



**PEARL EXPLORATION AND PRODUCTION LTD.**

**ANNUAL INFORMATION FORM**

**FOR THE YEAR ENDED**

**DECEMBER 31, 2008**

March 19, 2009

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## **GLOSSARY OF TERMS**

In this Annual Information Form, the following words and phrases have the following meanings, unless the context otherwise requires.

“51-101” means National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* of the Canadian Securities Administrators and the forms thereunder.

“Atlas” means Atlas Energy Ltd.

“Atlas Acquisition” means the plan of arrangement involving Pearl and Atlas resulting in the acquisition by Pearl of all of the issued and outstanding shares of Atlas.

“Board” means the board of directors of Pearl, so constituted from time to time.

“BOE” means barrel of oil equivalent of natural gas and crude oil.

“BOE/d” means barrel of oil equivalent per day.

“CBCA” means the *Canada Business Corporations Act*.

“Cipher” means Cipher Exploration Ltd.

“Cipher Acquisition” means the acquisition by Pearl of all of the issued and outstanding shares of Cipher.

“CSS” means cyclic steam stimulation.

“DeGolyer and MacNaughton” means DeGolyer and MacNaughton Canada Limited.

“Gross” means:

- in relation to the issuer’s interest in production or reserves, its “gross reserves”, which are the issuer’s working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests of the issuer;
- in relation to wells, the total number of wells in which the issuer has an interest; and
- in relation to properties, the total area of properties in which the issuer has an interest.

“IOGC” means Indian Oil and Gas Canada.

“MBOE” means thousands of barrels of oil equivalent.

“Net” means:

- in relation to the issuer’s interest in production or reserves, the issuer’s working interest (operating or non-operating) share after deduction of royalties obligations, plus the issuer’s royalty interests in production or reserves;
- in relation to the issuer’s interest in wells, the number of wells obtained by aggregating the issuer’s working interest in each of its gross wells; and
- in relation to the issuer’s interest in a property, the total area in which the issuer has an interest multiplied by the working interest owned by the issuer.

“Nevarro” means Nevarro Energy Ltd.

“Nevarro Acquisition” means the plan of arrangement involving Pearl and Nevarro resulting in the acquisition by Pearl of all of the issued and outstanding shares of Nevarro.

“Newmex” means Newmex Minerals Inc.

“OCS” means the Offshore Continental Shelf in the Gulf of Mexico.

“OLE” means Onion Lake Energy Ltd.

“OLFN” means the Onion Lake First Nation of Saskatchewan/Alberta.

“Pan-Global” means Pan-Global Energy Ltd.

“Pan-Global Acquisition” means the plan of arrangement involving Pearl and Pan-Global resulting in the acquisition by Pearl of all of the issued and outstanding shares of Pan-Global.

“Participation Agreement” means the agreement between SMDL and the TXCO in connection with the SM Project.

“PD Agreements” means the operating agreement and the participation agreement, each made in connection with the PD Project.

“PD Project” means the Palo Duro project, an emerging unconventional shale gas project located in the Palo Duro natural gas basin in north Texas.

“Pearl” means Pearl Exploration and Production Ltd.

“Pearl E&P” means the company amalgamated under the *Business Corporations Act* (Alberta) through the amalgamation of Nevarro, Pan-Global, Atlas, Cipher, Watch and Coda Holdings Corp.

“Pearl Shares” means the common shares in the capital of Pearl.

“PetroGlobe” means PetroGlobe Energy USA Ltd.

“PetroHunter” means PetroHunter Energy Corporation

“Ravenwood” means Ravenwood Energy Corp.

“Rincon” means Rincon Energy Partners LLC.

“SAGD” means steam assisted gravity drainage.

“Serrano” means Serrano Energy Ltd.

“SMDL” means San Miguel Development Ltd., now called Newmex Energy (USA) Inc.

“SMDL Pilots” means the steam pilot projects conducted in the 1960’s, 1970’s and early 1980’s in the SM Project.

“SM Project” means the San Miguel Heavy Oil project, a large shallow depth heavy oil deposit located in the Maverick Basin in south Texas.

“TLE” means Treaty Land Entitlement.

“TSX” means the Toronto Stock Exchange.

“TXCO” means The Exploration Company.

“Valkyries” means Valkyries Petroleum Corp.

“Valkyries Acquisition” means the acquisition by Pearl of all of Valkyries United States oil and gas assets.

“Watch” means Watch Resources Ltd.

“Watch Acquisition” means the plan of arrangement involving Pearl and Watch resulting in the acquisition by Pearl of all of the outstanding shares of Watch.

## **INTRODUCTORY INFORMATION**

Except as otherwise indicated or unless the context otherwise require, the terms “Pearl”, “the Company”, “we,” “our” and “us” refer to Pearl Exploration and Production Ltd. Initially capitalized terms used herein and not otherwise defined have the meanings ascribed thereto in the Glossary of Terms located on page 3.

Unless otherwise indicated, all financial information included and incorporated by reference in this AIF is determined using Canadian generally accepted accounting principles (“Canadian GAAP”).

Unless otherwise specified, all dollar amounts are expressed in Canadian dollars, all reference to “dollars” or “\$” are to Canadian dollars and all references to “US\$” are to United States dollars. “\$M” refers to thousands of dollars.

## **FORWARD LOOKING STATEMENTS**

This AIF contains certain forward-looking statements and forward-looking information (collectively referred to herein as “forward-looking statements”) within the meaning of Canadian securities laws. All statements other than statements of historical fact are forward-looking statements. Forward-looking information typically contains statements with words such as “anticipate”, “believe”, “plan”, “continuous”, “estimate”, “expect”, “may”, “will”, “project”, “should”, or similar words suggesting future outcomes. In particular, this AIF contains forward-looking statements pertaining to the following:

- business plans and strategies;
- capital expenditure programs;
- operating expenses;
- the quantity of reserves
- net present values of future net revenues from reserves;
- production levels;
- abandonment and reclamation costs;
- projections of market prices;
- projections of costs;
- supply and demand for natural gas;
- expectations regarding the ability to raise capital and to continually add to reserves through acquisitions, exploration and development; and
- treatment under governmental regulatory regimes.

Statements relating to “reserves” are forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves described exist in the quantities predicted or estimated and can profitably be produced in the future.

Undue reliance should not be placed on forward-looking statements, which are inherently uncertain, are based on estimates and assumptions, and are subject to known and unknown risks and uncertainties (both general and specific) that contribute to the possibility that the future events or circumstances contemplated by the forward-looking statements will not occur. There can be no assurance that the plans, intentions or expectations upon which forward-looking statements are based will in fact be realized. Actual results will differ, and the difference may be material and adverse to the Corporation and its shareholders.

Forward-looking statements are based on the Company's current beliefs as well as assumptions made by, and information currently available to, the Company concerning anticipated financial performance, business prospects, strategies, regulatory developments, future commodity prices, future production levels, the ability to obtain equipment in a timely manner to carry out development activities, the ability to market oil and natural gas successfully to current and new customers, the impact of increasing competition, the ability to obtain financing on acceptable terms, and the ability to add production and reserves through development and exploration activities. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

By their very nature, forward-looking statements involve inherent risks and uncertainties (both general and specific) and risks that forward-looking statements will not be achieved. These factors include, but are not limited to risks associated with oil and gas exploration, financial risks, substantial capital requirements, bank financing, government

regulation, environmental, prices, markets and marketing, dependence on key personnel, co-existence with mining operations, availability of drilling equipment and access, risks may not be insurable, management of growth, expiration of licenses and leases, reserves estimates, seasonality, competition, conflicts of interest, issuance of debt, title to properties, variations in exchange rates and hedging. Further information regarding these factors may be found under the heading "Risk Factors" in this AIF, and in the Company's most recent financial statements, management's discussion and analysis, management information circular, material change reports and news releases. Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive.

The forward-looking statements contained in this AIF are made as of the date hereof and the Corporation does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, except as required by applicable law. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

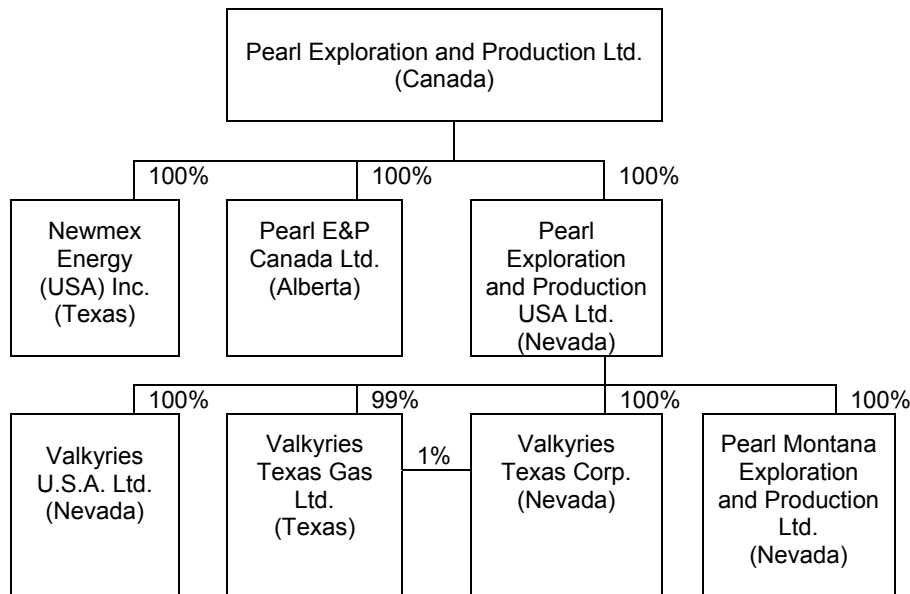
**CORPORATE STRUCTURE**

Pearl is a junior oil and natural gas company engaged in the exploration for, and the acquisition, development and production of oil and natural gas reserves located in Canada and the United States. Pearl's head office is located at 700, 444 – 7<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 0X8.

Pearl was incorporated under the Business Corporations Act (Alberta) as "Kilo Gold Mines Ltd." on October 15, 1984. On April 22, 1998, Kilo Gold Mines Ltd. filed Articles of Amendment to change its name to Newmex Minerals Inc. On July 22, 2002, Newmex Minerals Inc. continued out of Alberta to Canada under the CBCA. On February 28, 2006, Newmex Minerals Inc. changed its name to Pearl Exploration and Production Ltd.

**INTERCORPORATE RELATIONSHIPS**

The following diagram describes the intercorporate relationships among the Company and each of its subsidiaries where each principal subsidiary was incorporated or formed, and the percentage of votes attaching to all voting securities of each subsidiary beneficially owned by Pearl as at January 1, 2009.



## **GENERAL DEVELOPMENT OF THE BUSINESS**

### **Three Year History**

The following describes the development of Pearl's business over the last three completed financial years.

#### *Year Ended December 31, 2006*

In January 2006, Pearl (then Newmex Minerals Inc.) completed the Valkyries Acquisition, comprising leasehold and royalty interests in California, Texas and Louisiana, the rights to an offshore OCS block (Mustang Island Area, East Addition), and a strategic working interest investment in Rincon Energy Partners, LLC, a U.S. based oil and gas prospect generating company. The total consideration paid for the acquisition was approximately \$6.7 million, paid for in cash.

On February 28, 2006, Newmex Minerals Inc. changed its name to Pearl Exploration and Production Ltd.

In April 2006, Pearl completed the Pan-Global Acquisition. Through the Pan-Global Acquisition, the Company secured a 95% interest in the Onion Lake lands located along the Saskatchewan/Alberta border near Lloydminster. On January 1, 2007 Pan-Global was amalgamated with Pearl E&P Canada Ltd.

On May 17, 2006, Pearl completed a private placement of 7,000,000 Pearl Shares at a price of \$6.00 per share for gross proceeds of \$42 million.

In September 2006, Pearl completed the Nevarro Acquisition. Nevarro was a junior oil and gas company focused on exploration in western Canada. The Nevarro acquisition was completed under a Plan of Arrangement involving the Company, Nevarro, Serrano and the Nevarro shareholders. On January 1, 2007 Nevarro was amalgamated with Pearl E&P Canada Ltd.

The Company changed its financial year end from September 30 to December 31 effective October 1, 2006.

In November 2006, Pearl completed a private placement of Pearl Shares, subscription receipts and flow-through subscription receipts for gross proceeds of \$111 million. An aggregate of 8,000,000 Pearl Shares and 14,444,444 subscription receipts for Pearl Shares were issued at a price of \$4.50. In addition, 1,709,401 subscription receipts for flow-through Pearl Shares were issued at a price of \$5.85 each.

On December 22, 2006, Pearl completed the Atlas Acquisition. Pearl issued 0.82 of a Pearl Share for each Atlas share outstanding. In addition, holders of options to purchase Atlas shares who had not previously exercised or surrendered their options received \$0.05 cash per option held. A total of 55,670,226 Pearl Shares were issued to the Atlas shareholders and \$156,827.80 was paid to holders of options to purchase Atlas shares. On January 1, 2007 Atlas was amalgamated with Pearl E&P Canada Ltd.

Concurrently with the closing of the Atlas Acquisition, an aggregate of 16,153,845 Pearl Shares (of which 1,709,401 shares are "flow-through" shares) were issued pursuant to the terms of subscription receipts issued as part of a private placement by Pearl which closed on November 14, 2006. Upon issuance of such shares, an aggregate of \$72,811,983.18, including interest, was released to Pearl from escrow.

