

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") of the operating and financial results of Pearl Exploration and Production Ltd. ("Pearl" or the "Company") for the year ended December 31, 2008. These results are being compared with the 15 months ended December 31, 2007 (Pearl changed its year-end in 2007 from September 30 to December 31). The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the twelve months ended December 31, 2008, together with the accompanying notes.

All dollar amounts are referenced in thousands of Canadian dollars, except where otherwise noted. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Throughout this MD&A the calculation of barrels of oil equivalent (boe) uses a conversion rate of six thousand cubic feet (mcf) of natural gas for one barrel of oil and is based on an energy equivalence conversion method. Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalence conversion method primarily applicable at the burner tip and does not represent a value equivalence at the wellhead.

Included in this report are references to terms commonly used in the oil and gas industry, such as cash flow and funds from operations, which represent cash flow from operating activities expressed before changes in non-cash working capital and cash flow per share, and are used by the Company to analyze operating performance, leverage and liquidity. These terms do not have standardized meanings prescribed by GAAP and therefore may not be comparable with the calculations of similar measures for other entities. Consequently, these are referred to as non-GAAP measures. Management uses these non-GAAP measurements to evaluate the Company's performance and to provide shareholders and investors with additional information to measure the Company's performance and efficiency and its ability to fund a portion of its future activities.

Additional information relating to the Company, including its Annual Information Form, is available on SEDAR at www.sedar.com.

This MD&A contains forward-looking information and statements. At the end of this MD&A is an advisory on forward-looking information and statements.

The effective date of this MD&A is March 19, 2009.

OVERVIEW

Pearl is a Canadian-based oil and gas company whose common shares are traded on the TSX under the symbol "PXX" and on the First North (OMX Nordic Exchange) under the symbol "PXXS". Pearl's main focus is heavy oil projects in western Canada and the U.S. The Company also holds interests in a number of natural gas properties.

Pearl's core properties in 2008 included:

- Onion Lake, Saskatchewan – heavy oil;
- Mooney, Alberta – heavy oil;
- Blackrod, Alberta – heavy oil; and
- San Miguel, Texas – heavy oil

2008 SIGNIFICANT EVENTS

- On January 1, 2008 the Company amalgamated Cipher and Watch with Pearl E & P Canada Ltd.
- On May 22, 2008 the Company sold assets in the Lloydminster, Celtic, Pike's Peak and Thunderchild areas of Saskatchewan for approximately \$75 million. These assets represented 10% of Pearl's proved plus probable reserves and 30% of existing oil production. The sale resulted in the elimination of the Company's outstanding debt.
- On August 20, 2008 the Company acquired an additional 30% interest in the Blackrod area to bring its total interest to 65%. Blackrod is a potential SAGD project located in the Athabasca Oil Sands.
- On December 17, 2008 the Company agreed to acquire 100% of the shares of BlackCore Resources Inc. ("BlackCore"). The principle assets of BlackCore consist of a 100% working interest in the John Lake Field in Northern Alberta as well as \$5.5 million in cash. This transaction closed on January 8, 2009.
- On December 17, 2008 in conjunction with the above transaction, the Company decided to hire a new senior management team. The new management group was formerly part of the management of BlackRock Ventures Inc. and are also principal shareholders of BlackCore.
- On December 30, 2008, the Company sold all of its interests in certain lands, wells, pipelines and other associated equipment located in the Palo Duro Basin area of Texas. In exchange, Pearl received 18,756,414 common shares of Tyner Resources Ltd. ("Tyner"). These shares were valued at a price of \$0.03 per share. The share price was calculated by using the weighted average share price for the five days before and after the transaction date.
- During the fourth quarter of 2008 and continuing into 2009, the oil and gas industry has experienced a severe decrease in commodity prices due to a major global economic downturn, as well as significant disruptions in the financial credit markets. These events have resulted in considerable government intervention, particularly in the financial services sector.
- On October 1, 2008, the Company agreed to sell its investment in Serrano Energy Ltd. for an additional 15% working interest at Blackrod (increasing the Company's working interest to 80%). In addition, Pearl will be carried for the next \$5 million of expenditures at Blackrod. This transaction closed in February 2009.

