization and accretion	13,282,852	854,177	24,586,556	1,648,031
	46,663,223	4,687,795	79,050,735	9,696,420
Loss Before Income Tax	(20,307,660)	(898,122)	(39,011,757)	(1,522,063)
Income tax	1,145	1,600	36,071	3,105
Net Loss:	<u>(\$20,308,805)</u>	<u>(\$899,722)</u>	<u>(\$39,047,828)</u>	<u>(\$1,525,168)</u>
Basic loss per share	\$ (0.14)	\$ (0.01)	\$ (0.27)	\$ (0.03)



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

For the three months ended September 30		For the nine months ended September 30	
2007	2006	2007	2006

CASH FLOWS FROM OPERATING ACTIVITIES

Net income (loss)	(\$20,308,805)	\$ (899,723)	\$(39,047,828)	\$ (1,525,168)
Adjustment for operating activities not involving cash:				
Depletion, depreciation, amortization and accretion	15,589,545	873,654	26,893,249	1,696,279
Stock option compensation	1,668,618	135,802	2,294,504	407,406
Unrealized loss on derivatives	1,890,904	-	6,379,052	-
Noncash investment income	(1,467,012)	-	(2,255,040)	-
Deferred income taxes	-	-	24,901	-
Changes in operating assets and liabilities, net of acquired in:				
Cash restricted	-	308,136	-	2,891,691
Accounts receivable	(5,042,125)	(140,649)	(8,864,855)	(66,467)
Prepaid expenses and other current assets	8,361,535	(57,693)	8,526,501	(45,593)
Refundable deposits	17,963	-	(78,269)	-
Accounts payable & accrued liabilities	(62,134)	(692,128)	3,262,524	(423,109)
Other liabilities	(198,438)	-	(510,092)	(98,219)
Due to related parties	32,720	-	47,677	-
Net Cash Provided by (Used in) Operating Activities	482,771	(472,601)	(3,327,676)	2,836,820

CASH FLOWS FROM INVESTING ACTIVITIES

Cash paid for restricted and performance bonds	(679,025)	(22,007)	(1,807,974)	(29,490)
Petroleum and natural gas capital expenditures	(2,255,442)	(1,400,399)	(15,927,492)	(2,807,865)
Payments of asset retirement obligations	0	-	(360,621)	-
Deferred charges	-	(53,779)	-	(115,437)
Cash acquired from Carneros acquisition	-	-	-	2,046,483
Business acquisition - Beta Unit	-	-	(5,022,662)	-
Business acquisition - Alaska	(8,517,334)	-	(8,517,334)	-
Investment in Carneros Acquisition Corp.	-	-	-	(6,125,000)
Net Cash Used in Investing Activities	(11,451,801)	(1,476,185)	(31,636,083)	(7,031,309)

CASH FLOWS FROM FINANCING ACTIVITIES

Cash received for common shares issued	527,498	3,622,172	2,098,198	3,955,918
Payments on notes payable	-	(1,121,643)	(126,568)	(1,121,643)
Other liabilities	-	-	-	(14,415)
Cash received from notes payable	1,313,275	-	25,651,843	-
Net Cash Provided by Financing Activities	1,840,773	2,500,529	27,623,473	2,819,860

NET CHANGE IN CASH (9,128,257) 551,743 (7,340,286) (1,374,629)

CASH, BEGINNING OF PERIOD 16,787,914 2,482,642 14,999,943 4,409,014

CASH, END OF PERIOD \$7,659,657 \$3,034,385 \$ 7,659,657 \$ 3,034,385



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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 Alaska, California and Wyoming.

In March of 2007 PER completed its purchase of the Beta Unit and 100% of the common stock of San Pedro Bay Pipeline Company. In August of 2007 PER completed its purchase of 100% of the membership interest of Forest Alaska Operating LLC and other related Alaskan assets including a 50% interest in the Cook Inlet Pipeline Company (see Note 4)

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 or has received waivers on those it was in default.

NOTE 2 - Summary of Significant Accounting Policies

The un-audited 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 un-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.



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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 September 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”.

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.

Note 4 – Acquisitions

Beta Unit

In March of 2007 PER 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 PER 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	\$ 53,812,810
Other assets	24,900
	53,837,710

Liabilities Assumed:

Asset retirement obligations	(43,209,786)
	\$ 10,627,924

Payment for Net Assets Acquired:

Long term debt, production notes	\$ 5,605,262
Cash	5,022,662
	\$ 10,627,924



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Alaska Property

On August 27, 2007 PER completed its acquisition of the Alaska oil and gas properties and operations of Forest Oil Corporation and Forest Alaska Operating LLC which owns the majority of the Alaska properties and operations and certain additional Alaska assets owned by Forest Oil including a 50% interest in Cook Inlet Pipe Line Company (CIPL) for \$404,987,059 in cash, issuance of 10,000,000 share of PER stock and a seven year note to Forest for \$29,250,000. The funding of the acquisition was provided by PER's current lending group. PER is currently in the process of obtaining approval to become the operator of the property.