#### *Year Ended December 31, 2007*

On March 1, 2007, the Company completed the Cipher Acquisition for a gross purchase price of \$20,000,000 in Pearl Shares of the Company reduced by an amount equal to the aggregate of all outstanding long and short term debt of Cipher. At closing, the Company issued 2,047,502 Pearl Shares to the Cipher shareholders and assumed \$10,675,724 of debt. The deemed consideration, including transaction costs, for the Cipher acquisition totaled \$10,307,319. Cipher was amalgamated with Pearl E&P Canada Ltd. on January 1, 2008.

On May 8, 2007, the Company announced that the sale of its Gulf of Mexico assets to Bayou Bend Petroleum Ltd. ("Bayou Bend") had closed. In consideration for 10 million Pearl Shares of Bayou Bend, Pearl sold its 100% working interest in five Gulf of Mexico offshore exploration blocks, farm-in rights to acquire a 25% working interest in a sixth offshore block and all physical data, work products and files and records associated with these blocks. The Bayou Bend common shares had a deemed value of \$2.20 per share for total consideration of \$22.0 million. The Company sold one-half of its Bayou Bend shares in June 2007 and sold the second half in December 2007 resulting in net cash proceeds of \$12.0 million and a loss on sale of \$10.0 million.

On June 20, 2007, the Company commenced trading Swedish depository receipts (“SDRs”) on the First North list of the OMX Nordic Exchange. Each SDR represents one issued common share of the Company on deposit with a designated depository and is exchangeable into Pearl Shares on a one-for-one basis subject to the payment of an exchange fee.

On July 10, 2007 the Company sold on a non-brokered, private placement basis an aggregate of 12 million Pearl Shares at a price of \$5.05 per share for gross proceeds of \$60.6 million. A 4% finder's fee was paid on the gross proceeds of the private placement.

On August 2, 2007, the Company announced that it had closed the acquisition of a 24% working interest in the Mooney oil field from Ravenwood, a private oil and gas company for \$20.0 million net of standard industry adjustments. The acquisition increased Pearl's working interest in the Mooney field to over 98% and added approximately 625 BOE/d of production.

On August 23, 2007 the Company acquired a 35% working interest in 2,816 contiguous hectares of oil sands leases (Blackrod) located south of Fort McMurray, in the Athabasca Oil Sands region of northern Alberta. The purchase price was \$5.0 million.

On October 17, 2007, the Company sold, on a bought-deal, private placement basis, an aggregate of 29.4 million Pearl Shares at a price of \$3.75 per share for gross proceeds of \$110.3 million. The net proceeds of the private placement were used to fund the acquisition of heavy oil assets from PetroHunter and the Company's ongoing development programs as well as for general working capital purposes.

On October 18, 2007, the Company completed the Watch Acquisition in an all-share transaction at an exchange ratio of 0.23 Pearl Shares of Pearl for each common share of Watch. In connection with the Watch Acquisition, 10,542,927 Pearl Shares were issued to former Watch shareholders. The deemed consideration, including transaction costs, for the acquisition was approximately \$52.0 million. On January 1, 2008 Watch was amalgamated with Pearl E&P Canada Ltd.

On November 6, 2007, the Company closed the agreement with PetroHunter to purchase its heavy oil assets in Montana and Utah. The purchase price will be a maximum of US \$30 million, payable as follows: (a) US \$7.5 million in cash at closing; (b) the issuance of the number of Pearl Shares equivalent to US \$10 million; and (c) US \$12.5 million in cash at such time as either: (i) production from the assets reaches 5,000 bopd; or (ii) proven reserves from the assets is greater than 50 million barrels of oil.

#### *Year Ended December 31, 2008*

On May 22, 2008, the Company closed the sale of certain non-core heavy oil assets to a large integrated energy company. These assets, principally located in the Lloydminster, Celtic, Pikes Peak and Thunderchild areas of Saskatchewan were producing approximately 3,200 BOE/d at the time of the sale. In consideration, the Company received \$75 million, net of typical purchase price adjustments.

On August 20, 2008 the Company closed a transaction to acquire an additional 30% working interest in 3,886 contiguous hectares of oil sands leases in its Blackrod project, located south of Fort McMurray, in the Athabasca Oil Sands region of northern Alberta. The Company paid \$4.5 million in cash and, if successful, will be required to make additional payments totaling up to \$11 million, based on pre-set criteria. In 2009, this agreement was amended by the Company issuing 2,500,000 Pearl Shares to extinguish the \$11 million of contingent payments. In September and October 2008, the Company acquired an additional 36 sections (9,216 net hectares) of oil sands leases contiguous to Pearl's project area. In December 2008 the Company entered into an agreement with Serrano to increase Pearl's working interest in the original project area from 65% to 80% in return for the disposal of the Company's interests in Serrano and a carried work program of net \$5 million over the next twelve months.

On September 4, 2008, Pearl's common shares commenced trading on the TSX. The Company's shares were delisted from the TSX Venture Exchange at the close of market on September 3, 2008.

In September 2008, Pearl agreed to dispose of its land and tangible interests in the Palo Duro basin to Tyner Resources Ltd. in exchange for an equity interest in Tyner. This transaction was completed on December 30, 2008.

On December 17, 2008, Pearl announced that it had signed a definitive agreement to acquire 100% of the outstanding shares of BlackCore Resources Inc. The principal assets of BlackCore consist of a 100% interest in the John Lake field in Northern Alberta and \$5.5 million cash. The John Lake field is located approximately midway between the Company's existing Onion Lake and Fishing Lake fields. Upon the completion of the acquisition of BlackCore on January 8, 2009, a new management team was appointed consisting of John Festival, President and

CEO; Don Cook, Chief Financial Officer, Ed Sobel, Vice President of Exploration and Chris Hogue as Vice President Operations. John Festival and Victor Luhowy were appointed to the board of directors.

### **Significant Acquisitions - 2008**

During 2008, the Company did not make any significant property or corporate acquisitions for which disclosure is required under Part 8 of National Instrument 51-102.

## **DESCRIPTION OF THE BUSINESS AND OPERATIONS**

### **General**

Pearl is engaged in the exploration for, and the acquisition, development and production of oil and natural gas reserves located in North America and more specifically heavy oil in North America. Pearl has oil and gas interests in both Canada and the U.S.A. Pearl's oil and gas activities began in November 2005 with the acquisition of the San Miguel project in Texas. Pearl currently has approximately 5,900 BOE/d of production. The Company increased its average daily production by approximately 9% to 7,672 BOE/d in 2008 from 7,029 BOE/d in 2007. Approximately 80% or 4,700 BOE/d of the Company's production is heavy oil.

### **Industry Conditions**

The oil and natural gas industry is subject to extensive controls and regulations imposed by various levels of government. In western Canada, the various provincial governments have legislation and regulations that govern land tenure, royalties, production rates, environmental protection, the prevention of waste and other matters. Although it is not expected that any of these controls and regulations will affect the operations of Pearl's a manner materially different than they would affect other oil and natural gas producers of similar size, the controls and regulations should be considered carefully by investors in the oil and natural gas industry. Outlined below are some of the principal aspects of legislation and regulations governing the oil and natural gas industry. All current legislation is a matter of public record and Pearl is unable to predict what additional legislation or amendments may be enacted.

#### *Pricing and Marketing Oil and Natural Gas*

The producers of oil are entitled to negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. Oil prices are primarily based on worldwide supply and demand. The specific price depends in part on oil quality, prices of competing fuels, distance to market, the value of refined products, the supply/demand balance, and other contractual terms. Oil exporters are also entitled to enter into export contracts with terms not exceeding one year in the case of light crude oil and two years in the case of heavy crude oil, provided that an order approving such export has been obtained from the National Energy Board of Canada (the "NEB"). Any oil export to be made pursuant to a contract of longer duration (to a maximum of 25 years) requires an exporter to obtain an export licence from the NEB and the issuance of such licence requires the approval of the Governor in Council.

The price of natural gas is determined by negotiation between buyers and sellers. Natural gas exported from Canada is subject to regulation by the NEB and the Government of Canada. Exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts must continue to meet certain other criteria prescribed by the NEB and the Government of Canada. Natural gas exports for a term of less than 2 years or for a term of 2 to 20 years (in quantities of not more than 30,000 m<sup>3</sup>/day), must be made pursuant to an NEB order. Any natural gas export to be made pursuant to a contract of longer duration (to a maximum of 25 years) or a larger quantity requires an exporter to obtain an export licence from the NEB and the issuance of such licence requires the approval of the Governor in Council.

#### *Pipeline Capacity*

Although pipeline expansions are ongoing, the lack of firm pipeline capacity continues to affect the oil and natural gas industry and limit the ability to produce and to market natural gas production. In addition, the pro-rationing of capacity on the inter-provincial pipeline systems also continues to affect the ability to export oil and natural gas.

#### *The North American Free Trade Agreement*

The North American Free Trade Agreement ("NAFTA") among the governments of Canada, United States of America, and Mexico became effective on January 1, 1994. NAFTA carries forward most of the material energy terms that are contained in the Canada-United States Free Trade Agreement. In the context of energy resources, Canada continues to remain free to determine whether exports of energy resources to the United States or Mexico will be allowed, provided that any export restrictions do not: (i) reduce the proportion of energy resources exported relative to

domestic use (based upon the proportion prevailing in the most recent 36 month period); (ii) impose an export price higher than the domestic price subject to an exception with respect to certain voluntary measures which only restrict the volume of exports; and (iii) disrupt normal channels of supply. All three countries are prohibited from imposing minimum or maximum export or import price requirements, provided, in the case of export price requirements, prohibition in any circumstances in which any other form of quantitative restriction is prohibited, and in the case of import-price requirements, such requirements do not apply with respect to enforcement of countervailing and anti-dumping orders and undertakings.

#### *General*

In addition to federal regulation, each province has legislation and regulations which govern land tenure, royalties, production rates, environmental protection, and other matters. The royalty regime is a significant factor in the profitability of crude oil, natural gas liquids, sulphur, and natural gas production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee, although production from such lands is subject to certain provincial taxes and royalties. Crown royalties are determined by governmental regulation and are generally calculated as a percentage of the value of the gross production. The rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date, method of recovery, and the type or quality of the petroleum product produced. Other royalties and royalty-like interests are, from time to time, carved out of the working interest owner's interest through non-public transactions. These are often referred to as overriding royalties, gross overriding royalties, net profits interests, or net carried interests.

#### *Competition*

The oil and gas industry in Canada is highly competitive in all aspects, including the exploration for, and development of, new sources of supply, the acquisition of oil and gas interests and the marketing of crude oil and natural gas. The Company competes with other companies in this sector for the exploration and development of oil and gas reserves. The Company's primary competitors include integrated oil and gas companies, senior oil and gas companies and numerous independent producers, some of which may have greater financial and other resources than Pearl.

#### **Heavy Oil Industry**

Heavy oil is generally classified as oil with an API gravity of 25° API or less and which can be produced commercially by natural flow. Some heavy oil is highly viscous and it will not flow to a well bore on its own accord in commercial quantities. This highly viscous heavy oil (sometimes referred to as bitumen) is categorized as being either a surface-mineable or an in-situ extractable deposit. With respect to the former process, the oil is recovered through mining and upgraded to synthetic oil. With respect to in-situ deposits, the oil is encouraged to flow to well bores through the application of external energy, such as heat through the use of steam assisted gravity drainage (SAGD) or cyclic steam stimulation (CSS).

#### *Light Oil / Heavy Oil Price Differentials*

Processing heavy oil is more expensive than processing conventional light oil, and it yields less products compared to refining light oil. Accordingly, producers of heavy oil receive lower wellhead prices for their oil. This difference between prices for heavy oil (API of 25°) and light oil (generally referred to as WTI oil with an API of 40°) is commonly referred to as the "price differential".

Volatility in the price differential is a result of availability of supply, seasonal demand, pipeline constraints and heavy oil conversion capacity of refineries. See "Risk Factors – Prices, Markets and Marketing of Crude Oil and Natural Gas".

#### *Diluent*

Heavy oil is usually blended with a lighter hydrocarbon stream referred to as "diluent" to improve its pipeline flow characteristics by reducing the viscosity. The volatility in diluent prices has a significant effect on the wellhead price of oil for a heavy oil producer.

#### *Accessibility to Transport*

Canadian heavy oil is dependent on demand from the U.S. Midwest and Rocky Mountain regions. Pipeline constraints to these markets can lead to wide fluctuations in the price differential and ultimately the netback received by heavy oil producers. Canadian heavy oil production is not currently pipeline constrained.

## Seasonality of Markets

Generally, demand for heavy oil is greater in the summer months due to higher asphalt demand for road construction programs. As a result, the price differential will typically narrow in the summer months and widen during the winter, resulting in higher heavy oil prices during those summer periods.

## Employees

The Company had 47 full time employees as at December 31, 2008. The Company has also entered into approximately 60 consulting arrangements to help manage and operate the Company's oil and gas properties.

## Description of Properties



### Core Area Properties – Canada

#### Onion Lake Heavy Oil Project – Saskatchewan

Pearl currently holds a varied working interest between 87.5% to 100% in 41 sections of land located in the Onion Lake area of Saskatchewan. Pearl is the operator of the Onion Lake Heavy Oil Project which is located along the Saskatchewan/Alberta border near Lloydminster. Approximately 19,200 acres (30 sections) of land overlies a thick accumulation of heavy oil in the Cretaceous Dina sand formation which has been the primary formation for development by the Company.