ANNUAL FINANCIAL INFORMATION

As at and for the Period Ended

\$000s, except per share amounts	As at and for the Period Ended		
	12 Months December 31, 2008	15 Months December 31, 2007	12 Months September 30, 2006
Total revenues	183,536	128,524	3,635
Earnings (loss) from continuing operations and net earnings (loss)	(78,862)	(227,206)	(8,953)
Per share – basic	(0.42)	(1.73)	(0.23)
Per share – diluted	(0.42)	(1.73)	(0.23)
Cash flow from operations ⁽¹⁾	72,120	21,646	(1,247)
Per share – basic	0.38	0.16	(0.03)
Per share – diluted	0.38	0.16	(0.03)
Capital expenditures	107,367	229,246	44,632
Total assets	472,143	575,865	129,067
Bank loan	–	–	4,976
Common shares outstanding	189,242	189,242	51,913

(1) Cash flow from operations before working capital changes and cash flow per share do not have standardized meanings prescribed by Canadian generally accepted accounting principles (“GAAP”) and therefore may not be comparable to similar measures used by other companies. Cash flow from operations before working capital changes includes all cash flow from operating activities and is calculated before changes in non-cash working capital. Cash flow from operations before working capital changes is reconciled with net loss on the Consolidated Statements of Cash Flows. Management uses these non-GAAP measurements for its own performance measures and to provide its shareholders and investors with a measurement of the Company’s efficiency and its ability to fund a portion of its growth expenditures.

SEGMENTED INFORMATION

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

\$000s, except where noted	Year Ended December 31, 2008		
	Canada	U.S.	Consolidated
Total revenues, net of royalties	137,951	1,904	139,855
Net loss	(20,921)	(57,941)	(78,862)
Segment assets	459,659	12,484	472,143
Capital additions	86,765	20,602	107,367

\$000s, except where noted	Fifteen Months Ended December 31, 2007		
	Canada	U.S.	Consolidated
Total revenues, net of royalties	99,307	1,843	101,150
Net income (loss)	(227,932)	726	(227,206)
Segment assets	522,075	53,790	575,865
Capital additions	204,116	25,130	229,246

SELECTED QUARTERLY INFORMATION

\$000s, except where noted	31-Dec 2008	30-Sep 2008	30-Jun 2008	31-Mar 2008	31-Dec 2007	30-Sep 2007	30-Jun 2007	31-Mar 2007
Production (boe/d)	6,198	5,776	8,246	10,503	9,507	9,093	7,910	6,966
Revenue per boe(\$)	36.28	85.02	79.74	60.50	40.30	39.17	41.40	38.98
Oil & gas revenue	20,687	45,180	59,839	57,830	35,250	32,786	29,801	24,464
Production costs	10,299	9,272	11,453	18,883	14,835	12,245	10,949	10,132
Net earnings (loss) ⁽¹⁾	(83,686)	1,926	6,688	(3,790)	(183,407)	(13,683)	(7,225)	(17,628)
Per share, basic and diluted	(0.44)	0.01	0.04	(0.02)	(1.04)	(0.09)	(0.05)	(0.13)
Cash flow from operations	3,623	21,021	28,023	19,452	9,609	6,268	973	5,039
Per share, basic and diluted	0.02	0.11	0.15	0.10	0.05	0.04	0.01	0.04
Total assets	472,143	554,956	543,123	584,237	575,865	654,543	620,792	586,276
Weighted average shares outstanding (000s)	189,242	189,242	189,242	189,242	181,212	145,616	133,935	132,472

(1) The large loss in the fourth quarter of 2008 was the result of a write-down of the Company's U.S. oil and gas properties. The loss in the fourth quarter of 2007 was due to the write-off of goodwill.

RESULTS OF OPERATIONS

\$000s, except where noted	Twelve Months Ended December 31, 2008	Fifteen Months Ended December 31, 2007
Net loss	(78,862)	(227,206)
Per share (\$)	(0.42)	(1.73)

The Company incurred a net loss of \$78.9 million or \$0.42 per share for the year ended December 31, 2008 compared to a loss of \$227.2 million or \$1.73 per share for the 15 months ended December 31, 2007. The net loss for the year is principally a result of the high depletion cost of \$85.4 million and a write-down of the Company's U.S. oil and gas assets of \$57.4 million. The loss in 2007 is a result of the write-down of goodwill of \$172.9 million.

