MANAGEMENT'S REPORT

The accompanying Consolidated Financial Statements of Pearl Exploration and Production Ltd. and related financial information presented in this annual report are the responsibility of Management and have been approved by the Board of Directors. The Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles. The Consolidated Financial Statements and related financial information reflect amounts which must, of necessity, be based upon informed estimates and judgments of Management with appropriate consideration to materiality. All financial information contained in the annual report is consistent, where appropriate, with that contained in the Consolidated Financial Statements.

The Company has developed and maintains systems of internal controls, policies and procedures in order to provide reasonable assurance as to the reliability of the financial records and the safeguard of assets.

PricewaterhouseCoopers, LLP, independent external auditors appointed by the shareholders of the Company, review Pearl Exploration and Production Ltd.'s systems of internal controls and conduct their work to the extent they deem appropriate. They have examined the Consolidated Financial Statements and they have expressed an opinion on the statements. Their report is included in the Consolidated Financial Statements.

The Board of Directors has established an Audit Committee. The Audit Committee reviews with Management and the external auditors any significant financial reporting issues, the financial statements, and any other matters of relevance to the parties. The Audit Committee meets quarterly to review and approve the interim financial statements prior to their release, as well as annually to review the Company's annual financial statements and Management's discussion and analysis, and to recommend their approval to the Board of Directors. The external auditors have unrestricted access to the Company, the Audit Committee and the Board of Directors.

John L. Festival
President and Chief Executive Officer

Donald W. Cook
Chief Financial Officer

March 19, 2009

AUDITORS' REPORT

February 27, 2009

TO THE SHAREHOLDERS OF PEARL EXPLORATION AND PRODUCTION LTD.

We have audited the consolidated balance sheets of Pearl Exploration and Production Ltd. as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit, and cash flows for the periods then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

CONSOLIDATED BALANCE SHEETS

As at December 31
(audited)

(CDN$ in thousands)	2008	2007
ASSETS		
Current assets		
Cash	$ **24,059**	$ 4,799
Accounts receivable	**9,536**	25,134
Income taxes and capital taxes receivable	**5,607**	2,618
Prepaid expenses and deposits	**1,658**	3,196
	40,860	35,747
Investments (note 6)	**9,619**	9,363
Petroleum and natural gas properties (note 7)	**421,664**	528,352
Future income tax (note 12)	**–**	2,403
	$ **472,143**	$ 575,865
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ **34,409**	$ 69,899
Future income tax (note 12)	**4,036**	–
Asset retirement obligation (note 9)	**20,064**	16,586
	58,510	86,485
SHAREHOLDERS' EQUITY		
Share capital (note 11)	**723,122**	723,122
Contributed surplus (note 11)	**11,895**	8,778
Deficit	**(321,382)**	(242,520)
	413,635	489,380
	$ **472,143**	$ 575,865

Commitments and contingencies (note 13)
See accompanying notes to consolidated financial statements

Signed on behalf of the Board:

Keith C. Hill
Chairman and Director

Brian D. Edgar
Director

CONSOLIDATED STATEMENT OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

(audited)

(CDN$ in thousands)	Twelve Months Ended December 31, 2008	Fifteen Months Ended December 31, 2007
REVENUE		
Oil and gas sales	**$ 183,536**	$ 128,524
Interest income	**1,511**	1,120
Royalties	**(45,192)**	(28,494)
	139,855	101,150
EXPENSES		
Production	**49,907**	50,531
Transportation	**3,664**	3,567
General and administrative	**15,000**	19,142
Depletion, depreciation and accretion	**85,385**	92,620
Writedown of petroleum and natural gas properties (note 7)	**57,427**	–
Stock-based compensation	**3,116**	4,047
Interest	**828**	3,710
Change in unrealized loss of gas pricing contracts	**–**	536
Foreign currency exchange (gain) loss	**(466)**	501
Gain on investment (note 6)	**(2,268)**	–
Writedown of goodwill	**–**	172,921
Writedown of ABCP	**2,575**	-
Loss (gain) on sale of assets	**–**	(4,286)
	215,168	343,289
Loss before income taxes	**(75,313)**	(242,139)
INCOME TAXES		
Future income tax (recovery)	**4,066**	(19,518)
Income taxes and capital taxes expense (recovery)	**(517)**	4,585
	3,549	(14,933)
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	**(78,862)**	(227,206)
DEFICIT, BEGINNING OF PERIOD	**(242,520)**	(15,314)
DEFICIT, END OF PERIOD	**$ (321,382)**	$ (242,520)
Basic and diluted loss per share	**$ (0.42)**	$ (1.73)
Weighted average number of common shares used in computing loss per share:		
Basic and diluted	**189,241,716**	131,223,521

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(audited)

(CDN$ in thousands)	**Twelve Months Ended December 31, 2008**	Fifteen Months Ended December 31, 2007
OPERATING ACTIVITIES		
Net Loss	**$ (78,862)**	$ (227,206)
Items not involving cash:		
Depletion, depreciation and accretion	**85,385**	92,620
Writedown of P&NG assets	**57,427**	–
Stock-based compensation	**3,116**	4,047
Writedown of accounts receivable	**1,815**	3,196
Writedown of ABCP	**2,575**	–
Writedown of goodwill	**–**	172,921
Loss (gain) on sale of assets	**–**	(4,286)
Gain on investment	**(2,268)**	–
Future income tax (recovery)	**4,066**	(19,518)
Change in unrealized loss of gas pricing contracts	**–**	536
Foreign exchange loss (gain)	**(466)**	501
Abandonment costs	**(668)**	(1,165)
	72,120	21,646
Changes in non-cash working capital balances related to operations	**(2,613)**	(27,774)
Long-term accounts receivable	**–**	1,144
	69,507	(4,984)
FINANCING ACTIVITIES		
Advances of bank loan	**25,000**	66,532
Advance of bridge loan	**–**	10,000
Repayments of bank loan	**(25,000)**	(171,215)
Proceeds from equity financings, net of issue costs	**–**	270,787
Proceeds from exercise of stock options	**–**	708
	–	176,812
INVESTING ACTIVITIES		
Additions to petroleum and natural gas properties	**(107,367)**	(217,320)
Proceeds from sale of petroleum and natural gas properties	**79,097**	–
Acquisition of Watch Resources Ltd.	**–**	(192)
Acquisition of Atlas Energy Ltd.	**–**	(2,926)
Acquisition of Cipher Exploration Inc.	**–**	(8,808)
Acquisition of Serrano shares	**–**	(2,500)
Proceeds from sale of investments	**–**	12,016
Changes in non-cash working capital from investing	**(21,977)**	43,984
	(50,247)	(175,746)
NET INCREASE (DECREASE) IN CASH	**19,260**	(3,918)
Cash, beginning of period	**4,799**	8,717
Cash, end of period	**$ 24,059**	$ 4,799
Supplementary Information		
Cash interest paid	**$ 828**	$ 3,654
Cash capital taxes paid	**$ 1,010**	$ 369