During 2008, Pearl produced an average of 2,355 BOE/d at Onion Lake from a total of 44 producing wells. Activity at Onion Lake in 2008 was mainly concentrated on building and operating a Cyclic Steam Stimulation (CSS) pilot to test the potential of thermal recovery. Other activity included upgrading roads for access in the area, running a fuel gas system to the primary wells in the north and well workovers to access bypassed pay.

Construction of a CSS thermal pilot was completed in April of 2008 and steam injection to the “Z1” well commenced on May 15, 2008. The well was put on production on June 19, 2008 and produced at a peak rate above 150 Bbls/d.

The Z1 well began its second injection cycle in September 2008. At year end Z1 was in its second production cycle and had produced at a peak rate of over 200 Bbls/d.

The second well, "Z2", began its first steam cycle on June 20, 2008 and its first production cycle on August 11, 2008. Production from the second well experienced some mechanical issues related to steam injection and thus only achieved a peak production rate of around 70 Bbls/d. The Z2 well began its second injection cycle in late November 2008 and was placed back on production in early 2009 with production reaching in excess of 200 Bbls/d.

#### *Mooney Heavy Oil Project – Alberta*

Pearl currently has an average working interest of approximately 98% in 79 sections in the Mooney field which is located in north-central Alberta. The Mooney field produces mainly from the Bluesky sand formation. Pearl maps the potential area of the Mooney Bluesky heavy oil pool at approximately 31 sections. The average production for 2008 was 2,113 BOE/d net to Pearl.

The reservoir properties and the high quality oil also make the pool conducive to water flooding which is expected to enhance recovery. A preliminary water flood simulation study showing higher secondary recoveries in the range of 15% has been prepared by independent reservoir engineering consultants. A pilot water flood started in July 2006 after converting the original horizontal oil well in the pool to a water injector with current injection rates of approximately 1,200 Bbls/d.

In 2008, Pearl continued to advance the conversion of the field to a water flood project. During the third quarter of 2008 an additional 1.5 sections were approved for water flood with water injection expected to commence in late 2008 and early 2009. The water flood will ultimately assist in both maintaining production levels and increasing reserves as recoveries are expected to increase with the demonstration of pressure maintenance, a decreasing gas/oil ratio ("GOR") and sustained production.

During 2008, regulatory approval was obtained for a polymer flood pilot, and polymer injection began in late October 2008. It is expected that application of polymer flooding could further enhance recoveries over those obtainable through water flooding. Preliminary results from the pilot are expected by the first half of 2009.

Other activity that occurred in 2008 included the installation of an amine plant to remove excess CO<sub>2</sub> from Pearl's gas stream to allow shipment to market without interruption to service due to non-spec gas.

Because Mooney lies just outside the designated Peace River Oil Sands region, it is not eligible for oilsands royalty treatment. Mooney's relatively high production per well will be subject to higher royalties under the royalty structure introduced by the government of Alberta. The Company will make an application with regulatory authorities for lower royalties for our enhanced oil recovery activities.

#### *Blackrod Heavy Oil Project – Alberta*

Blackrod is an in-situ oilsands play located south of Fort McMurray, in the Athabasca Oilsands region of Northern Alberta. Pearl initially acquired, through Crown land sales, a 35% working interest in the Blackrod lands in 2007. In 2008 and early 2009, the Company increased its working interest to 80% as a result of acquiring interests from its partners. In addition, Pearl is now the operator of the project. The geological formation of interest is the Lower Grande Rapids at a depth of approximately 300 metres. At December 31, 2008, DeGolyer and McNaughton has assigned over one billion barrels of oil in place on the Blackrod lands. During 2008, Pearl also acquired a 100% interest in 31 sections of oilsands leases contiguous to our Blackrod project area.

To December 31, 2008, 18 industry wells have been drilled near the pilot site to confirm reserve quality and quantity. An additional ten stratigraphic wells were drilled early in 2009.

The Company is planning to seek regulatory approval to undertake a single well pair SAGD pilot at Blackrod to better understand reservoir performance, refine operating and capital cost estimates and to obtain information to plan full field development.

Blackrod is located in a designated oilsands region and therefore should be eligible for oilsands royalty structure. Royalties on the project would be between 1%-9% until the project recovers all costs. After payout of project costs, the royalties would be between 25-40% of net revenues.

There is currently no oil production from the Blackrod area.

## **Other Properties – Canada**

The Company holds interests and has on-going operations and production in several other areas of Saskatchewan and Alberta. These include Salt Lake, Ear Lake, Druid, Fishing Lake and Southern Alberta gas area.

## **Core Area Properties - U.S.A.**

### *San Miguel Heavy Oil Project – Maverick Basin, South Texas*

Pearl, through its wholly owned subsidiary, Newmex Energy (USA) Inc. (“Newmex”), is a 50% participant in a large, shallow depth, heavy oil deposit located in the Maverick Basin in southern Texas. Under the terms of the Participation Agreement between Newmex and The Exploration Company of Delaware Inc. (“TXCO”), a San Antonio based oil and gas company, Newmex and TXCO each own a 50% working interest in certain leases and have agreed to jointly develop the leases, together with any additional leases acquired within the area of mutual interest described in the Participation Agreement, for the production of heavy oil and other hydrocarbons.

The San Miguel heavy oil project focuses on the San Miguel sandstone which is a large, well defined heavy oil deposit.

During 2008, Pearl and TXCO continued steam injection at the SAGD pilot located within the Chittim “B” Lease. Production, temperature and pressure monitoring of the well pair continued to confirm that the well pair has entered SAGD mode with initial oil flows being observed. Due to commodity pricing and financial restrictions, the decision was made in February 2009 to suspend operations on the SAGD pilot. Insufficient results were available to make conclusive observations about the success of the SAGD process on these lands.

The Saner Ranch pilot includes a vertical inverted five spot well pattern and a horizontal three well pattern that both utilize a modified Fracture Assisted Steamflood Technology (“FAST”) process. Steam injection into the vertical inverted five spot pattern commenced in August 2008 as part of the reservoir warm-up phase with initial indications of connectivity being observed within the inverted five spot pattern. The three horizontal wells were completed in September 2008 and achieved first steam injection / reservoir warm-up phase in October 2008.

Due to commodity pricing and financial restrictions the decision was made in December 2008 to suspend operations at the Saner Ranch pilot. Insufficient results were available to date to make conclusive observations about the success of the FAST process.

There is currently no commercial production in San Miguel and the Company does not anticipate any significant production originating from San Miguel until the joint venture moves toward commercial development of this resource.

## **Other Properties – U.S.A.**

### *Palo Duro Unconventional Gas Project – North Texas*

Pearl held a non-operated 30 percent participation interest in the Palo Duro Unconventional Gas Project (the “PD Project”), a jointly held land position comprised of 100,000 gross acres in an emerging shale gas resource project located in the Palo Duro basin in north Texas, approximately 260 miles northwest of the Fort Worth Basin. In 2008, Pearl disposed of its interest in the PD project to Tyner Resources Ltd. (“Tyner”) in exchange for 18,756,414 common shares of Tyner.

### *Other*

The Company also holds interests in several other areas in the USA, including Queen City gas fields, the West Rozel and Gunnison Wedge in Utah, Promised Land and Fiddler Creek in Montana and Queen City gas fields in Texas. There is limited or no production from these areas and there are only minor evaluation plans contemplated for these lands in 2009.

## **RISK FACTORS**

### *Exploration, Development and Production Risks*

Oil and gas operations involve many risks which even a combination of experience and knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Pearl depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves Pearl may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in Pearl’s reserves will depend not only on Pearl’s

ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects.

Management will continue to evaluate prospects on an ongoing basis in a manner consistent with industry standards and their past practices. No assurance can be given that Pearl will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, Pearl may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that expenditures made on future exploration by Pearl will result in new discoveries of oil or natural gas in commercial quantities or that further commercial quantities of oil and natural gas will be discovered or acquired by Pearl. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While close well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow outs, cratering, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a material adverse effect on future results of operations, liquidity and financial condition.

#### *Reserve Replacement*

Pearl's future oil and natural gas reserves, production, and cash flows to be derived therefrom are highly dependent on successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves Pearl may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in reserves will depend not only on Pearl's ability to develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that Pearl's future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

#### *Volatility of Oil and Gas Prices and Markets*

Both oil and natural gas prices are unstable and are subject to fluctuation. Any material decline in prices could result in a reduction of Pearl's net production revenue. The economics of producing from some wells may change as a result of lower prices, which could result in a reduction in the volumes of Pearl's reserves. Pearl might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in Pearl's net production revenue causing a reduction in its oil and gas acquisition, exploration and development activities.

From time to time Pearl may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, Pearl will not benefit from such increases.

#### *Reserve Estimates*

There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived therefrom, including many factors beyond the control of Pearl. The reserve and cash flow information set forth herein represent estimates only. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of oil and natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on price forecasts in use at the date the relevant evaluations were prepared and many of these assumptions are subject to change and are beyond the control of Pearl. Actual production and cash flows derived therefrom will vary from these evaluations, and such variations could be material. These evaluations are based in part on the assumed success of exploitation activities intended to be undertaken in future years. The reserves and estimated cash flows to be derived

therefrom contained in such evaluations will be reduced to the extent that such exploitation activities do not achieve the level of success assumed in the evaluations.

#### *Competition*

The oil and gas industry is highly competitive. Pearl actively competes for reserve acquisitions, exploration leases, licenses and concessions and skilled industry personnel with a substantial number of other oil and gas companies, many of which have significantly greater financial resources than Pearl. Pearl's competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators. Pearl's ability to increase reserves in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling.

Pearl's competitors for the acquisition, exploration, production and development of oil and natural gas properties, and for capital to finance such activities, include companies that have greater financial and personnel resources available to them than Pearl.

Pearl's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

#### *Substantial Capital Requirements; Liquidity*

Pearl may have to make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If revenues or reserves decline, Pearl may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing or cash generated by operations will be sufficient or available or continue to be available to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Pearl. Moreover, future activities may require Pearl to alter its capitalization significantly. The inability of Pearl to access sufficient capital for its operations could have a material adverse effect on its financial condition, results of operations or prospects.

#### *Additional Funding Requirements: Dilution*

Pearl's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, Pearl may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause Pearl to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If Pearl's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect Pearl's ability to expend the necessary capital to replace its reserves or to maintain its production. If Pearl's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on favourable terms. The terms of any such equity financing may be dilutive to the holders of Pearl Shares.

#### *Environmental Regulation*

The oil and natural gas industry is currently subject to environmental regulation pursuant to provincial and federal legislation. Environmental legislation provides for restrictions and prohibitions on releases or emissions of various substances produced or utilized in association with certain oil and natural gas industry operations. In addition, legislation requires that well and facility sites be abandoned and reclaimed after their useful life to the satisfaction of provincial authorities. Compliance with such legislation can require significant expenditures. A breach of such legislation may result in the imposition of material fines and penalties, the revocation of necessary licences and authorizations and civil liability for pollution damage.

The operations of Pearl are, and will continue to be, affected in varying degrees by laws and regulations regarding environmental protection. It is impossible to predict the full impact of these laws and regulations on Pearl's operations. However, it is not anticipated that Pearl's competitive position will be adversely affected by current or future environmental laws and regulations governing their current oil and natural gas operations. Pearl is committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making increased expenditures of both a capital and expense nature as a result of increasingly stringent laws relating to environmental protection. Pearl also believes that it is reasonably likely that the trend in environmental legislation and regulation will continue toward stricter standards.

### *Operational Risks*

Oil and natural gas exploration operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering and oil spills, each of which could result in substantial damage to oil and natural gas wells, producing facilities, other property and the environment or in personal injury. In accordance with industry practice, Pearl will not be fully insured against all of these risks, nor are all such risks insurable. Although Pearl will maintain liability insurance in an amount which it considers adequate, the nature of these risks is such that liabilities could exceed policy limits, in which event Pearl could incur significant costs that could have a materially adverse effect upon its financial condition. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations.

### *Climate Change - Federal*

Canada is a signatory to the United Nations Framework Convention on Climate Change. The Canadian federal government has indicated an intention to regulate emissions of industrial greenhouse gas ("GHG") emissions from a broad range of industrial sectors in the *Regulatory Framework for Air Emissions* released April 26, 2007 (the "Framework") and updated in a March 10, 2008 document entitled *Turning the Corner: Regulatory Framework for Industrial Greenhouse Gas Emissions* (collectively, the "Federal Plan"). The Federal Plan outlines proposed policies to reduce GHG emissions intensity of regulated facilities starting January 2, 2010. New facilities will face intensity reduction requirements, beginning in their fourth year of commercial production, of 2% per year from their 'baseline' emissions intensity (e.g. the emissions intensity of their third year of commercial production) until at least 2020. Targets will be based on a "cleaner fuel standard" (i.e. the use of natural gas as a fuel) for new facilities commencing production before 2012, although new facilities commencing production in 2012 or later that are built "carbon-capture ready" will not need to meet the cleaner fuel standard until 2018. Compliance options under the Federal Plan include: making emissions intensity improvements, making investments in certified carbon capture and storage projects (until 2018), buying offsets or emissions performance credits, and, for a portion of each entity's emissions reduction obligations (the portion would start at 70% and decline to 0% in 2018), making payments of \$15/ton until 2012, then \$20 or more/ton, to the federal technology fund.