COMMODITY PRICES

In Canada and the U.S., crude oil prices are generally based on WTI benchmark prices. In 2008, WTI prices were strong for most of the year with WTI oil averaging US\$99.65/bbl compared with US\$72.31/bbl in 2007. The increase is attributable to increased worldwide demand combined with tight supplies. Late in the year, as a result of the global recession and financial crisis, demand for oil dropped, resulting in a dramatic decrease in WTI prices. During the fourth quarter of 2008, WTI averaged US\$58.73/bbl and has continued to drop during the first two months of 2009. The WTI futures price for the remainder of 2009 is approximately US\$48 per barrel, suggesting continued reduced demand. Pearl predominately produces heavy oil, which sells for less than light oil, due to increased processing required for a heavy barrel. One of the benchmark prices for heavy oil in Canada is the Western Canadian Select ("WCS") stream price. Throughout 2008, the WTI/WCS differential was narrower than 2007. In 2008, the WCS reference price averaged 78% of the WTI price, compared with 68% of the WTI price in 2007. The lower differentials were a result of more demand for heavy crudes and reduced supplies from countries such as Mexico and Venezuela.

Oil prices in Canada are also impacted by the Canada/U.S. dollar exchange rate, since oil is generally priced in U.S. dollars. During the first three quarters of 2008, the Canadian dollar was relatively strong against the U.S. dollar with an exchange rate of \$0.98. However, in the fourth quarter in conjunction with the drop in WTI prices, the exchange rate decreased to \$0.82 which, in part, lessens the impact on a drop in WTI prices for Canadian producers.

In 2008, natural gas prices increased 23%, reflecting higher demand. The AECO-C gas price averaged \$7.70 per GJ in 2008 compared to \$6.26 per GJ in 2007. During the fourth quarter, similar to oil prices, natural gas prices decreased as a result of lower demand caused by slowing economies and warm weather which resulted in higher gas storage levels. Lower natural gas prices have continued during the first two months of 2009.

Oil and Gas Production, Pricing and Revenue

	Twelve Months Ended December 31, 2008	Fifteen Months Ended December 31, 2007
Daily production/sales volumes ⁽¹⁾		
Oil (bbls/d)	6,182	5,310
Natural gas (mcf/d)	8,942	10,309
Combined (boe/d)	7,672	7,029
Product pricing (\$)		
Crude oil – per bbl	68.97	40.31
Natural gas – per mcf	8.11	6.39
Combined – per boe	65.36	40.01
Revenue (\$000s)		
Oil and gas revenue – gross	183,536	128,524
Royalties	(45,192)	(28,494)
Oil and gas revenue – net	138,344	100,030

(1) Gas production converted at 6:1.

Oil and gas revenues increased 43% in 2008 to \$183.5 million compared with \$128.5 million in 2007. The increase is attributable to:

- a) a 16% increase in oil production;
- b) a 71% increase in the average oil price;
- c) a 13% decrease in natural gas production; and
- d) a 27% increase in the average gas price.

Overall, production on a boe basis increased 9% to 7,672 boe in 2008 compared with 7,029 boe in 2007. The increase in production is attributable to the Mooney and Onion Lake areas, reflecting additional drilling activity in late 2007 and 2008.

	Twelve Months Ended December 31, 2008		Fifteen Months Ended December 31, 2007	
	Oil (bbls/d)	Gas (mcf/d)	Oil (bbls/d)	Gas (mcf/d)
Long Coulee/McGregor/Pageant	19	2,233	16	2,616
Mooney	1,674	2,605	1,353	1,409
Salt Lake	389	794	209	1,565
Celtic – Pike's Peak	552	182	1,447	637
Ear Lake	360	140	338	468
Onion Lake	2,217	340	933	856
Other	971	2,648	1,014	2,758
	6,182	8,942	5,310	10,309

Production in 2008 was impacted by the sale of oil and gas properties during the second quarter. The properties that were sold were producing approximately 3,200 boe per day at the time of the sale. As a result of the property sale, production in the second half of the year was lower than the average for the year. Fourth quarter production averaged 6,198 boe per day.

The Company did not enter into any hedging arrangements in 2008 or 2007, and, at the present time, does not anticipate hedging any of its production in 2009.