See accompanying notes to consolidated financial statements

1. NATURE OF OPERATIONS

Pearl Exploration and Production Ltd. (collectively with its subsidiaries, the "Company" or "Pearl") is listed and traded on the TSX Exchange under the trading symbol "PXX" and on the First North (OMX Nordic Exchange) under the symbol "PXXS". The Company is engaged in the business of oil and gas exploration, development and production in North America.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). The significant accounting policies used in these consolidated financial statements are as follows:

(a) Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

(b) Cash and Cash Equivalents

Cash and cash equivalents include short-term highly liquid interest-bearing investments with maturities of three months or less from the date of acquisition. Cash and cash equivalents are designated as held-for-trading and are carried at fair value.

(c) Measurement Uncertainty

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingencies. These estimates are subject to measurement uncertainty. Actual results could differ from and affect the results reported in these consolidated financial statements.

Significant estimates used in the preparation of the consolidated financial statements include asset retirement obligations, future income taxes, stock-based compensation, the estimate of oil and gas reserves and the related depletion, depreciation and accretion, asset impairment.

(d) Foreign Currency Translation

The Company's reporting currency is Canadian dollars.

The Company's U.S. operations are considered integrated. Accordingly, the Company uses the temporal method of accounting for the foreign currency transactions of its U.S. subsidiaries. Under the temporal method, monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the historical exchange rates.Revenues and expenses are translated at the average rate for the period, except for charges related to non-monetary assets which are translated at the historical rate for the assets to which the charge relates, and material items where a specific date can be identified for the transaction which is translated at the rate on that specific date. Exchange gains or losses are included in the determination of net income.

(e) Joint Interests

A substantial portion of the Company's activities are conducted jointly with others through joint ventures. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

(f) Petroleum and Natural Gas Properties

The Company follows the full cost method of accounting for its petroleum and natural gas properties whereby, all costs relating to the exploration for and development of oil and gas reserves are capitalized in country-by-country cost centres and charged against income as set out below. Capitalized costs include lease acquisition costs, geological and geophysical expenditures, costs of drilling exploration and development wells, gathering and production facilities and other development expenditures. Gains and losses are not recognized upon disposition of petroleum and natural gas properties unless such a disposition would alter the rate of depletion by 20 percent or more.

Depreciation, Depletion and Amortization

Capitalized costs, along with estimated future costs to develop proved reserves, are depleted on a unit-of-production basis using estimated proved oil and gas reserves before royalties, as determined by independent engineers. Natural gas reserves and production are converted to equivalent barrels of oil based upon the relevant energy content (6:1). Costs of acquiring and evaluating unproved properties are excluded from costs subject to depletion until it is determined whether proved reserves are attributable to the properties or impairment occurs. Unproved properties are evaluated for impairment on at least an annual basis. If an unproved property is considered to be impaired, the amount of the impairment is added to costs subject to depletion.

Office furniture and equipment is depreciated on the declining balance basis at rates ranging from 10 to 30 percent per year.

Ceiling Test

The net amount at which petroleum and natural gas properties are carried is subject to a cost recovery test (the "ceiling test"). The ceiling test is an impairment test whereby the carrying amount of petroleum and natural gas properties, excluding the cost of unproved properties, is compared to the undiscounted cash flows from proved reserves using future forecast prices, adjusted for the Company's contract prices and quality differentials. If the carrying value exceeds the undiscounted cash flows, an impairment loss would be recorded against income. The impairment is measured as the amount by which the carrying amount of petroleum and natural gas properties exceeds the discounted cash flows from proved and probable reserves. The Company's risk-free interest rate is used to arrive at the net present value of future cash flows.

(g) Revenue Recognition

Revenue from the sale of petroleum and natural gas is recorded when title passes to an external party.

(h) Investments

Long-term investments include interest-bearing investments with maturities longer than one year. Long-term investments whereby the Company has significant influence are accounted for using the equity method. All other long-term investments are designated as held-for-trading and available-for-sale and are carried at fair value (see note 14(a) for classification).

(i) Stock-Based Compensation

Stock options granted are accounted for using the fair value method. Fair values are determined, at the grant date, using the Black-Scholes option-pricing model. The compensation expense associated with these options is charged to earnings over the vesting period with a corresponding increase in contributed surplus. On the exercise of stock options, consideration paid and the associated contributed surplus are credited to common shares.

(j) Asset Retirement Obligations

The fair values of estimated asset retirement obligations are recorded as liabilities when incurred and the associated cost is capitalized as part of the cost of the related asset. Over time, the liabilities are accreted for the change in their present value and the initial capitalized costs are depleted on a unit-of-production basis over the life of the reserves. The associated accretion is charged to earnings in the period. Actual expenditures incurred are charged against the accumulated obligation. Revisions to the estimated timing of cash flows or the original estimated undiscounted cost would also result in an increase or decrease to the obligation and related asset.

(k) Earnings per Share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated based upon the treasury stock method which assumes that any proceeds from the exercise of in-the-money stock options or warrants would be used to purchase the Company's common shares at the average market price during the year (or period if applicable). Diluted earnings per share do not include any anti-dilutive conversions, nor is diluted earnings per share presented where the total effect would be anti-dilutive.