The Canadian federal government currently proposes to enter into equivalency agreements with provinces to establish a consistent regulatory regime for GHGs and industrial air pollutants, but the success of any such plan is uncertain, possibly leaving overlapping levels of regulation. Further, since the U.S. presidential elections, announcements from the Canadian federal government indicate an interest in creating a North American cap and trade system with "hard caps" on emissions from facilities rather than emissions intensity limits. No assurance can be given that either a modified Federal Plan or a North American cap and trade system will or will not be implemented, or what obligations might be imposed under any such system.

The Framework also outlines proposed requirements by the Canadian federal government governing the emission of industrial air pollutants starting in 2010. Proposed compliance mechanisms include fixed emission caps and an emissions credit trading system for certain industrial air pollutants, as well as several options from which companies may choose to meet GHG emission reduction targets. The current status of these proposals is unclear. The Canadian federal government currently imposes reporting obligations under the *Canadian Environmental Protection Act, 1999* for facilities that create GHG emissions over 100,000 tons in any year.

As the details of the implementation of any federal legislation for GHGs or industrial pollutants have not been announced, the effect on Pearl's operations cannot be determined at this time.

### *Availability of Drilling Equipment and Access Restrictions*

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such equipment or access restrictions may affect the availability of such equipment to Pearl and may delay exploration and development activities.

### *Reliance on Operators and Key Employees*

Pearl may not be the operator of certain oil and gas properties in which it acquires an interest. To the extent Pearl is not the operator of its oil and gas properties, Pearl will be dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. In addition, the success of Pearl will be largely dependent upon the performance of its management and key employees. Pearl does not have any key man insurance policies, and therefore there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on Pearl.

### *Prices, Markets and Marketing of Crude Oil and Natural Gas*

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond the control of Pearl. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as a result of a decline in world oil prices and natural gas prices, leading to a reduction in the volume of Pearl's oil and gas reserves. Pearl might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in Pearl's future net production revenue, causing a reduction in its oil and gas acquisition and development activities. In addition to establishing markets for its oil and natural gas, Pearl must also successfully market its oil and natural gas to prospective buyers. The marketability and price of oil and natural gas which may be acquired or discovered by Pearl will be affected by numerous factors beyond its control. Pearl will be affected by the differential between the price paid by refiners for light quality oil and the grades of oil produced by Pearl. The ability of Pearl to market its natural gas may depend upon its ability to acquire space on pipelines which deliver natural gas to commercial markets. Pearl will also likely be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and related to operational problems with such pipelines and facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. Pearl has limited direct experience in the marketing of oil and natural gas.

### *Access to Diluent Supplies at Favourable Prices*

Heavy oil is characterized by high specific gravity or weight and low viscosity or resistance to flow. Among its other uses, diluent is required to facilitate the transportation of heavy oil. A shortfall in the supply of diluent may cause its price to increase thereby increasing the cost to transport heavy oil to market and correspondingly increasing Pearl's operating cost, decreasing its net revenues and negatively impacting the overall profitability of our heavy oil projects.

### *Transportation*

Pearl trucks a significant portion of its production of heavy oil to market. Besides the normal hazards of vehicular transportation collisions between vehicles and wildlife remain a significant hazard in our operating areas.

### *Title to Properties*

Although title reviews will be done according to industry standards prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells as determined appropriate by management, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat a claim of Pearl which could result in a reduction of the revenue received by Pearl. Any uncertainty with respect to one or more of Pearl's interests could have a material adverse effect on Pearl's business, prospectus and results of operations.

### *Regulatory Matters*

The marketability of oil and natural gas acquired or discovered will be affected by numerous factors beyond the control of Pearl. These factors include reservoir characteristics, market fluctuations, the proximity and capacity of oil and natural gas pipelines and processing equipment and government regulation. Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government which may be amended from time to time. Pearl's oil and natural gas operations may also be subject to compliance with federal, provincial, state and local laws and regulations controlling the discharge of materials into the environment or otherwise relating to the protection of the environment.

### *Provincial Royalties and Incentives*

For crude oil, natural gas and related production from federal or provincial Crown lands, the royalty regime is a significant factor in the profitability of production operations. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee, although production from such lands is subject to certain provincial taxes and royalties. Crown royalties are determined by governmental regulation and are generally calculated as a percentage of the value of the gross production. The rate of royalties payable generally depends in part on well productivity, geographical location and field discovery date.

From time to time, the provincial governments have established incentive programs for exploration and development. Such programs often provide for royalty reductions, credits and holidays, and are generally introduced when commodity prices are low. The programs are designed to encourage exploration and development activity by improving earnings and cash flow within the industry. The trend in recent years has been for provincial governments to reduce the benefits under such programs and to allow them to expire without renewal, and consequently few such programs are currently operative.

### *Abandonment and Reclamation Costs*

Pearl will be responsible for compliance with terms and conditions of environmental and regulatory approvals and all laws and regulations regarding abandonment and reclamation in respect of its properties, which abandonment and reclamation costs may be substantial. A breach of such legislation or regulations may result in the imposition of fines and penalties, including an order for cessation of operations at the site until satisfactory remedies are made.

### *Insurance*

Pearl's involvement in the exploration for and development of oil and gas properties may result in Pearl becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. Although Pearl has obtained insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances be insurable or, in certain circumstances, Pearl may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to Pearl. The occurrence of a significant event that Pearl is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on Pearl's financial position, results of operations or prospects.

### *Corporate Matters*

Certain of the directors and officers of Pearl are also directors and officers of other oil and gas companies involved in natural resource exploration and development, and conflicts of interest may arise between their duties as officers and directors of Pearl, as the case may be, and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under the CBCA.

### *Permits and Licenses*

The operations of Pearl require licenses and permits from various governmental authorities. There can be no assurance that Pearl will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at its projects.

### *Possible Failure to Realize Anticipated Benefits of Acquisitions*

Pearl may complete acquisitions to strengthen its position in the oil and natural gas industry and to create the opportunity to realize certain benefits including, among other things, potential cost savings. Achieving the benefits of any future acquisitions depends, in part, on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as Pearl's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with its own. The integration of acquired businesses requires the dedication of substantial management effort, time and resources which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. The integration process may result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that may adversely affect Pearl's ability to achieve the anticipated benefits of these and future acquisitions.

### *Aboriginal Claims*

Aboriginal peoples have claimed aboriginal title and rights to resources and various properties in western Canada. Such claims, in relation to any of Pearl's lands, if successful, could have an adverse effect on its operations.

### *Price Volatility of Publicly Traded Securities*

In recent years, the securities markets in Canada and the United States have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered to be development stage companies, have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It is likely that the market price for the Pearl Shares will be subject to market trends generally.

### *Foreign Currency Exposure*

A portion of Pearl's assets, revenues and operating expenses are denominated in U.S. dollars and oil and gas prices are principally determined by reference to US benchmark prices. Fluctuations in the exchange rate between the U.S.

and the Canadian dollar could therefore have an adverse effect on Pearl's financial performance and condition and may result in realized and unrealized losses.

*Indian Oil and Gas Canada (IOGC)*

Pearl's interests in the Onion Lake property will be subject to processes controlled, in part, by Onion Lake Energy Ltd., which is solely owned by Onion Lake First Nation of Saskatchewan/Alberta and will be situated on Treaty Land Entitlement Reserves and are subject to the federal rules and regulations of Indian Oil and Gas Canada. There are risks associated with Pearl's relationship with Onion Lake Energy Ltd. and the management of Pearl's interests on Treaty Land Entitlement Reserves.

**STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION**

DeGolyer and MacNaughton Canada Limited ("DeGolyer and MacNaughton"), independent qualified evaluators of Calgary, Alberta estimated the Company's Canadian and United States reserves effective December 31, 2008. The reserves information was prepared on February 17, 2009 and was prepared in accordance with the requirements of National Instrument 51-101.

The following tables set forth certain information relating to Pearl's crude oil, natural gas and natural gas liquid reserves and the present worth of future net cash flows associated with such reserves, as at December 31, 2008, as evaluated by DeGolyer and MacNaughton in the DeGolyer and MacNaughton Report based upon forecast price and cost assumptions. The information set forth below is derived from the DeGolyer and MacNaughton Report that was prepared in accordance with the standards contained in the COGE Handbook and the reserves definitions contained in NI 51-101 and the COGE Handbook. Pearl engaged DeGolyer and MacNaughton to provide an evaluation of proved and proved plus probable reserves.

All future net revenues are stated prior to provision for interest, general and administrative expenses and after deduction of royalties and estimated future capital expenditures. Future net revenues have been presented on both a before and after tax basis.

It should not be assumed that the present worth of estimated future cash flow presented in the tables below represent the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material. The recovery and reserve estimates of Pearl's crude oil, natural gas liquids, and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquid reserves may be greater than or less than the estimates provided herein. Readers should review the definitions and information contained herein in conjunction with the following tables and notes.

The following tables provide reserves data and a breakdown of future net revenue by commodity and reserve category using forecast prices and costs based on Pearl's working interest.

In certain instances, numbers may not total due to computer-generated roundings. In such cases, differences are not material and amounts presented are as shown in the DeGolyer and MacNaughton report.

Attached as Schedule "A" to this Annual Information Form is the report on reserves data of DeGolyer and MacNaughton and attached as Schedule "B" to this Annual Information Form is the report of management and directors of the Company on the oil and gas disclosure.

**SUMMARY OF OIL AND GAS RESERVES  
AS OF DECEMBER 31, 2008  
FORECAST PRICES AND COSTS**

Reserves Category	Light and Medium Crude Oil		Heavy Oil		Natural Gas		Natural Gas Liquids	
	Gross (Mbbbls)	Net (Mbbbls)	Gross (Mbbbls)	Net (Mbbbls)	Gross (MMcft)	Net (MMcft)	Gross (Mbbbls)	Net (Mbbbls)
<b>Proved Developed Producing</b>								
Canada	87	73	3,971	3,244	7,887	6,666	20	13
United States	4	3	-	-	49	38	-	-
<b>Total Proved Developed Producing</b>	<b>91</b>	<b>76</b>	<b>3,971</b>	<b>3,244</b>	<b>7,936</b>	<b>6,704</b>	<b>20</b>	<b>13</b>
<b>Proved Developed Non-Producing</b>								
Canada	101	90	1,197	994	1,771	1,455	1	1
United States	-	-	-	-	-	-	-	-
<b>Total Proved Developed Non-Producing</b>	<b>101</b>	<b>90</b>	<b>1,197</b>	<b>994</b>	<b>1,771</b>	<b>1,455</b>	<b>1</b>	<b>1</b>
<b>Proved Undeveloped</b>								
Canada	3	2	3,375	2,698	579	553	-	-
United States	-	-	-	-	-	-	-	-
<b>Total Proved Undeveloped</b>	<b>3</b>	<b>2</b>	<b>3,375</b>	<b>2,698</b>	<b>579</b>	<b>553</b>	<b>-</b>	<b>-</b>
<b>Total Proved</b>								
Canada	191	165	8,543	6,936	10,237	8,674	21	14
United States	4	3	-	-	49	38	-	-
<b>Total Proved</b>	<b>195</b>	<b>168</b>	<b>8,543</b>	<b>6,936</b>	<b>10,286</b>	<b>8,712</b>	<b>21</b>	<b>14</b>
<b>Total Probable</b>								
Canada	99	83	13,935	10,148	10,757	7,860	21	13
United States	3	2	-	-	29	24	-	-
<b>Total Probable</b>	<b>102</b>	<b>85</b>	<b>13,935</b>	<b>10,148</b>	<b>10,786</b>	<b>7,884</b>	<b>21</b>	<b>13</b>
<b>Total Proved plus Probable</b>								
Canada	290	248	22,478	17,084	20,994	16,534	42	27
United States	7	5	-	-	78	62	-	-
<b>Total</b>	<b>297</b>	<b>253</b>	<b>22,478</b>	<b>17,084</b>	<b>21,072</b>	<b>16,596</b>	<b>42</b>	<b>27</b>
<b>Total Possible</b>								
Canada	9	8	85,534	61,689	10,014	8,547	-	-
United States	-	-	-	-	-	-	-	-
<b>Total Possible</b>	<b>9</b>	<b>8</b>	<b>85,534</b>	<b>61,689</b>	<b>10,014</b>	<b>8,547</b>	<b>-</b>	<b>-</b>
<b>Total Proved plus Probable plus Possible</b>								
Canada	299	256	108,012	78,773	31,008	25,081	42	27
United States	7	5	-	-	78	62	-	-
<b>Total Proved plus Probable plus Possible</b>	<b>306</b>	<b>261</b>	<b>108,012</b>	<b>78,773</b>	<b>31,086</b>	<b>25,143</b>	<b>42</b>	<b>27</b>