The acquisition was recorded as follows:

Assets Acquired:

Petroleum and natural gas properties	\$438,266,413
Accounts receivable	14,878,000
Inventory	12,611,000
CIPL stock	13,946,401
Other assets	6,069,000
	485,770,814

Liabilities Assumed:

Operating Liabilities (including asset retirement obligations of \$10,243,000)	(27,183,000)
	\$458,587,814

Payment for Net Assets Acquired:

Long term debt	\$396,469,725
Long term debt – Forest Oil Corporation	29,250,000
Issuance of 10,000,000 PER stock	24,350,755
Cash	8,517,334
	\$ 458,587,814



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

The asset categories of property and equipment are as follows:

2007	Cost	Accumulated Depreciation	Net
Vehicles	\$ 209,959		
Office equipment and software	606,084		
Pipeline equipment	4,160,271		
Other	33,650		
	\$ 5,009,964	\$ 318,869	\$ 4,691,095

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

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

2007	Cost	Accumulated Depletion	Net
Petroleum and natural gas properties – U.S.	\$546,353,173	\$ 17,349,745	\$ 529,003,428

Petroleum and natural gas properties – U.S.	\$42,958,022	\$ 2,369,479	\$ 40,588,543
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For the nine months ended September 30, the Company did not record any asset write-downs due to impairment tests.

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

Undeveloped properties \$10,802,599



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, Properties in process of development	13,888,982
	\$24,691,581

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	496,709,309	489,471,668	7,431,622
Accretion	2,735,111	6,458,457	-
Payments	(126,568)	(126,568)	-
	548,234,225	534,759,334	18,098,893
Unamortized transaction costs	(33,350,830)	(33,350,830)	-
Balance at September 30, 2007	\$514,883,395	\$501,408,504	\$18,098,893

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

Year Ended December 31

2008	\$ 1,500,000
2009	\$477,067,158,
2010	\$ 69,667,067

NOTE 7 – Accounting for Asset Retirement Obligations

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

	Asset Retirement Obligation	Asset Retirement Receivable	Net Amount
Balance at December 31, 2006	\$1,654,677	\$584,823	\$1,069,854
Acquisitions (Note 4)	53,452,786	--	53,452,786
Accretion	2,118,284	33,725	2,084,559



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Retirement	(360,621)	--	(360,621)
Balance at September 30, 2007	\$56,865,126	\$618,548	\$56,246,578

NOTE 8 - Income Taxes

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

	2007
Federal Statutory rate (34.0%)	(\$13,264,000)
Increase (decrease) in taxes resulting from:	
State income tax, net of federal benefit (8.84%)	(2,276,000)
Miscellaneous	20,000
Permanent differences	3,000,000
Change in valuation allowance	12,556,071
	\$ 36,071

The Company's net operating loss and other carry forwards for federal and California income tax purposes as of September 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.

- As of September 30, 2007 the Company owed \$54,260 to various related parties for amounts incurred by the Company on behalf of the related parties.
- During the first nine months of 2007, the Company incurred legal costs of approximately \$247,800 with a company owned and operated by a Director of the Company with a balance owing of approximately \$44,300 at September 30, 2007.
- During the first nine months of 2007, the Company recorded approximately \$152,000 of royalty expense to an entity owned by an employee for an overriding royalty on its Wilmington property. At September 30, 2007 the royalty payable to this entity was approximately \$17,100.



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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 are used to hedge the impact of oil and natural gas price fluctuations.

A summary of these contracts in place at September 30, 2007 follows:

Crude Oil			
Expiry	Volume (bbl/period)	Type	Weighted Average Strike Price (US\$/bbl)
2007	317,688	Swap	66.03
2008	1,168,382	Swap	65.92
2009	1,022,169	Swap	65.77
2010	748,861	Swap	65.05
2011	492,519	Swap	62.09
2012	416,412	Swap	60.12

At September 30, 2007, the derivative liabilities on the consolidated balance sheet reflect the net unrealized loss position of \$25,571,123 for contracts outstanding at that date.

The financial impact on the settlement of contracts during the first nine months of 2007 was a realized loss of \$1,013,639.

NOTE 11 – Commitments and Contingencies

Contractual obligations:

Operating Leases

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



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

2008	\$783,871
2009	\$781,298
2010	\$534,653
2011	\$450,543
2012	\$160,000

NOTE 12 – Stockholders' Equity

- a) Authorized 50,000,000 preferred shares with a par value of \$.01. Authorized 500,000,000 common shares with par value of \$0.0001 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	78,481,586	7,848	91,691,719
Balance – September 30, 2007	156,079,992	\$15,608	\$131,223,287

- 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 14,016,934 (*excludes 100,000 options granted to a former employee. The Company is still determining whether these options fully vested during the employee's time of employment).

	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	6,690,000	\$2.85
Forfeited in 2007	(200,000)	\$0.91



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Outstanding, September 30, 2007	*11,750,000	\$2.08
Exercisable, September 30, 2007	3,639,063	\$1.04

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

Options Outstanding				Options Exercisable	
Exercise Price (CAD)	Number	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
\$.84	3,150,000	3.10	\$.84CAD	1,929,688	\$.84CAD
\$.84	100,000	1.10	\$.84USD	59,375	\$.84CAD
\$1.40 to \$1.73	2,160,000	4.65	\$1.55CAD	1,500,000	\$ 1.57CAD
\$1.90 to \$3.00	6,340,000	4.37	\$2.91CAD	150,000	\$2.10CAD
	11,750,000	3.22		3,639,063	

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 (%)	4.7
Expected lives (years)	2.8 – 5
Expected volatility (%)	94.25
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	2,294,504	1,652,126



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Extinguishment of Laurus debt	-	272,552
Closing balance	\$4,278,138	\$1,983,634

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 Nine Months 2007	142,389,489

(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, 2007 and 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 two largest customers make up 79% of the accounts receivable balance at September 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 and London Interbank rate should increase.



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