(l) Flow-Through Shares

The resource expenditure deductions for income tax purposes related to exploratory activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. A future tax liability is recognized upon the filing of the renunciation with the tax authorities and share capital is reduced by the estimated costs of the renounced tax deductions.

(m) Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future tax liabilities and assets are measured using enacted or substantially enacted tax rates. The effect on future tax liabilities and assets of a change in tax rates is recognized in income in the period that the change occurs.

(n) Goodwill

Goodwill represents the excess purchase price over the fair value of identifiable assets and liabilities acquired in business combinations. Goodwill is not amortized but is assessed for impairment annually at year-end or more frequently if economic events dictate. The test for impairment is conducted by comparing the book value of the entity to the fair value. If the fair value is less than the book value, impairment is deemed to have occurred. The extent of the impairment is measured by allocation of the fair value of the entity to the identifiable assets and liabilities at their fair values. Any remainder of this allocation is the implied value of goodwill. Any excess of the book value of goodwill over this implied value is the impairment amount. Impairment is charged to earnings in the period in which it occurs.

(o) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities are recognized on the consolidated balance sheet at the time the Company becomes a party to the contractual provisions. Upon initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods is dependent on the classification of the financial instrument. These instruments will be classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities.

Held-for-trading instruments are financial assets and liabilities typically acquired with the intention of generating revenues in the short-term. However, an entity is allowed to designate any financial instrument as held-for-trading on initial recognition even if it would otherwise not satisfy the definition. As at December 31, 2008, the Company does not hold any financial instruments that do not satisfy the definition. Financial assets and financial liabilities required to be classified or designated held-for-trading are measured at fair value, with gains and losses recorded in net earnings for the period in which the change occurs.

Held-to-maturity investments are non-derivative financial assets, with fixed or determinable payments and fixed maturity that an entity has the intention and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest method. As at December 31, 2008, the Company does not have any financial assets classified as held-to-maturity.

Available-for-sale financial assets are non-derivative assets that are designated as available-for-sale or that are not classified as loans and receivables, held-to-maturity investments or held-for-trading. Available-for-sale financial assets are carried at fair value with unrealized gains and losses included in other comprehensive income (OCI) until such gains or losses are realized or an other than temporary impairment is determined to have occurred. Available-for-sale assets are measured at fair value, except for assets that do not have a readily determinable fair value which are recorded at cost.

Financial assets classified as loans and receivables are measured at amortized cost using the effective-interest method.

Other financial liabilities are measured at amortized cost using the effective interest method and include all liabilities other than derivatives or liabilities that have been identified as held-for-trading.

The Company will assess at each reporting period whether there is any objective evidence that a financial asset, other than those classified as held-for-trading, is impaired.

3. CHANGES IN ACCOUNTING POLICIES

On January 1, 2008, the Company adopted the following CICA Handbook Sections:

- Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation," which replace Section 3861 "Financial Instruments – Disclosure and Presentation." The new disclosure standard increases the emphasis on the risks associated with financial instruments and how those risks are managed (see Note 14). The new presentation standard carries forward the former presentation requirements.
- Section 1535 "Capital Disclosures" – The new standard requires the Company to disclose its objectives, policies and processes for managing its capital structure (see Note 14(g)).

4. RECENT ACCOUNTING PRONOUNCEMENTS

As of January 1, 2009, the Company will be required to adopt the CICA Handbook Section 3064, "Goodwill and Intangible Assets", which will replace the existing Goodwill and Intangible Assets standard. The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard should not have a material impact on the Company's Consolidated Financial Statements.

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") for fiscal periods commencing on or after January 1, 2011. The Company is assessing the potential impacts of this changeover and developing a plan for the conversion.

In January 2009, the AcSB issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The adoption of this standard should not have a material impact on the Company's Consolidated Financial Statements.

In January 2009, the AcSB issued Sections 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests, which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The adoption of this standard should not have a material impact on the Company's Consolidated Financial Statements.

5. ACQUISITIONS

(i) *Atlas acquisition* – On December 22, 2006, the Company acquired all of the issued and outstanding shares of Atlas Energy Ltd. ("Atlas"), a publicly traded junior oil and gas company with producing and development assets in western Canada, on the basis of 0.82 of a Pearl share for each Atlas share. The Company issued 55,670,226 common shares at a price of $4.74 per common share, determined based on the weighted average trading price of the Company's common shares shortly before and after the announcement of the acquisition. On January 1, 2007 Atlas was amalgamated with Pearl E&P Canada Ltd.

The consideration, including transaction costs, for the Atlas acquisition totaled $267.0 million. The allocation of the purchase price is as follows:

NET ASSETS ACQUIRED		
Petroleum and natural gas properties	$	243,001
Working capital deficiency		(92,046)
Asset retirement obligation		(9,389)
Future income tax		(12,745)
Goodwill		138,190
Total net assets acquired	$	267,011
CONSIDERATION		
Shares		264,085
Acquisition costs, net of interest earned on escrowed funds		2,926
Total purchase price	$	267,011

(ii) *Cipher acquisition* – On March 1, 2007, the Company acquired all the issued and outstanding shares of Cipher Exploration Inc. ("Cipher"), a privately-held oil and gas company with heavy oil assets in western Canada, for a gross purchase price of $18.6 million, including an amount equal to the aggregate of all outstanding long and short-term debt of Cipher. At closing, the Company issued 2,047,502 common shares to the Cipher shareholders at a price of approximately $4.78 per share, based on the weighted average trading price of Pearl's shares shortly before and after the announcement of the acquisition, and assumed $8.3 million of debt.