**SUMMARY OF NET PRESENT VALUES OF FUTURE NET REVENUE  
AS AT DECEMBER 31, 2008  
FORECAST PRICES AND COSTS**

Reserves Category	Before Deducting Income Taxes Discounted at (%/year)					After Deducting Income Taxes Discounted at (%/year)					Unit Value Before Income Tax Discounted at 10%/year
	0% (M\$)	5% (M\$)	10% (M\$)	15% (M\$)	20% (M\$)	0% (M\$)	5% (M\$)	10% (M\$)	15% (M\$)	20% (M\$)	\$/boe
<b>Proved Developed Producing</b>											
Canada	120,984	105,192	93,792	85,080	78,173	120,984	105,192	93,792	85,080	78,173	21.11
United States	-138	-103	-73	-48	-26	-138	-103	-73	-48	-26	-7.99
<b>Total Proved Developed Producing</b>	<b>120,846</b>	<b>105,089</b>	<b>93,719</b>	<b>85,032</b>	<b>78,147</b>	<b>120,846</b>	<b>105,089</b>	<b>93,719</b>	<b>85,032</b>	<b>78,147</b>	<b>21.05</b>
<b>Proved Developed Non-Producing</b>											
Canada	38,513	30,182	24,462	20,378	17,356	38,513	30,182	24,462	20,378	17,356	18.45
United States	0	0	0	0	0	0	0	0	0	0	0.00
<b>Total Proved Developed Non-Producing</b>	<b>38,513</b>	<b>30,182</b>	<b>24,462</b>	<b>20,378</b>	<b>17,356</b>	<b>38,513</b>	<b>30,182</b>	<b>24,462</b>	<b>20,378</b>	<b>17,356</b>	<b>18.45</b>
<b>Proved Undeveloped</b>											
Canada	89,718	60,271	42,083	30,185	22,049	89,718	60,271	42,083	30,185	22,049	15.07
United States	0	0	0	0	0	0	0	0	0	0	0.00
<b>Total Proved Undeveloped</b>	<b>89,718</b>	<b>60,271</b>	<b>42,083</b>	<b>30,185</b>	<b>22,049</b>	<b>89,718</b>	<b>60,271</b>	<b>42,083</b>	<b>30,185</b>	<b>22,049</b>	<b>15.07</b>
<b>Total Proved</b>											
Canada	249,215	195,645	160,337	135,643	117,578	249,215	195,645	160,337	135,643	117,578	18.73
United States	-138	-103	-73	-48	-26	-138	-103	-73	-48	-26	-7.99
<b>Total Proved</b>	<b>249,077</b>	<b>195,542</b>	<b>160,264</b>	<b>135,595</b>	<b>117,552</b>	<b>249,077</b>	<b>195,542</b>	<b>160,264</b>	<b>135,595</b>	<b>117,552</b>	<b>18.70</b>
<b>Total Probable</b>											
Canada	490,009	305,695	206,954	148,779	111,871	411,099	266,047	185,616	136,650	104,665	17.91
United States	279	262	246	233	220	279	262	246	233	220	39.05
<b>Total Probable</b>	<b>490,288</b>	<b>305,957</b>	<b>207,200</b>	<b>149,012</b>	<b>112,091</b>	<b>411,378</b>	<b>266,309</b>	<b>185,862</b>	<b>136,883</b>	<b>104,885</b>	<b>17.92</b>
<b>Total Proved plus Probable</b>											
Canada	739,224	501,340	367,291	284,422	229,449	660,314	461,692	345,953	272,293	222,243	18.26
United States	141	159	173	185	194	141	159	173	185	194	11.21
<b>Total Proved plus Probable</b>	<b>739,365</b>	<b>501,499</b>	<b>367,464</b>	<b>284,607</b>	<b>229,643</b>	<b>660,455</b>	<b>461,851</b>	<b>346,126</b>	<b>272,478</b>	<b>222,437</b>	<b>18.25</b>
<b>Total Possible</b>											
Canada	3,126,931	1,188,108	542,140	285,732	167,804	2,314,443	864,793	385,635	197,779	112,838	8.59
United States	0	0	0	0	0	0	0	0	0	0	0.00
<b>Total Possible</b>	<b>3,126,931</b>	<b>1,188,108</b>	<b>542,140</b>	<b>285,732</b>	<b>167,804</b>	<b>2,314,443</b>	<b>864,793</b>	<b>385,635</b>	<b>197,779</b>	<b>112,838</b>	<b>8.59</b>
<b>Total Proved plus Probable plus Possible</b>											
Canada	3,866,155	1,689,448	909,431	570,154	397,253	2,974,757	1,326,485	731,588	470,072	335,081	10.93
United States	141	159	173	185	194	141	159	173	185	194	11.21
<b>Total Proved plus Probable plus Possible</b>	<b>3,866,296</b>	<b>1,689,607</b>	<b>909,604</b>	<b>570,339</b>	<b>397,447</b>	<b>2,974,898</b>	<b>1,326,644</b>	<b>731,761</b>	<b>470,257</b>	<b>335,275</b>	<b>10.93</b>

**SUMMARY OF FUTURE NET REVENUE  
(UNDISCOUNTED)  
AS OF DECEMBER 31, 2008  
FORECAST PRICES AND COSTS**

Reserves Category	Revenue	Royalties	Operating Costs	Development	Abandonment and Reclamation	Income Taxes	Future Net Revenue After Income Taxes
	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)
<b>Proved Developed Producing</b>							
Canada	283,654	49,702	97,980	-	14,989	-	120,984
United States	701	157	197	-	484	-	-138
<b>Total Proved Developed Producing</b>	<b>284,355</b>	<b>49,859</b>	<b>98,177</b>	<b>-</b>	<b>15,473</b>	<b>-</b>	<b>120,846</b>
<b>Proved Developed Non-Producing</b>							
Canada	99,468	17,792	38,931	1,968	2,264	-	38,513
United States	-	-	-	-	-	-	-
<b>Total Proved Developed Non-Producing</b>	<b>99,468</b>	<b>17,792</b>	<b>38,931</b>	<b>1,968</b>	<b>2,264</b>	<b>-</b>	<b>38,513</b>
<b>Proved Undeveloped</b>							
Canada	237,801	48,862	65,358	32,745	758	-	89,718
United States	-	-	-	-	-	-	-
<b>Total Proved Undeveloped</b>	<b>237,801</b>	<b>48,862</b>	<b>65,358</b>	<b>34,713</b>	<b>758</b>	<b>-</b>	<b>89,718</b>
<b>Total Proved</b>							
Canada	620,563	116,356	202,267	34,713	18,011	-	249,216
United States	701	157	197	-	484	-	-138
<b>Total Proved</b>	<b>621,264</b>	<b>116,513</b>	<b>202,466</b>	<b>34,713</b>	<b>18,495</b>	<b>-</b>	<b>249,077</b>
<b>Total Probable</b>							
Canada	1,175,523	312,288	315,007	53,675	4,540	78,910	411,099
United States	513	122	111	-	2	-	279
<b>Total Probable</b>	<b>1,176,036</b>	<b>312,410</b>	<b>315,118</b>	<b>53,675</b>	<b>4,542</b>	<b>78,910</b>	<b>411,378</b>
<b>Total Proved plus Probable</b>							
Canada	1,796,086	428,644	517,276	88,388	22,551	78,910	660,314
United States	1,214	279	308	-	486	-	141
<b>Total Proved plus Probable</b>	<b>1,797,300</b>	<b>428,923</b>	<b>517,584</b>	<b>88,388</b>	<b>23,037</b>	<b>78,910</b>	<b>660,455</b>
<b>Total Possible</b>							
Canada	8,239,534	2,348,792	2,306,955	452,036	4,818	812,488	2,314,443
United States	-	-	-	-	-	-	-
<b>Total Possible</b>	<b>8,239,534</b>	<b>2,348,792</b>	<b>2,306,955</b>	<b>452,036</b>	<b>4,818</b>	<b>812,488</b>	<b>2,314,443</b>
<b>Total Proved plus Probable plus Possible</b>							
Canada	10,035,620	2,777,436	2,824,231	540,424	27,369	891,398	2,974,757
United States	1,214	279	308	-	486	-	141
<b>Total Proved plus Probable plus Possible</b>	<b>10,036,834</b>	<b>2,777,715</b>	<b>2,824,539</b>	<b>540,424</b>	<b>27,855</b>	<b>891,398</b>	<b>2,974,898</b>

**FUTURE NET REVENUE BEFORE TAX AND DISCOUNTED AT 10%  
BY PRODUCTION GROUP  
AS OF DECEMBER 31, 2008  
FORECAST PRICES AND COSTS**

Reserves Category	Production Group	Future Net Revenue Before Income Taxes (discounted at 10%/yr) (M\$)			Unit Value Before Income Taxes (discounted at 10%/yr) (\$/BOE)
		Canada	United States	Total	
Proved Reserves	Light and Medium Crude Oil	19,806	100.00	19,906	28.26
	Heavy Oil	120,721	-290.00	120,431	17.36
	Natural Gas and Natural Gas Liquids	19,811	118.00	19,929	21.43
	<b>Total</b>	<b>160,338</b>	<b>-72</b>	<b>160,266</b>	
Total Proved Plus Probable Reserves	Light and Medium Crude Oil	32,478	213	32,691	25.17
	Heavy Oil	299,184	-290	298,894	17.5
	Natural Gas and Natural Gas Liquids	35,630	251	35,881	20.54
	<b>Total</b>	<b>367,292</b>	<b>174</b>	<b>367,466</b>	
Total Proved Plus Probable Plus Possible Reserves	Light and Medium Crude Oil	59,674	213	59,887	25.52
	Heavy Oil	808,684	-290	808,394	10.26
	Natural Gas and Natural Gas Liquids	41,074	251	41,325	19.39
	<b>Total</b>	<b>909,432</b>	<b>173</b>	<b>909,606</b>	

Notes:

- "Gross Reserves" are Pearl working interest (operating or non-operating) share before deducting royalties. "Net Reserves" are Pearl working interest (operating or non-operating) share after deduction of royalty obligations.
- "Proved" reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- "Probable" reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.
- "Possible" reserves are those additional reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.
- "Developed" reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g. when compared to the cost of drilling a well) to put the reserves on production.
- "Developed Producing" reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
- "Developed Non-Producing" reserves are those reserves that either have not been on production, or have previously been on production, but are shut in, and the date of resumption of production is unknown.
- "Undeveloped" reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned.

**SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS  
FORECAST PRICES AND COSTS**

	WTI Cushing Oklahoma (\$US/bbl)	Edm. Oil Price D2S2 (\$Cdn/Bbl)	Heavy Crude Oil at Hardisty (12° API) (\$Cdn/Bbl)	Sulphur (\$Cdn/lt)	Natural Gas Alberta Plantgate (\$Cdn/Mcf)	Natural Gas AECO Spot (\$Cdn/MMBtu)	Natural Gas Liquids Propane (\$Cdn/bbl)	Natural Gas Liquids Butane (\$Cdn/bbl)	Natural Gas Liquids Pentanes (\$Cdn/bbl)	Inflation Rates (%/Year)	Exchange Rate (\$US/\$Cdn)
Historical											
2004	41.39	53.06	30.09	39.95	6.28	6.22	34.78	41.22	54.78	1.9	0.770
2005	56.48	69.28	34.13	38.67	8.44	8.32	41.27	49.64	71.13	2.2	0.826
2006	66.02	73.36	41.92	19.36	6.54	6.20	43.31	59.22	76.21	2.1	0.882
2007	72.09	76.80	43.21	39.46	5.89	6.13	48.40	61.63	78.79	2.1	0.936
2008	100.12	103.56	77.39	394.14	7.79	7.75	58.67	76.90	105.62	2.4	0.944
Forecast											
2009	57.00	69.10	45.33	30.00	7.07	7.31	42.84	55.28	70.48	0.0	0.820
2010	69.53	81.35	54.01	30.00	7.80	7.99	50.44	61.01	82.98	3.0	0.850
2011	76.38	84.39	56.29	33.00	7.95	8.09	52.32	63.29	86.08	3.0	0.900
2012	86.99	96.16	66.57	35.00	8.38	8.47	59.62	72.12	98.09	2.5	0.900
2013	94.74	104.76	74.19	35.88	8.62	8.67	64.95	78.57	106.86	2.5	0.900
2014	97.11	107.38	76.22	36.77	8.77	8.77	66.58	80.53	109.53	2.5	0.900
2015	99.54	110.06	78.30	37.69	9.30	9.30	68.24	82.55	112.27	2.5	0.900
2016	102.03	112.82	80.43	38.63	9.53	9.53	69.95	84.61	115.07	2.5	0.900
2017	104.58	115.64	82.62	39.60	9.77	9.77	71.69	86.73	117.95	2.5	0.900
2018	107.19	118.53	84.86	40.59	10.01	10.01	73.49	88.90	120.90	2.5	0.900
2019	109.87	121.49	87.16	41.60	10.26	10.26	75.32	91.12	123.92	2.5	0.900
2020	112.62	124.53	89.51	42.64	10.52	10.52	77.21	93.40	127.02	2.5	0.900
Thereafter	+2.5%/yr	+2.5%/yr	+2.5%/yr	+2.5%/yr	+2.5%/yr	+2.5%/yr	+2.5%/yr	+2.5%/yr	+2.5%/yr	2.5	0.900

Note: The pricing assumptions were provided by DeGolyer and MacNaughton

**RECONCILIATION OF COMPANY GROSS RESERVES  
BY PRINCIPAL PRODUCT TYPE  
BASED ON FORECAST PRICES AND COSTS  
AS AT DECEMBER 31, 2008**

	Light and Medium Oil			Heavy Oil			Associated and Non-Associated Gas			Natural Gas Liquids		
	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross Proved Plus Probable (Mbbbl)	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross Proved Plus Probable (Mbbbl)	Gross Proved (mmcf)	Gross Probable (mmcf)	Gross Proved Plus Probable (mmcf)	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross Proved Plus Probable (Mbbbl)
Canada												
At December 31, 2007	216	155	371	18,437	20,594	39,031	16,223	10,089	26,312	19	14	33
Extensions	5	3	8	376	79	455	43	8	51	-	-	-
Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-
Technical Revisions	(45)	(66)	(21)	(5,174)	(1,813)	(6,987)	(762)	1,780	1,017	15	7	22
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	(1)	-	(1)	(2,449)	(2,104)	(4,553)	(2,338)	(1,227)	(3,565)	-	-	-
Economic Factors	10	6	17	(492)	(2,820)	(3,313)	312	107	420	-	-	-
Production	(84)	-	(84)	(2,155)	-	(2,155)	(3,241)	-	(3,241)	(14)	-	(14)
At December 31, 2008	191	99	290	8,543	13,935	22,478	10,237	10,757	20,994	20	21	41
United States												
At December 31, 2007	32	38	70	1,115	6,240	7,355	314	191	505	-	-	-
Extensions	-	-	-	-	-	-	-	-	-	-	-	-
Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-
Technical Revisions	(2)	(4)	(6)	(154)	(346)	(500)	(8)	(42)	(50)	-	-	-
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	(22)	(31)	(53)	-	-	-	(234)	(126)	(360)	-	-	-
Economic Factors	-	-	-	(961)	(5,894)	(6,855)	-	6	6	-	-	-
Production	(4)	-	(4)	-	-	-	(23)	-	(23)	-	-	-
At December 31, 2008	4	3	7	-	-	-	49	29	78	-	-	-

The 2008 oil and gas reserves have decreased from 2007. In Canada, as a result of the slowdown in activities and the uncertainty of when these activities will re-commence, reserves booked in the past for development activities and enhanced oil recovery programs (such as waterfloods) were removed from the reserve base. Reserves from these activities may be recognized as the Company undertakes the development work in the future. The decrease in US reserves was based on a review of technical results of 2008 activities, primarily at San Miguel and Fiddler Creek.