The consideration, including transaction costs, for the Cipher acquisition totaled $18.6 million. The allocation of the purchase price is as follows:

NET ASSETS ACQUIRED		
Petroleum and natural gas properties	$	20,000
Working capital deficiency		(2,382)
Asset retirement obligation		(1,579)
Future income tax		(181)
Goodwill		2,743
Total net assets acquired	$	18,601
CONSIDERATION		
Shares		9,792
Repayment of Cipher debt		8,294
Acquisition costs		515
Total purchase price	$	18,601

(iii) *Watch acquisition* – On October 19, 2007, the Company acquired all of the issued and outstanding shares of Watch Resources Ltd. ("Watch"), a junior oil and gas company with conventional heavy oil interests in north-central Alberta, in an all-share transaction at an exchange ratio of 0.23 common shares of Pearl for each common share of Watch. At closing, the Company issued 10,542,927 common shares of Pearl to former Watch shareholders at a price of $4.76 per share, based on the weighted average trading price of Pearl's shares shortly before and after the announcement of the acquisition.

The consideration, including transaction costs, for the Watch acquisition totaled $51.0 million. The allocation of the purchase price is as follows:

NET ASSETS ACQUIRED		
Petroleum and natural gas properties	$	34,919
Investment		3,863
Working capital deficiency		(1,394)
Asset retirement obligation		(760)
Future income tax		1,265
Goodwill		13,058
Total net assets acquired	$	50,951
CONSIDERATION		
Shares		50,184
Stock options		575
Transaction costs		192
Total purchase price	$	50,951

(iv) *Property acquisitions and dispositions*

(a) On August 2, 2007, the Company purchased a 24% working interest in the Mooney oil field from Ravenwood Energy Corp. ("Ravenwood") for $20 million. After standard industry adjustments, the net purchase price paid was $7.5 million in cash and $7.5 million by the issuance of 1,475,108 Pearl common shares at a price of $5.12 per share. The remaining $5.0 million in consideration was by way of settlement of certain accounts receivables. The price per share was determined based on the weighted average trading price of the shares shortly before and after the announcement of the acquisition.

(b) On November 6, 2007, the Company acquired heavy oil assets in the states of Montana and Utah from PetroHunter Energy Corporation ("PetroHunter"). The purchase price is a maximum of US$30 million, payable as follows: (a) US$7.5 million in cash at closing; (b) the issuance of up to 2.5 million common shares of Pearl, the equivalent of up to US$10 million based on US$4.00 per share;and (c) a performance payment of US$12.5 million in cash at such time as either: (i) production from the assets reaches 5,000 barrels of oil per day; or (ii) proven reserves from the assets is greater than 50 million barrels of oil. Of the 2.5 million common shares potentially issuable, 1,539,975 were ultimately issued. In addition, 294,117 common shares were issued to a third party as a finder's fee. The outcome of the performance payment could not be determined beyond a reasonable doubt and therefore no value was assigned to it.

(c) In May 2007, the Company sold its Gulf of Mexico leases to Bayou Bend Petroleum Ltd. ("Bayou Bend") in exchange for ten million shares of Bayou Bend having a value of $2.20 per share for total consideration of $22.0 million. The share price was determined based on the trading price of the Bayou Bend shares shortly before and after the acquisition was announced. The disposition of the Gulf of Mexico assets resulted in a gain of $14.3 million. The Bayou Bend shares were subsequently sold in two transactions for cash proceeds of $12.0 million, resulting in a loss on sale of $10.0 million.

(d) On May 22, 2008, the Company sold assets in the Lloydminster, Celtic, Pike's Peak and Thunderchild areas of Saskatchewan for approximately $75 million. These assets represented 10% of Pearl's proved plus probable reserves and 30% of existing oil production. The sale resulted in the elimination of the Company's outstanding debt. The sale did not result in a change in the Company's depletion rate by 20% or more and, as a result, no gain or loss was recorded in the financial statements.

(e) On August 20, 2008 the Company acquired an additional 30% interest in the Blackrod area to bring its total interest to 65%. This was done through the acquisition of 100% of the outstanding shares of CODA Holdings Corp. ("CODA"). Consideration paid for CODA was $4.5 million in cash and 2.5 million shares of Pearl valued at $0.60 per share. (See note 16(a)).

(f) On December 30, 2008 the Company sold all of its interests in certain lands, including wells, pipelines and other associated equipment located in the Palo Duro Basin area of Texas. In exchange, Pearl received 18,756,414 common shares of Tyner Resources Ltd. These shares are valued at a price of $0.03 per share.

6. INVESTMENTS

	December 31, 2008	December 31, 2007
Investment in Serrano Energy Ltd. ("Serrano")	**$ 7,768**	$ 5,500
Asset-backed commercial paper ("ABCP")	**1,288**	3,863
Investment in Tyner Resources Ltd. ("Tyner")	**563**	–
	$ 9,619	$ 9,363

(a) The Company owns 4,037,346 common shares of Serrano.On August 20, 2008, a third party participated in a private placement of common shares in Serrano for an amount of $55.0 million. The Company's ownership position, formerly 37%, was reduced to approximately 18%. As the shares issued under the placement were sold at a per share price greater than the per share price of the Company's initial investment, the Company recognized a dilution gain of $2.3 million. Subsequent to December 31, 2008, the Company sold its investment in Serrano in exchange for an additional 15% working interest in the Blackrod area lands (see Note 16 (b)).

(b) The Company acquired an investment in ABCP, with a face value of $5 million, as part of the Watch acquisition on October 19, 2007. Prior to the acquisition of Watch, major participants in the third party sponsored ABCP market announced a proposed solution to the liquidity problem in the ABCP market. A restructuring plan was ultimately submitted to the Ontario Superior Court of Justice under the Companies Creditors Arrangement Act (CCAA) which was sanctioned on June 5, 2008. On June 18, 2008 proceedings were taken by a number of corporate noteholders to the Ontario Court of Appeal seeking to challenge the Courts decision that sanctioned the restructuring plan. On August 18, 2008, the Ontario Court of Appeal dismissed the appeal. On September 2, 2008, a number of unsuccessful appellants sought leave to appeal the decision to the Supreme Court of Canada.On September 19, 2008 the Supreme Court announced that it would not grant leave to hear the appeal. The ABCP investment will be converted into notes with maturities matching the underlying assets. The notes will bear interest rates commensurate with the nature of the underlying assets including the cost of a margin funding facility.