## ADDITIONAL INFORMATION RELATING TO RESERVES DATA

### Undeveloped Reserves

Proved undeveloped reserves have been assigned in core operated areas for additional potential to be recovered through additional development immediately offsetting existing wells. Further development would include additional drilling and/or additional development of enhanced recovery schemes.

		L&M Oil		Heavy Oil		Natural Gas		NGLs	
		1st attributed Gross (Mbbbl)	Cumulative Gross (Mbbbl)	1st attributed Gross (Mbbbl)	Cumulative Gross (Mbbbl)	1st attributed Gross (MMcf)	Cumulative Gross (MMcf)	1st attributed Gross (Mbbbl)	Cumulative Gross (Mbbbl)
<b>Proved Undeveloped</b>	2006	89	89	2,433	2,433	5,002	5,002	0	0
	2007	0	16	5,845	10,131	575	1,747	0	0
	2008	4	4	0	3,375	1	579	0	0
<b>Probable Undeveloped</b>	2007	81	81	7,945	7,945	4,831	4,831	0	0
	2007	0	40	14,628	22,729	1,289	2,877	0	0
	2008	2	50	0	8,921	1	1,429	0	0

### Significant Factors or Uncertainties

Oil and gas operations involve many risks which even a combination of experience and knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Pearl depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. A future increase in Pearl's reserves will depend not only on Pearl's ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. There is no assurance that expenditures made on future exploration by Pearl will result in new discoveries of oil or natural gas in commercial quantities or that further commercial quantities of oil and natural gas will be discovered or acquired by Pearl. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

**Future Development Costs (Net)  
Estimated Using Forecast Prices and Costs (M\$)**

The following table sets forth development costs deducted in the estimation of future net revenue attributable to the reserve categories below.

	Total Proved	Total Proved Plus Probable
<b>Canada</b>		
2009	473	4,021
2010	23,609	32,228
2011	7,172	18,823
2012	2,778	30,578
2013	29	113
Remainder	652	2,625
<b>Total for all years undiscounted</b>	<b>34,713</b>	<b>88,388</b>
<b>Total for all years discounted at 10% per year</b>	<b>28,485</b>	<b>69,040</b>
<b>United States</b>		
2009	-	-
2010	-	-
2011	-	-
2012	-	-
2013	-	-
Remainder	-	-
<b>Total for all years undiscounted</b>	<b>-</b>	<b>-</b>
<b>Total for all years discounted at 10% per year</b>	<b>-</b>	<b>-</b>

The Company expects to fund future development costs from internally generated cash flow, working capital and debt or equity financings.

There can be no guarantee that funds will be available or that the Board of Directors will allocate funding to develop all of the reserves in the reserve reports. Failure to develop those reserves would have a negative impact on future cash flow.

The interest or other costs of external funding are not included in the reserves and future net revenue estimates and would reduce reserves and future net revenue to some degree depending upon the funding sources utilized. We do not anticipate that interest or other funding costs would make development of any property uneconomic.

## OTHER OIL AND GAS INFORMATION

### OIL AND GAS PROPERTIES AND WELLS

The following table summarizes as at December 31, 2008, Pearl's gross and net interests in wells which are producing or are capable of production:

	Light & Medium Oil		Heavy Oil		Natural Gas	
	Gross Wells	Net Wells	Gross Wells	Net Wells	Gross Wells	Net Wells
<b>Canada</b>						
Producing	17	5.5	135	120.9	217	165.6
Non-Producing	22	13.1	152	134.1	197	163.4
<b>United States</b>						
Producing	1	0.3	0	0	3	1.4
Non-Producing	1	0.2	12	7	0	0.0
<b>Total</b>	<b>41</b>	<b>19</b>	<b>299</b>	<b>262</b>	<b>417</b>	<b>330</b>

### PROPERTIES WITH NO ATTRIBUTED RESERVES

The following table sets out the undeveloped land holdings as at December 31, 2008.

Area	Undeveloped Land	
	Gross Acres	Net Acres
Canada	237,575	212,767
United States	162,741	162,741
<b>Total</b>	<b>400,316</b>	<b>375,508</b>

Over the next 12 months, 30,466 net acres of Pearl's undeveloped land will be subject to expiry.

### FORWARD CONTRACTS

As at December 31, 2008, Pearl did not have any fixed price contracts to sell any of its production. The majority of the Company's production is sold under short-term contracts.

### ABANDONMENT AND RECLAMATION COSTS

The following table summarizes the estimate for abandonment and reclamation costs incurred in the report by DeGoyler and MacNaughton for wells that have reserves assigned. In addition, the Company uses internal estimates for wells that do not have reserves assigned. The total undiscounted estimates for abandonment and reclamation for all wells and facilities of the Company was \$34.6 million at December 31, 2008. The internal estimates have not been deducted in estimating the future net revenue by DeGoyler and MacNaughton. Pearl expects to incur abandonment and reclamation costs on 860 net wells.

Year	Total Proved (at Forecast Prices) (M\$)	
	Canada	United States
2009	780	0
2010	646	0
2011	9,222	465
2012	905	19
2013	994	0
Remaining	5,464	0
<b>Total (Undisc)</b>	<b>18,011</b>	<b>484</b>
<b>Total (Disc at 10%)</b>	<b>12,430</b>	<b>396</b>

## TAX HORIZON

On a total proved reserves basis, estimates of net income indicate that the Company will not be taxable. Estimates of net income on a proved and probable basis indicate the Company will be taxable in 2016.

## COSTS INCURRED

The following table summarizes capital expenditures made by Pearl on oil and natural gas properties for the period ended December 31, 2008.

	2008		
	(\$ thousands)		
	Canada	U.S.	Total
Property acquisition costs - proved	-		-
Property acquisition costs - unproved	6,253		6,253
Exploration costs	7,760	20,602	28,362
Development costs	72,752		72,752
<b>Total</b>	<b>86,765</b>	<b>20,602</b>	<b>107,367</b>

## EXPLORATION AND DEVELOPMENT ACTIVITIES

The following table summarizes the number of gross and net exploratory and development wells Pearl participated in drilling for the year ended December 31, 2008.

	Development Wells		Exploratory Wells	
	Gross	Net	Gross	Net
<b>Canada</b>				
Oil Wells	19.0	17.4	0.0	0.0
Gas Wells	0.0	0.0	1.0	0.0
Standing	1.0	0.5	0.0	0.3
Dry Holes	1.0	1.0	1.0	1.0
<b>Total Wells</b>	<b>21.0</b>	<b>19.0</b>	<b>2.0</b>	<b>1.3</b>
<b>United States</b>				
Oil Wells	0.0	0.0	10.0	5.0
Gas Wells	0.0	0.0	1.0	0.5
Standing	0.0	0.0	3.0	1.5
Dry Holes	0.0	0.0	0.0	0.0
<b>Total Wells</b>	<b>0.0</b>	<b>0.0</b>	<b>14.0</b>	<b>7.0</b>
<b>Total</b>	<b>21.0</b>	<b>19.0</b>	<b>16.0</b>	<b>8.3</b>

## PRODUCTION ESTIMATES

The following table summarizes the estimated 2009 production volumes reflected in the estimates of future net revenue by DeGolyer and MacNaughton.

	Gross Daily Production Canada	Gross Daily Production United States	Gross Daily Production Total
<b>Total Proved</b>			
Light & Medium Oil (bbl/d)	97	7	104
Heavy Oil (bbl/d)	4,295	0	4,295
Assoc. and Non-Assoc. Gas (Mcf/d)	6,611	82	6,693
Natural Gas Liquids (bbl/d)	14	0	14
<b>Total (boe/d)</b>	<b>5,508</b>	<b>20</b>	<b>5,528</b>
<b>Total Probable</b>			
Light & Medium Oil (bbl/d)	-2	2	0
Heavy Oil (bbl/d)	502	0	502
Assoc. and Non-Assoc. Gas (Mcf/d)	967	22	989
Natural Gas Liquids (bbl/d)	2	0	2
<b>Total (boe/d)</b>	<b>663</b>	<b>6</b>	<b>669</b>
<b>Total Possible</b>			
Light & Medium Oil (bbl/d)	0	0	0
Heavy Oil (bbl/d)	-38	0	-38
Assoc. and Non-Assoc. Gas (Mcf/d)	578	0	578
Natural Gas Liquids (bbl/d)	0	0	0
<b>Total (boe/d)</b>	<b>59</b>	<b>0</b>	<b>59</b>
<b>Total Proved + Probable + Possible</b>			
Light & Medium Oil (bbl/d)	95	9	104
Heavy Oil (bbl/d)	4,760	0	4,760
Assoc. and Non-Assoc. Gas (Mcf/d)	8,156	104	8,260
Natural Gas Liquids (bbl/d)	16	0	16
<b>Total (boe/d)</b>	<b>6,230</b>	<b>26</b>	<b>6,256</b>

The Mooney and Onion Lake fields account for 31% and 35% respectively of Pearl's total forecasted gross production. The 2009 forecast production for these fields is detailed below:

	Gross Daily Production Mooney	Gross Daily Production Onion Lake
<b>Total Proved</b>		
Light & Medium Oil (bbl/d)	0	0
Heavy Oil (bbl/d)	1,528	1,821
Assoc. and Non-Assoc. Gas (Mcf/d)	1,858	373
Natural Gas Liquids (bbl/d)	0	0
<b>Total (boe/d)</b>	<b>1,838</b>	<b>1,883</b>
<b>Total Probable</b>		
Light & Medium Oil (bbl/d)	0	0
Heavy Oil (bbl/d)	181	238
Assoc. and Non-Assoc. Gas (Mcf/d)	52	175
Natural Gas Liquids (bbl/d)	0	0
<b>Total (boe/d)</b>	<b>190</b>	<b>267</b>
<b>Total Possible</b>		
Light & Medium Oil (bbl/d)	0	0
Heavy Oil (bbl/d)	-72	16
Assoc. and Non-Assoc. Gas (Mcf/d)	-3	0
Natural Gas Liquids (bbl/d)	0	0
<b>Total (boe/d)</b>	<b>-73</b>	<b>16</b>
<b>Total Proved + Probable + Possible</b>		
Light & Medium Oil (bbl/d)	0	0
Heavy Oil (bbl/d)	1,637	2,075
Assoc. and Non-Assoc. Gas (Mcf/d)	1,907	548
Natural Gas Liquids (bbl/d)	0	0
<b>Total (boe/d)</b>	<b>1,955</b>	<b>2,166</b>

## NETBACKS

	Quarter Ended			
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008
<b>Average Daily Production</b>				
Oil (\$/bbl)	8,710	6,679	4,417	4,952
Natural Gas (\$/mcf)	10,757	9,402	8,156	7,478
<b>Average Net Prices Received</b>				
Oil (\$/bbl)	63.28	84.65	95.97	34.35
Natural Gas (\$/mcf)	7.79	9.80	8.08	6.51
<b>Royalties</b>				
Oil (\$/bbl)	15.66	21.69	26.79	7.19
Natural Gas (\$/mcf)	1.76	2.36	1.72	1.26
<b>Production Costs</b>				
Oil (\$/bbl)				
Natural Gas (\$/mcf)				
Products Combined (\$/BOE)	19.76	15.26	17.45	18.06
<b>Netback Received</b>				
Oil (\$/bbl)				
Natural Gas (\$/mcf)				
Netback Received Combined (\$/BOE)	25.01	43.21	46.16	9.24

Note: Light and Medium Crude and natural gas liquids have been combined with Heavy oil volumes due to the immaterial amounts. Figures for Canada and U.S. activities have been combined due to the small amount of production from U.S.

## PRODUCTION HISTORY

The following table indicates the Company's average daily production from its important fields in 2008:

Oil and NGL's (Bbls/day)	
Onion Lake	2,217
Mooney	1,674
Salt Lake	389
Ear Lake	360
Other	1,542
	<hr/>
	6,182
Natural gas (mcf/day)	
Mooney	2,605
Long Coulee	2,233
Salt Lake	794
Other	3,310
	<hr/>
	8,942
	<hr/>
Total Production (boe/d)	7,672

## DIVIDENDS

There are no restrictions which prevent Pearl from paying dividends. To date, Pearl has not paid any dividends on its common shares. The future payment of dividends will depend on the earnings and financial condition of Pearl and such other factors as the Board considers appropriate. The Company does not intend to pay dividends on Pearl shares in the foreseeable future.

## DESCRIPTION OF CAPITAL STRUCTURE

The authorized capital of Pearl consists of an unlimited number of common shares. As at March 19, 2009, there were 209,341,716 common shares and 10,000,320 warrants to acquire common shares issued and outstanding.

The following is a summary of the rights, privileges and conditions attaching to the Pearl Shares. Each Pearl Share entitles the holder to receive notice of and to attend all meetings of the shareholders of the Company and to one vote at such meetings. The holders of Pearl Shares are, at the discretion of the Board and subject to applicable legal restrictions, entitled to receive any dividends declared by the Board. The holders of Pearl Shares are entitled to share equally in any distribution of the assets of the Company upon the liquidation, dissolution, bankruptcy or winding-up of the Company or other distribution of its assets among its shareholders for the purpose of winding-up its affairs.

## MARKET FOR SECURITIES

The common shares are listed and posted for trading on the TSX and trade under the symbol "PXX". The Company's Swedish Depository Receipts trade on First North, OMX Nordic Exchange under the symbol "PXXS". The following sets forth the price range and trading volume of the Common Shares on the TSX for the periods indicated.

2008	High (\$/Share)	Low (\$/Share)	Volume
January	2.80	1.43	13,444,957
February	2.25	1.60	15,934,308
March	2.10	1.52	7,975,226
April	2.05	1.60	9,263,946
May	2.73	1.82	18,839,789
June	2.55	1.90	8,997,017
July	2.48	1.60	5,448,628
August	1.94	1.52	5,179,376
September	1.65	0.91	6,814,288
October	1.49	0.36	12,936,424
November	0.80	0.39	13,949,235
December	0.90	0.47	15,440,636

## **CURRENT DIRECTORS AND EXECUTIVE OFFICERS**

The following table sets forth the name, municipality of residence, principal occupation for the prior five years and position of each of the directors and executive officers of Pearl:

<b>Name and Residence</b>	<b>Principal Occupation for Past Five Years</b>	<b>Position</b>	<b>Date Appointed</b>	<b>Security Holding <sup>(5)</sup></b>
Keith C. Hill <sup>(4)</sup> West Vancouver, British Columbia, Canada	Mr. Hill is the non-executive Chairman of Pearl. Mr. Hill was the President and Chief Executive Officer of Pearl from February 2007 to January 8, 2009. Mr. Hill was President, CEO and a director of Valkyries Petroleum Corp., a publicly traded oil and gas company, from August 2002 to July 2006.	Chairman and Director	Jan. 2006	592,000 <sup>(6)</sup> 1,300,000 <sup>(7)</sup>
Brian D. Edgar <sup>(1)(2)(3)(4)</sup> Vancouver, British Columbia, Canada	Mr. Edgar is a director of Rand Edgar Investment Corp. and is the President of Dome Ventures Corporation, a junior mineral exploration company.	Director	Feb. 2006	10,000 <sup>(6)</sup> 312,500 <sup>(7)</sup>
John L. Festival Calgary, Alberta, Canada	Mr. Festival is President and Chief Executive Officer of Pearl since January 8, 2009. From October 2007 to January 2009, he was President of BlackCore Resources Inc. From 1999 to 2001 he was VP Business Development and from January 2001 to June 2006, Mr. Festival was President and a Director of BlackRock Ventures Inc.	Officer and Director	Jan. 2009	5,825,000 <sup>(6)</sup> 1,000,000 <sup>(7)</sup> 2,411,299 <sup>(8)</sup>
Victor Luhowy <sup>(1)(2)(3)(4)</sup> Priddis, Alberta, Canada	Mr. Luhowy is President and Chief Executive Officer of Mystique Energy Inc. since February 2004 and prior thereto he was an independent consultant from September 2003 to February 2004.	Director	Jan. 2009	200,000 <sup>(7)</sup>
Lukas Lundin <sup>(1)(2)(3)</sup> Vancouver, British Columbia, Canada	Chairman of Lundin Mining Corporation, Denison Mines Corp., Canadian Gold Hunter Corp., Red Back Mining Inc., Suramina Resources Inc., Atacama Minerals Corp., Vostok Gas Ltd., and Vostok Nafta Investments Ltd.; Director of Lundin Petroleum AB, Pearl, Lucara Diamond Corp. and Fortress Minerals Corp.	Director	Dec. 2006	11,529,900 <sup>(6)</sup> 112,500 <sup>(7)</sup>
Don Cook Calgary, Alberta, Canada	Mr. Cook is Chief Financial Officer of Pearl since January 8, 2009. From October 2007 to January 2009, he was Vice President, Finance of BlackCore Resources Inc. From 1999 to June 2006 he was Vice President, Finance, Chief Financial Officer and Secretary of BlackRock Ventures Inc.	Officer	Jan. 2009	5,825,000 <sup>(6)</sup> 1,000,000 <sup>(7)</sup> 2,411,299 <sup>(8)</sup>
Edward Sobel Calgary, Alberta, Canada	Mr. Sobel is Vice President Exploration of Pearl since January 8, 2009. From October 2007 to January 2009, he was Vice President, Exploration of BlackCore Resources Inc. From August 2007 to January 2009 he was VP Geology of Soho Resources Ltd. From 1999 to June 2006 he was Manager Geology of BlackRock Ventures Inc.	Officer	Jan. 2009	5,162,500 <sup>(6)</sup> 1,000,000 <sup>(7)</sup> 2,411,299 <sup>(8)</sup>
Chris Hogue Calgary, Alberta, Canada	Mr. Hogue is Vice President Operations of Pearl since January 8, 2009. From October 2007 to January 2009, he was Vice President, Operations of BlackCore Resources Inc. From August 2007 to January 2009 he was VP Operations of Soho Resources Ltd. From July 2006 to August 2007, Mr. Hogue was Operations Manager, Heavy Oil at Shell Canada Ltd. From 2002 to June 2006 he was Manager Operations of BlackRock Ventures Inc.	Officer	Jan. 2009	2,662,500 <sup>(6)</sup> 1,000,000 <sup>(7)</sup> 2,411,299 <sup>(8)</sup>
Diane Phillips Calgary, Alberta, Canada	Ms. Phillips has been the Corporate Secretary of Pearl since August 2006. Ms. Phillips is also the Corporate Secretary of Tanganyika Oil Company Ltd. since February 2006. From 2002 to 2006, she was Assistant Corporate Secretary of Viking Energy Royalty Trust.	Officer	Aug. 2006	3,000 <sup>(6)</sup> 105,500 <sup>(7)</sup>

Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Corporate Governance Committee.
- (3) Member of the Compensation Committee.
- (4) Member of the Reserves Committee.
- (5) The information as to shares beneficially owned, not being within the knowledge of the Corporation, has been provided by the respective officers and directors.
- (6) Common Shares
- (7) Stock Options
- (8) Warrants

The term of office of each of the directors of Pearl will expire at the next annual meeting of shareholders of Pearl.

The directors and officers, as a group, beneficially own, directly or indirectly, or exercise control or direction over 31,599,900 of Pearl's common shares or approximately 15% of Pearl's issued and outstanding common shares. In addition, directors and executive officers held 9,645,196 warrants and 6,030,000 options resulting in directors and executive officers holding 20% of the Pearl Shares on a fully diluted basis. The information as to Pearl Shares beneficially owned, not being within the knowledge of the Company, has been furnished by the respective individuals.

### **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

Except as discussed below, no director, executive officer or controlling security holder of Pearl is, as at the date of this Annual Information Form, or has been, within the past 10 years before the date hereof, a director or executive officer of any other issuer that, while that person was acting in that capacity:

- (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days; or
- (ii) was subject to an event that resulted, after the person ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days; or
- (iii) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Mr. Brian Edgar is currently and was a director of New West Energy Services Inc. (TSX-V) when, on September 5, 2006, a cease trade order was issued against that company by the British Columbia Securities Commission for failure to file its financial statements within the prescribed time. The default was rectified and the order was rescinded on November 9, 2006.

Mr. Victor Luhowy is currently President and Chief Executive Officer of Mystique Energy Inc., which on April 24, 2007 filed for and obtained protection from its creditors under the Companies Creditors Arrangement Act.

### **Personal Bankruptcies**

No director, executive officer or controlling security holder of Pearl has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold such person's assets.

### **Penalties or Sanctions**

No director, executive officer or controlling security holder of Pearl has:

- (i) been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, other than penalties for late filing of insider reports; or
- (ii) been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **AUDIT COMMITTEE INFORMATION**

As of March 19, 2009, the Audit Committee of the Board of Directors consists of three members, all of whom are independent: Brian D. Edgar, Victor Luhowy and Lukas Lundin.

The responsibilities and duties of the Audit Committee are set out in the Audit Committee's charter which is set forth in Schedule C to this Annual Information Form.

### Composition of the Audit Committee

At December 31, 2008, the audit committee was comprised of the following individuals:

	<u>Independent <sup>(1)</sup></u>	<u>Financially literate <sup>(1)</sup></u>	<u>Relevant Education and Experience</u>
Brian Edgar	Yes	Yes	Law degree with 16 year practice as a corporate/securities lawyer. Extensive experience with management of public companies.
A. Murray Sinclair <sup>(2)</sup>	Yes	Yes	Bachelor of Commerce degree. Extensive experience with management of public companies.
Gary Guidry <sup>(2)(3)</sup>	No	Yes	Extensive experience with management of public companies.

#### Notes:

<sup>(1)</sup> As defined by Multilateral Instrument 52-110 ("MI 52-110").

<sup>(2)</sup> Messrs. Guidry and Sinclair were directors until January 8, 2009.

<sup>(3)</sup> Mr. Guidry was the former President of Chief Executive Officer of Pearl. He was a director until January 8, 2009.

### Pre-Approval Policies and Procedures

The audit committee has adopted specific policies and procedures for the engagement of non-audit services as described above under the heading "Accounting Systems, Internal Control and Procedures" in Exhibit "I".

### Auditor Fees

The following table summarizes the fees earned by the Corporation's independent auditors, PricewaterhouseCoopers LLP, for the years ended December 31, 2008 and 2007. Tax services were provided by KPMG LLP.

<u>Financial Year</u>	<u>Audit Related Fees</u>	<u>Tax Fees</u>	<u>All Other Fees</u>
2008	\$238,664	\$30,076	\$13,069
2007 <sup>(1)</sup>	\$209,701	\$156,228	\$256,629

#### Note:

<sup>(1)</sup> Payments are for the 15 month period ended December 31, 2007.

### CONFLICTS OF INTEREST

The Company's directors and officers may serve as directors or officers of other companies or have significant shareholdings in other resource companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such a participation or the terms of such participation. From time to time, several companies may participate in the acquisition, exploration and development of natural resource properties, thereby allowing for their participation in larger programs, the involvement in a greater number of programs or a reduction in financial exposure in respect of any one program. It may also occur that a particular company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the company making the assignment. In accordance with the laws of Canada, the directors or the Company are required to act honestly, in good faith and in the best interests of the Company. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the degree of risk to which the Company may be exposed and the financial position at that time.

Namdo Management Services Ltd. ("Namdo") provides executive and support services to the Company. For the period ended December 31, 2008, the Company paid Namdo \$180,000 (2007 - \$117,000). Namdo is a private corporation owned by Lukas H. Lundin, a director of the Company.

The directors and officers of the Company are aware of the existence of laws governing the accountability of directors and officers for corporate opportunity and requiring disclosure by the directors of conflicts of interest and the Company will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of its directors and officers. All such conflicts will be disclosed by such directors or officers in accordance with the *Canada Business Corporations Act* and they will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law. Other than as disclosed above, the directors and officers of the Company are not aware of any such conflicts of interest in any existing or contemplated contracts with or transactions involving the Company.

### **LEGAL PROCEEDINGS**

Neither Pearl nor any of its subsidiaries is or was a party to, or has or had any property subject to, any legal proceedings during the financial year ended December 31, 2008 that are material to the Company, or knows of any such legal proceedings contemplated.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Other than as discussed herein, there are no material interests, direct or indirect, of directors, executive officers of the Corporation or any person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the outstanding Pearl Shares or any known associate or affiliate of such persons, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Company.

### **AUDITORS, TRANSFER AGENT AND REGISTRAR**

The auditors of the Company are PricewaterhouseCoopers LLP, Chartered Accountants, Suite 3100, 111 – 5<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 5L3.

Computershare Trust Company of Canada, at its principal offices in Calgary, Alberta and Toronto, Ontario is the transfer agent and registrar of the Common Shares.

### **MATERIAL CONTRACTS**

Except for contracts entered into in the ordinary course of business and not of the type required in any event to be disclosed pursuant to Part 12 of National Instrument 51-102 of the Canadian Securities Administrators, there are no contracts entered into by Pearl or any of its subsidiaries within the last financial year, or entered into before the last financial year but still in effect, which the Company considers to be material as at the date of this Annual Information Form.