At the time of the acquisition of Watch the Company determined that the estimated fair value of the ABCP was $1.1 million less than the face value. The valuation technique used by the Company to estimate the fair value of its investments in ABCP incorporates probability-weighted discounted cash flows considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments. As at September 30, 2008 the Company determined that a further downward adjustment of $2.6 million was required. As at December 31, 2008 no further adjustment is deemed necessary. The historical decrease that has affected all the capital markets provides significant uncertainties regarding the value of the assets which underlie the ABCP, the potential development of a liquid market for the replacement notes and as a result the amount and timing of cash flows and the outcome of the restructuring process may give rise to a further decrease in the value of the Company's investment in ABCP.

On January 21, 2009, the Pan-Canadian Investors Committee implemented the ABCP restructuring plan. Pursuant to the terms of the plan, the Company received the following replacement notes: Class A-1 $1.5 million par value; Class A-2 $2.8 million par value; Class B $0.5 million par value; and Class C $0.1 million par value. The interest rate on the replacement Class A and B notes will be Bankers Acceptance rates plus 0.5% per annum, and the interest rates on the Class C notes are Bankers Acceptance rates plus 20% per annum. The notes mature in 2017.

(c) On December 30, 2008, the Company sold all of its interests in certain lands, wells, pipelines and other associated equipment located in the Palo Duro Basin area of Texas. In exchange, Pearl received 18,756,414 common shares of Tyner Resources Ltd. These shares are valued at a price of $0.03. The share price was calculated by using the weighted average share price for the five days before and after the transaction date. The disposition of assets did not result in a change of 20% or more in the Company's depletion rate, and, as a result, no gain or loss has been recorded on the dispositions. This investment is subject to equity accounting as significant influence exists.

7. PETROLEUM AND NATURAL GAS PROPERTIES

		December 31, 2008	
	Cost	**Accumulated Depreciation and Depletion**	**Net Book Value**
Petroleum and natural gas properties	**$ 600,297**	**$ 180,581**	**$ 419,716**
Office equipment	**2,739**	**791**	**1,948**
	$ 603,036	**$ 181,372**	**$ 421,664**

		December 31, 2007	
	Cost	Accumulated Depreciation and Depletion	Net Book Value
Petroleum and natural gas properties	$ 623,916	$ 96,764	$ 527,152
Office equipment	1,520	320	1,200
	$ 625,436	$ 97,084	$ 528,352

The depletion and ceiling test calculations have excluded the cost of unproved properties of $31.1 million (December 31, 2007 – $61.0 million) and included the cost of future development costs of $34.7 million (December 31, 2007 – $145.0 million).

The Company performed the ceiling test calculations at December 31, 2008 and 2007 to assess whether the carrying value of the petroleum and natural gas properties were recoverable. At December 31, 2008, the Company realized a significant reduction in the proved plus probable reserves in the U.S. As a result, the carrying value of these petroleum and natural gas assets have been reduced to reflect the expected future discounted cash flows from existing reserves at estimated market prices as well as expected salvage values of these assets. A write-down in the amount of $57.4 million of the U.S. assets has been reflected in the Company's financial statements. The following represent the prices that were used in the December 31, 2008 ceiling test:

	Average Price Forecast (1)					
	2009	2010	2011	2012	2013	2014+(2)
WTI (US$/bbl)	57.00	69.53	76.38	86.99	94.74	2.5%
AECO (Cdn$/mcf)	7.31	7.99	8.09	8.47	8.67	2.5%

(1) The benchmark prices listed above are adjusted for quality differentials, heat content, distance to market and other factors in performing the ceiling test.

(2) Percentage change represents the change in each year after 2013 to the end of the reserve life.

8. BANK CREDIT FACILITY

The Company has a credit facility with a Canadian chartered bank which is comprised of a $37 million revolving 364-day extendible term facility, and a $10 million demand revolving operating facility. The Company may borrow, repay and re-borrow advances with the aggregated outstanding not to exceed the total credit facility. The facility bears interest at the bank prime rate payable monthly and is secured by a general securities agreement. At December 31, 2008, there were no advances outstanding under this facility.

The facility is subject to annual reviews. The next scheduled review will take place on May 31, 2009.

9. ASSET RETIREMENT OBLIGATION

The total future asset retirement obligation was estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows required to settle the asset retirement obligations is approximately $34.6 million which will be incurred over the next 28 years with the majority of costs incurred between 2009 and 2024. A credit adjusted risk-free rate of 6.5% and an inflation factor of 2% was used to calculate the fair value of the asset retirement obligation.

Changes to the asset retirement obligation were as follows:

	2008	2007
Asset retirement obligation at beginning of period	**$ 16,586**	$ 3,772
Liabilities acquired through acquisitions, net of dispositions	**(6,464)**	9,823
Liabilities incurred during the period	**896**	2,988
Adjustment for change in reserve life, abandonment costs, inflation and discount rates	**8,545**	–
Actual remediation costs	**(668)**	(1,165)
Accretion	**1,169**	1,168
Asset retirement obligation at end of period	**$ 20,064**	$ 16,586

The following significant assumptions were assumed for the purpose of estimating the asset retirement obligations:

	2008	2007
Undiscounted abandonment costs	**34,600**	32,400
Credit adjusted risk-free rate	**6.5%**	8%
Inflation rate	**2%**	1.5%
Average years to reclamation	**14**	20

10. RELATED PARTY TRANSACTIONS

During the twelve months ended December 31, 2008 the Company entered into the following transactions with related parties in the normal course of business, which are recorded at the exchange amount established and agreed to by the related parties:

(a) The Company paid $81 (2007 – $271) to Tanganyika Oil Company Ltd. ("Tanganyika") for administrative and other services. The Company and Tanganyika had during 2008 certain officers and directors in common. On December 19, 2008, all of the outstanding shares of Tanganyika were sold to a third party. As a result, it is no longer considered to be a related party as of December 31, 2008.