### **INTERESTS OF EXPERTS**

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing made under National Instrument NI 51-102 by Pearl during the current financial year other than DeGolyer and MacNaughton, Pearl's independent engineering evaluators and PricewaterhouseCoopers LLP, Pearl's auditors. None of the principals of DeGolyer and MacNaughton had any registered or beneficial interests, direct or indirect, in any securities or other property of Pearl or of Pearl's associates or affiliates either at the time they prepared the statement, report or valuation prepared by it, at any time thereafter or to be received by them. PricewaterhouseCoopers LLP, Pearl's auditors, are independent in accordance with the auditor's rules of professional conduct in Canada.

In addition, none of the aforementioned persons or companies, nor any director, officer or employee of any of the aforementioned persons or companies, is or is expected to be elected, appointed or employed as a director, officer or employee of Pearl or any associate or affiliate of Pearl.

### **ADDITIONAL INFORMATION**

Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and

securities authorized for issuance under equity compensation plans is contained in the Company's information circular and proxy statement for the Company's annual meeting of shareholders to be held on May 6, 2009. Additional financial information is contained in the Company's consolidated financial statements and the related management's discussion and analysis for the period ended December 31, 2008.

Additional copies of this Annual Information Form and the materials listed in the preceding paragraph and any other document incorporated herein by reference are available on the foregoing basis and upon request by contacting the Corporate Secretary at 700, 444 – 7 Avenue S.W., Calgary, Alberta, T2P 0X8, Canada, by phone at (403) 213-8768 or by fax at (403) 265-8324.

## **ABBREVIATIONS**

### **Oil and Natural Gas Liquids**

Bbl	Barrel
Bbls	Barrels
Mbbls	thousand barrels
Bbls/d	barrels of oil per day
NGLs	natural gas liquids
API	American Petroleum Institute
Stb	stock tank barrel

### **Natural Gas**

Mcf	thousand cubic feet
Mmcf	million cubic feet
Mcf/d	thousand cubic feet per day
Mmcf/d	million cubic feet per day
Bcf	billion cubic feet
GJ	Gigajoule
GJ/d	gigajoule per day

### **Other**

AECO	Intra-Alberta Nova Inventory Transfer Price (NIT net price)
API	American Petroleum Institute
°API	An indication of the specific gravity of crude oil measured on the API gravity scale
BOE	Barrel of oil equivalent of natural gas and crude oil. BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6Mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
BOE/d	Barrel of oil equivalent per day
m3	Cubic meters
MBOE	1,000 barrels of oil equivalent
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade

### **Conversions**

To Convert From	To	Multiply By
Mcf	Cubic metres	28.174
Cubic metres	Cubic feet	35.494
BBls	Cubic metres	0.159
Cubic metres	BBls oil	6.290
Feet	Metres	0.305
Metres	Feet	3.281
Miles	Kilometres	1.609
Kilometres	Miles	0.621
Acres	Hectares	0.405
Hectares	Acres	2.471

**DEGOLYER AND MACNAUGHTON CANADA LIMITED**  
 311 SIXTH AVENUE S.W., SUITE 1430  
 ENERGY PLAZA EAST TOWER  
 CALGARY, ALBERTA, CANADA, T2P 3H2

**NATIONAL INSTRUMENT FORM 51-101F2**

**REPORT on RESERVES DATA**

To the board of directors of Pearl  
 Exploration and Production Ltd. (the "Company"):

1. We have evaluated the Company's reserves data as at December 31, 2008. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as December 31, 2008, estimated using forecast prices and costs.
2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2008, and identifies the respective portions thereof that we have evaluated and reported on to the Company's management:

Independent Qualified Reserves Evaluator	Description & Preparation Date of Evaluation Report	Location of Reserves	Net Present Value of Future Net Revenue (before income tax, 10% discount rate)			
			Audited	Evaluated	Reviewed	Total
			M\$	M\$	M\$	M\$
DeGolyer and MacNaughton Canada Limited	Appraisal Report as of December 31, 2008 on Certain Properties owned by Pearl Exploration and Production Ltd. dated February 19, 2009	Canada	-	367,291	-	367,291
		USA	-	173	-	173
		Total	-	367,464	-	367,464

DeGolyer and MacNaughton Canada Limited

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.
7. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

Executed as to our report referred to above:

DeGolyer and MacNaughton Canada Limited, Calgary, Alberta, dated February 19, 2009.

DEGOLYER and MACNAUGHTON  
CANADA LIMITED

*"Colin P. Outtrim"*

---

Colin P. Outtrim, P.Eng.

**PERMIT TO PRACTICE**  
**DeGolyer and MacNaughton**  
**Canada Limited**

Signature \_\_\_\_ *"Colin P. Outtrim"* \_\_\_\_

Date \_\_\_\_ February 19, 2009 \_\_\_\_

**PERMIT NUMBER: P 5568**

The Association of Professional Engineers,  
Geologists and Geophysicists of Alberta

**FORM 51-101F3  
REPORT OF MANAGEMENT ON OIL AND GAS DISCLOSURE  
PEARL EXPLORATION AND PRODUCTION LTD.**

**This is the form referred to in item 3 of section 2.1 of National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI51-101").**

1. Terms to which a meaning is ascribed in NI51-101 have the same meaning in this form.
2. The report referred to in item 3 of section 2.1 of NI51-101 must in all material respects be as follows:

**Report of Management and Directors on Reserves Data and Other Information**

Management of Pearl Exploration and Production Ltd. (the "Company") is responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2008, estimated using forecast prices and costs.

DeGolyer and MacNaughton Canada Limited, independent qualified reserves evaluators, have evaluated the Company's reserves data. The report of DeGolyer and MacNaughton Canada Limited has been presented on Form 51-101F2.

The Reserves Committee of the board of directors of the Company has:

- (a) reviewed the Company's procedures for providing information to DeGolyer and MacNaughton Canada Limited;
- (b) met with DeGolyer and MacNaughton Canada Limited to determine whether any restrictions affected the ability of DeGolyer and MacNaughton Canada Limited to report without reservation.
- (c) reviewed the reserves data with management and DeGolyer and MacNaughton Canada Limited.

The board of directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management and management has approved:

- (a) the content and filing with securities regulatory authorities of Form 51-101F1 containing reserves data and other oil and gas information;
- (b) the filing of Form 51-101F2 which is the report of DeGolyer and MacNaughton Canada Limited on the reserves data; and
- (c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

"signed"  
John L. Festival  
President and Chief Executive Officer

"signed"  
Don W. Cook  
Chief Financial Officer

"signed"  
Keith Hill  
Director

"signed"  
Brian Edgar  
Director

February 19, 2009

**PEARL EXPLORATION AND PRODUCTION LTD.****Audit Committee (the "Audit Committee")  
of the Board of Directors****CHARTER****A. Composition and Process**

1. The Audit Committee shall be composed of a minimum of three members of the Board of Directors, a majority of whom are independent. An independent director, as defined in *Multilateral Instrument 52-110, Audit Committees*, ("MI 52-110") is a director who has no direct or indirect material relationship which could, in the view of the Corporation's board of directors, be reasonably expected to interfere with the exercise of a members independent judgement or as otherwise determined to be independent in accordance with MI 52-110.
2. Members shall serve one-year terms and may serve consecutive terms, which are encouraged to ensure continuity of experience.
3. The Chairperson shall be appointed by the Board of Directors for a one-year term, and may serve any number of consecutive terms.
4. All members of the Audit Committee shall be financially literate. Financial literacy is the ability to read and understand a balance sheet, income statement and cash flow statement that present a breadth and level of complexity comparable to the Corporation's financial statements.
5. The Chairperson shall, in consultation with management and the external auditor and internal auditor (if any), establish the agenda for the meetings and ensure that properly prepared agenda materials are circulated to the members with sufficient time for study prior to the meeting. The external auditor will also receive notice of all meetings of the Audit Committee. The Audit Committee may employ a list of prepared questions and considerations as a portion of its review and assessment process.
6. The Audit Committee shall meet at least four times per year and may call special meetings as required. A quorum at meetings of the Audit Committee shall be its Chairperson and one of its other members or the Chairman of the Board of Directors. The Audit Committee may hold its meetings, and members of the Audit Committee may attend meetings, by telephone conference if this is deemed appropriate.
7. The minutes of the Audit Committee meetings shall accurately record the decisions reached and shall be distributed to Audit Committee members with copies to the Board of Directors, the Chief Executive Officer, the Chief Financial Officer and the external auditor.
8. The Audit Committee reviews, prior to their presentation to the Board of Directors and their release, all material financial information required by securities legislation and policies.
9. The Audit Committee enquires about potential claims, assessments and other contingent liabilities.
10. The Audit Committee periodically reviews with management, depreciation and amortization policies, loss provisions and other accounting policies for appropriateness and consistency.
11. The Charter of the Audit Committee shall be reviewed by the Board of Directors on an annual basis.

**B. Authority**

1. Appointed by the Board of Directors pursuant to provisions of the *Canada Business Corporations Act* and the bylaws of the Corporation.
2. Primary responsibility for the Corporation's financial reporting, accounting systems and internal controls is vested in senior management and is overseen by the Board of Directors. The Audit Committee is a standing

committee of the Board of Directors established to assist it in fulfilling its responsibilities in this regard. The Audit Committee shall have responsibility for overseeing management reporting on internal controls. While it is management's responsibility to design and implement an effective system of internal control, it is the responsibility of the Audit Committee to ensure that management has done so.

3. In fulfilling its responsibilities, the Audit Committee shall have unrestricted access to the Corporation's personnel and documents and will be provided with the resources necessary to carry out its responsibilities.
4. The Audit Committee shall have direct communication channels with the internal auditor (if any) and the external auditor to discuss and review specific issues, as appropriate.
5. The Audit Committee shall have the authority to engage independent counsel and other advisors as it determines necessary to carry out its duties.
6. The Audit Committee shall establish the compensation to be paid to any advisors employed by the Audit Committee and such compensation shall be paid by the Corporation as directed by the Audit Committee.

**C. Relationship with External Auditors**

1. An external auditor must report directly to the Audit Committee.
2. The Audit Committee is directly responsible for overseeing the work of the external auditor including the resolution of disagreements between management and the external auditor regarding financial reporting.
3. The Audit Committee shall implement structures and procedures to ensure that it meets with the external auditor at least annually in the absence of management.

**D. Accounting Systems, Internal Controls and Procedures**

1. Obtain reasonable assurance from discussions with and/or reports from management, and reports from external auditors that accounting systems are reliable and that the prescribed internal controls are operating effectively for the Corporation and its subsidiaries and affiliates.
2. The Audit Committee shall review to ensure to its satisfaction that adequate procedures are in place for the review of the Corporation's disclosure of financial information extracted or derived from the Corporation's financial statements and will periodically assess the adequacy of those procedures.
3. Direct the external auditor's examinations to particular areas.
4. Review control weaknesses identified by the external auditor, together with management's response.
5. Review with the external auditor its view of the qualifications and performance of the key financial and accounting executives.
6. In order to preserve the independence of the external auditor the Audit Committee will:
  - (a) recommend to the Board of Directors the external auditor to be nominated; and
  - (b) recommend to the Board of Directors the compensation of the external auditor's engagement;
7. The Audit Committee shall review and pre-approve any engagements for non-audit services to be provided by the external auditor or its affiliates, together with estimated fees, and consider the impact on the independence of the external auditor.
8. Review with management and with the external auditor any proposed changes in major accounting policies, the presentation and impact of significant risks and uncertainties, and key estimates and judgments of management that may be material to financial reporting.

9. The Audit Committee shall review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and most recent former external auditor of the Corporation.
10. The Audit Committee shall establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters and the confidential anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.
11. The Audit Committee shall on an annual basis, prior to public disclosure of its annual financial statements, ensure that the external auditor has entered into a participation agreement and has not had its participant status terminated, or, if its participant status was terminated, has been reinstated in accordance with the Canadian Public Accountability Board ("CPAB") bylaws and is in compliance with any restriction or sanction imposed by the CPAB.

**E. Statutory and Regulatory Responsibilities**

1. Annual Financial Information - review the annual audited financial statements, including any letter to shareholders and related press releases and recommend their approval to the Board of Directors, after discussing matters such as the selection of accounting policies (and changes thereto), major accounting judgments, accruals and estimates with management and the external auditor.
2. Annual Report - review the management discussion and analysis ("MD &A") section and all other relevant sections of the annual report to ensure consistency of all financial information included in the annual report.
3. Interim Financial Statements - review the quarterly interim financial statements, including any letter to shareholders and related press releases and recommend their approval to the Board of Directors.
4. Earnings Guidance/Forecasts - review forecasted financial information and forward looking statements.
5. Review the Corporation's financial statements, MD & A and earnings press releases before the Corporation publicly discloses this information.

**F. Reporting**

1. Report, through the Chairperson of the Audit Committee, to the Board of Directors following each meeting on the major discussions and decisions made by the Audit Committee.
2. Report annually to the Board of Directors on the Audit Committee's responsibilities and how it has discharged them.
3. Review the Audit Committee's Charter annually and recommend the approval of any proposed amendments to the Board of Directors.

**G. Other Responsibilities**

1. Investigating fraud, illegal acts or conflicts of interest.
2. Discussing selected issues with corporate counsel or the external auditor or management.