(b) The Company paid $180 (2007 – $117) to Namdo Management Services Ltd. ("Namdo") for executive and support services pursuant to a services agreement. Namdo is a private corporation owned by Lukas H. Lundin, a director of the Company.

11. SHARE CAPITAL

(a) Authorized:

The Company is authorized to issue an unlimited number of common shares.

(b) Common Shares Issued:

	Number of Shares	Attributed Value
Balance as at September 30, 2006	51,913,016	$ 112,614
Shares issued through equity financings (i)	65,553,845	281,850
Shares issued for Atlas acquisition (note 6(i))	55,670,226	264,086
Shares issued for Cipher acquisition (note 6(ii))	2,047,502	9,792
Shares issued for Watch acquisition (note 6(iii))	10,542,927	50,184
Shares issued for property acquisitions (note 6(iv))	3,309,200	14,247
Shares issued upon exercise of options	205,000	1,343
Tax effect of flow-through (i)	–	(3,106)
Share issue costs	–	(7,888)
Balance as at December 31, 2008 and December 31, 2007	189,241,716	$ 723,122

(c) Warrants Outstanding:

	Number of Whole Warrants	Weighted-Average Exercise Price per Share
Outstanding at December 31, 2007 and September 30, 2006	4,091,800	$ 0.98
Expired	(4,091,800)	0.98
Outstanding at December 31, 2008	**0**	**$ 0.00**

(i) Four million warrants were issued pursuant to the acquisition of properties at San Miguel in November 2005. Each warrant entitled the holder to purchase an additional common share of the Company at a price of $1.00, exercisable from the date the San Miguel heavy oil project achieves an average daily producing rate of 5,000 barrels of oil per day, over 30 consecutive days, until November 18, 2008. There was no production by November 18, 2008 and the warrants expired.

(ii) In connection with the December, 2005 Palo Duro acquisition, the Company issued 270,000 warrants. This number was subsequently reduced by 66% to 91,800 when the vendor exercised a back-in right on March 3, 2006. Each remaining warrant provides the warrant holder with the right to receive an additional common share of the Company, within 75 days of September 15, 2008, for no additional consideration, if the average production rate per well drilled in the Palo Duro shale gas project is at least 1.5 million cubic feet equivalent per day, based on the initial 60 days of production. The number of warrants ultimately issued will be reduced pro rata to the actual average production rate if the actual average production rate per well drilled by September 15, 2008 is less than 1.5 million cubic feet equivalent per day. There was no production by September 15, 2008 and the warrants expired.

(d) Stock Options Outstanding

The Company has a stock option plan (the "Plan") available to directors, officers, consultants and employees of the Company and its subsidiaries. Under the Plan, the number of common shares to be reserved and authorized for issuance pursuant to options granted under the Plan cannot exceed ten percent of the total number of issued and outstanding shares in the Company. All issued stock options have terms of two to five years, vest over periods of up to three years and both the term and the vesting period are determined at the discretion of the Board of Directors. The stock options are exercisable at the market prices of the shares on the dates that the options were granted.

The continuity of stock options issued and outstanding is as follows:

	Number of Options	Weighted-Average Exercise Price ($)
Outstanding September 30, 2006	1,752,500	4.11
Granted	6,902,690	4.04
Exercised	(205,000)	3.45
Forfeit	(723,833)	5.04
Outstanding at December 31, 2007	7,726,357	3.98
Granted	**6,484,500**	**0.95**
Forfeit	**(1,620,751)**	**4.12**
Expired	**(1,451,670)**	**4.21**
Outstanding at December 31, 2008	**11,138,436**	**2.16**

The following stock options were outstanding at December 31, 2008:

Range of Exercise Prices ($)	Options Outstanding			Options Exercisable		
	Number	Weighted-Average Exercise Price ($)	Weighted-Average Life (Years)	Number	Weighted-Average Exercise Price ($)	Weighted-Average Life (Years)
0.40 – 1.50	5,030,000	0.71	4.96	500,000	0.77	4.97
1.51 – 3.00	3,109,500	2.19	4.22	573,333	2.53	3.98
3.01 – 4.50	1,250,936	3.83	2.82	750,936	4.03	2.21
4.51 – 5.28	1,748,000	5.10	3.04	1,100,000	5.13	3.01
	11,138,436	2.16	4.21	2,924,269	3.59	3.33

(e) Stock-Based Compensation

Stock-based compensation expense of $3,116, net of recoveries of $633 for forfeited stock options, has been recorded in the Consolidated Statements of Operations and Deficit for the year ended December 31, 2008 (2007 – $4,047). The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average fair value of options granted during 2008 and the assumptions used in their determination are noted below:

	Year Ended December 31, 2008	Fifteen Months Ended December 31, 2007
Weighted average fair value of stock options granted (per option)	**$ 0.73**	$ 1.65
Expected life of stock options (years)	**5.00**	3.44
Volatility (weighted average)	**117%**	62%
Risk-free rate of return (weighted average)	**1.69%**	4.00%
Expected dividend yield	**0%**	0%

(f) Contributed Surplus Continuity

	December 31, 2008	December 31, 2007
Balance, beginning of the period	**$ 8,778**	$ 4,791
Stock-based compensation	**3,749**	4,637
Stock-based compensation allocated to contributed surplus as part of Watch acquisition	**–**	575
Recovery of expense on forfeited stock options	**(633)**	(590)
Transfer to share capital on exercise of options	**–**	(635)
Balance, end of period	**$ 11,895**	$ 8,778

12. INCOME TAXES

(a) Future income tax expense:

The provision for income taxes reflects an effective income tax rate which differs from federal and provincial statutory tax rates. The main differences are as follows:

	December 31, 2008	December 31, 2007
Income (loss) before income taxes	**(75,315)**	(242,139)
Corporate income tax rate	**30.88%**	34.03%
Computed income tax recovery	**(23,257)**	(82,400)
Increase (decrease) resulting from:		
Change in valuation allowance	**27,992**	(1,398)
Write-off of goodwill	**–**	58,846
Gain on sale of U.S. properties	**–**	1,654
Non-deductible Crown charges	**–**	95
Non-deductible compensation expense	**962**	1,377
Resource allowance	**–**	(120)
Foreign exchange	**(144)**	170
Change in enacted tax rates	**(2,136)**	3,009
Capital tax and Saskatchewan resource surcharge	**1,642**	1,837
Other	**(1,510)**	1,997
Income tax expense (recovery)	**$ 3,549**	$ (14,933)

(b) The components of the future income tax liability are as follows:

	December 31, 2008	December 31, 2007
FUTURE INCOME TAX ASSETS:		
Non-capital losses	**$ 11,370**	$ 12,818
Share issue costs	**2,729**	3,562
Asset retirement obligation	**5,863**	4,343
Other	**398**	290
Valuation allowance	**(29,032)**	(1,241)
	(8,672)	19,772
FUTURE INCOME TAX LIABILITIES:		
Property, plant and equipment	**4,636**	(17,369)
Net future tax asset (liability)	**$ (4,036)**	$ 2,403

The Company has $37.1 million of non-capital losses that expire from 2009 to 2018.

13. COMMITMENTS AND CONTINGENCIES

The Company enters into commitments and contractual obligations in the normal course of business, including the purchase of services, farm-in agreements, royalty agreements, operating agreements, transportation agreements, processing agreements, right-of-way agreements and lease agreements for vehicles.

(a) The Company has a nine-year operating lease for office space as at December 31, 2008, the payments (net of sublease proceeds) due under this lease agreement (including an estimate for operating costs) are as follows:

	2009	2010	2011	2012	2013	Subsequent to 2013
Office rent	$ 1,457	$ 1,457	$ 1,525	$ 1,593	$ 1,593	$ 4,474

(b) The Company has contracted drilling rig services over the next two years. In the event that the Company does not utilize the minimum contracted days, the Company would be obligated to pay the rig operator a variable rate based on days not utilized under the contracts. The maximum commitment at December 31, 2008 related to these contracts is approximately $3.5 million.

(c) In connection with the November, 2007 property acquisition from PetroHunter, the Company may be required to pay a performance payment of US$9.8 million in cash at such time prior to November 6, 2010 if either: (i) production from the assets reaches 5,000 barrels of oil per day; or (ii) proven reserves from the assets is greater than 50 million barrels of oil.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed to financial and market risk in a range of financial instruments including cash, accounts receivable, certain investments and accounts payable. The Company manages its risk through its policies and processes, but the Company generally has not used derivative financial instruments to manage these risks.

(a) Fair Value of Financial Instruments

The following tables set out the Company's classification, carrying amount and fair values of its financial assets and liabilities as at December 31, 2008 and 2007:

			2008		2007	
	Classification		**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Cash and cash equivalents	Held for trading	(i)	**$ 24,059**	**$ 24,059**	$ 4,799	$ 4,799
Accounts receivable	Loans and receivable	(i)	**9,536**	**9,536**	25,134	25,134
Investment in ABCP	Held for trading	(ii)	**1,288**	**1,288**	3,863	3,863
Other investments	Available for sale	(iii)	**7,768**	**7,768**	–	–
Accounts payable and accrued liabilities	Other financial liabilities	(iv)	**(34,409)**	**(34,409)**	(69,899)	(69,899)

The fair values of financial assets and financial liabilities are calculated on the basis of information available at the balance sheet date using the following methods:

(i) The fair value of cash and cash equivalents and accounts receivable approximates their carrying amounts due to the short-term nature of the instruments.
(ii) The fair value of the Company's investment in ABCP is determined by probability-weighted discounted cash flows considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments.
(iii) Investment in shares of a private company is valued at fair market value based on some comparable transactions involving the issuance of additional shares of the private company.
(iv) The fair value of accounts payable and accrued liabilities approximates their carrying amounts due to the short-term nature of the instruments.

(b) Commodity Price Risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in the price of oil and natural gas. Commodity prices are impacted by world economic events that affect supply and demand, which are generally beyond the Company's control. Changes in crude oil and natural gas prices may significantly affect the Company's results of operations, costs generated from operating activities, capital spending and the Company's ability to meet its obligations. The majority of the Company's production is sold under short-term contracts; consequently, Pearl is at risk to near term price movements. The Company manages this risk by constantly monitoring commodity prices and factoring them into operational decisions, such as contracting or expanding its capital expenditures program. At this time, the Company does not use derivative financial instruments to manage its exposure to this risk.

(c) Foreign Currency Exchange Risk

The Company is exposed to risks arising from fluctuations in foreign currency exchange rates and the volatility of those rates. This exposure primarily relates to: (i) prices received for its crude oil and natural gas are primarily determined in reference to U.S. dollars; (ii)certain expenditure commitments, deposits, accounts receivable, and accounts payable which are denominated in U.S. dollars; and (iii) its operations in the United States. The Company manages this risk by monitoring foreign exchange rates and evaluating their effects on using Canadian or U.S. vendors as well as timing of transactions. At this time, the Company has not entered into any fixed rate contracts.

(d) Credit Risk

Credit risk is the risk that a third party fails to meet its contractual obligations that could result in the Company incurring a loss.

The Company's accounts receivable are primarily with oil and gas marketers and joint-venture partners. Receivables from oil and gas marketers are generally collected on the 25th day of the month following production. The Company attempts to mitigate this risk by assessing the financial strength of its counterpart and entering into relationships with larger purchasers with established credit history. During 2008, the Company recorded an allowance for doubtful accounts in the amount of $0.6 million related to a balance owing by one of its marketers that filed for creditor protection. The Company has not experienced any other collection issues with its marketers. Receivables from joint-venture partners arise when the Company conducts joint operations on behalf of its partners and invoices them for their share of costs. To mitigate the risk of non-payment from joint-venture partners the Company can require

partners to pay certain costs in advance as well as the Company has the ability to withhold production from partners in the event of non-payment. In 2008, the Company made a provision for doubtful accounts from joint-venture partners in the amount of $1.2 million. These amounts primarily relate to receivables inherited from other companies that were acquired by Pearl over the last two years.

The Company typically does not obtain collateral or security from its joint-venture partners or oil and gas marketers. The carrying amounts of accounts receivable represent the maximum credit exposure.

As at December 31, 2008, the Company held $24 million in cash at various major banks throughout Canada and the U.S., as well as $1.3 million in ABCP. At December 31, 2008, one Canadian chartered bank held approximately 93% of the Company's cash and short-term deposits. Cash balances in excess of the Company's day to day requirements are invested at the bank in short-term deposits of less than 30 days.

(e) Interest Rate Risk

The Company is exposed to interest rate risk in relation to interest expense on its revolving credit facility. At this time, the Company is not drawn on this facility and, as a result, the Company considers this risk to be limited. In addition, the Company is exposed to interest rate risk on its excess cash balances and certain investments. As at December 31, 2008, if interest rates had been 1% lower with all other variables held constant, after tax earnings for the period would have been approximately $224,000 higher, due to lower interest expense. An equal opposite impact would have occurred to net earnings had interest rates been 1% higher. The Company considers this risk to be limited and does not hedge this risk.

(f) Liquidity Risk

Liquidity risk is the risk the Company is unable to meet its financial obligations as they come due. The Company uses operating cash flows, bank credit facilities and equity offerings to fund its capital requirements.

The Company manages this risk by maintaining a conservative balance sheet with minimal use of long-term debt. As at December 31, 2008, the Company had a $47 million credit facility with no amounts outstanding, and a positive working capital position of $6.5 million. The Company believes it has sufficient funding from these sources to meet its foreseeable obligations. The maturity dates for the Company's financial liabilities are as follows:

	<6 Months	6 Months - 1 Year	1-2 Years
Accounts payable and accrued liabilities	$ 34,409	–	–

During 2008, the Company sold certain oil and gas assets for $75 million to eliminate its bank debt at the time. The Company also has the ability to reduce its capital expenditure program if necessary.

(g) Capital Management

The Company defines capital as working capital, total debt and equity. The current capital management strategy is designed to minimize the use of long-term debt and maintain positive working capital. This strategy should provide the financial flexibility to fund the Company's capital program and profitable growth opportunities. The unutilized $47 million credit facility capacity provides liquidity to the Company. This structure can be adjusted as a result of changes in economic conditions or risks associated with its oil and gas assets. During 2008, the Company elected to eliminate its existing bank debt from the sale of certain non-strategic assets. In order to maintain or adjust its capital structure, the Company may from time-to-time issue additional common shares. As a result of the economic global downturn, access to its capital markets may be limited. In addition, the Company's credit facilities are based on its petroleum and natural gas reserves

whose values are impacted by, among other things, global commodity prices. The Company will adjust its capital spending if access to external capital sources is unavailable. In order to manage the balance in the Company's capital structure, some of the financial tests that Pearl considers are debt-to-equity ratios, debt-to-cash-flow from operating-activities and interest coverage tests.

Financial covenants associated with the Company's credit facility are reviewed regularly and controls are in place to maintain compliance with these covenants. The only financial covenant in the Company's credit facility is to maintain a working capital ratio of 1:1 at the end of each fiscal quarter. Working capital is defined as current assets plus unutilized credit under the credit facilities compared to current liabilities.

15. SEGMENTED INFORMATION

The Company presently has one reportable business segment, that being oil and gas exploration, development and production. The Company's operations are carried on in the following geographic locations:

	Year Ended December 31, 2008		
	Canada	**U.S.**	**Consolidated**
Total revenues, net of royalties	**$ 137,951**	**$ 1,904**	**$ 139,855**
Expenses	**152,122**	**5,778**	**157,900**
Foreign currency loss (gain)	**8**	**(474)**	**(466)**
Write-downs	**2,575**	**57,427**	**60,002**
Gain on investment	**(2,268)**	**–**	**(2,268)**
Net income (loss) before income taxes	**(14,486)**	**(60,827)**	**(75,313)**
Income taxes	**6,435**	**(2,886)**	**3,549**
Net income (loss)	**(20,921)**	**(57,941)**	**(78,862)**
Segment assets	**459,659**	**12,484**	**472,143**
Segment petroleum and natural gas properties	**418,444**	**3,220**	**421,664**
Capital additions	**$ 86,765**	**$ 20,602**	**$ 107,367**

	Fifteen Months Ended December 31, 2007		
	Canada	U.S.	Consolidated
Total revenues, net of royalties	$ 99,307	$ 1,843	$ 101,150
Expenses	171,522	2,631	174,153
Foreign currency loss (gain)	586	(85)	501
Gain on sale of assets	–	(4,286)	(4,286)
Write-downs	172,921	–	172,921
Income (loss) before income taxes	(245,722)	3,583	(242,139)
Income taxes (recovery)	(17,790)	2,857	(14,933)
Net income (loss)	(227,932)	726	(227,206)
Segment assets	522,075	53,790	575,865
Segment petroleum and natural gas properties	482,506	45,847	528,353
Capital additions	$ 204,116	$ 25,130	$ 229,246

16. SUBSEQUENT EVENTS

(a) On January 8, 2009, the Company acquired all of the issued and outstanding shares of BlackCore Resources Inc. in exchange for 17,600,000 common shares of the Company, as well as 5,000,160 Class A and 5,000,160 Class B share purchase warrants. Each warrant will allow the holder to acquire one Pearl share for a price of $0.60 when the Pearl share price reaches a volume weighted average price for 30 consecutive days of $1.50 and $2.00, respectively. In addition, 2,500,000 common shares of the Company were issued to extinguish the potential contingency payments related to the purchase of lands in the Blackrod area (see note 5 (iv) (e)).

(b) On January 28, 2009, the Company closed an agreement with Serrano Energy Ltd. ("Serrano") to exchange the Company's equity interest in Serrano for a 15% increased interest in the Blackrod area lands and a carried work commitment of $5 million. The Company has become the operator of the Blackrod project.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in 2008.