Royalties

	Twelve Months Ended December 31, 2008	Fifteen Months Ended December 31, 2007
\$000s, except where noted		
Royalties	45,192	28,494
As a percentage of revenue	25%	22%

Royalties increased significantly from \$28.5 million in 2007 to \$45.2 million in 2008. The increase is consistent with the higher revenues during 2008. Royalty rates are generally dependent on well productivity and commodity prices. The increased royalty rates in 2008 reflect the significantly higher oil prices during the first nine months of 2008.

Production Costs

	Twelve Months Ended December 31, 2008	Fifteen Months Ended December 31, 2007
\$000s, except where noted		
Production costs	49,907	50,531
Per boe (\$)	17.77	15.73

Production costs on a per boe basis averaged \$17.77 for the current year which is an increase over the prior 15-month period average of \$15.73. The increase in per unit operating costs for the period is principally due to an increase in fluid hauling, fuel and electricity costs. These costs are related to the WTI price which has increased significantly in 2008. Production costs were also impacted by inflationary pressure due to high demand for services, especially during the first nine months of the year.

Transportation Costs

\$000s, except where noted	Twelve Months Ended December 31, 2008	Fifteen Months Ended December 31, 2007
Transportation costs	3,664	3,567
Per boe (\$)	1.30	1.11

Transportation costs are incurred to move marketable crude oil and natural gas to their selling points. Average transportation costs in 2008 were \$1.30 per boe, which is a \$0.19 increase over 2007. The increase is a result of increased fuel costs in the current year, which is directly related to high oil prices.

Operating Netback

\$000s, except where noted	Twelve Months Ended December 31, 2008	Fifteen Months Ended December 31, 2007
Revenues	65.36	40.01
Royalties	16.11	8.87
Transportation costs	1.30	1.11
Operating costs	17.77	15.73
Netback per boe (\$)	30.18	14.30

The 2008 netback of \$30.18 per boe has increased significantly from the \$14.30 per boe reported in 2007. This increase is consistent with the significant increase in oil revenue due to high market prices for oil in 2008.

Interest Income

\$000s, except where noted	Twelve Months Ended December 31, 2008	Fifteen Months Ended December 31, 2007
Interest income	1,511	1,120

Interest income represents bank interest earned on excess cash which was held in short-term investments.

General and Administrative Expenses (“G&A”)

\$000s, except where noted	Twelve Months Ended December 31, 2008	Fifteen Months Ended December 31, 2007
General and administrative expenses	15,000	19,142
Per boe (\$)	5.34	5.96

General and administrative costs decreased from \$19.1 million in 2007 to \$15 million in 2008. The 2007 amount is based on a 15 month period and, if annualized, it is comparable to the 2008 amount.

In 2007, the Company was busy with numerous transactions and the associated costs increased G&A significantly. Therefore, a decrease was anticipated for 2008. In 2008, the Company experienced higher salaries due to more staff and escalating costs in the labour market due to high demand for personnel, as well as management severance payments near the end of the year. In addition, the Company moved into new office premises at higher rental rates. These increases were offset by a reduction in bad debt expense. In 2007, the Company had to write off \$3.2 million resulting from uncollectible receivables that were acquired in corporate acquisitions.

The Company is focused on decreasing general and administrative costs as efficiencies are realized. During 2008, the Company did not capitalize any of general and administrative expenses.

Depletion, Depreciation and Accretion (“DD&A”)

\$000s, except where noted	Twelve Months Ended December 31, 2008	Fifteen Months Ended December 31, 2007
Depletion, depreciation and accretion	85,385	92,620
Per boe (\$)	30.41	28.83

DD&A expense was \$85.4 million or \$30.41 per boe for the current year in comparison to \$92.6 million or \$28.83 per boe for the prior 15-month period. The higher rate in 2008 is a result of a reduction in proved reserves as detailed in the Company's 2008 reserve report. Due to the reduction in reserves, the Company anticipates that the depletion rate per boe will increase further in 2009.

Stock-Based Compensation

\$000s, except where noted	Twelve Months Ended December 31, 2008	Fifteen Months Ended December 31, 2007
Stock-based compensation	3,116	4,047

The Company uses the fair value method of accounting for stock options granted to directors, officers, employees and consultants whereby the fair value of all stock options granted is recorded as a charge to operations. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes options pricing model. For the 2008 year, the Company issued 6.5 million options at prices ranging from \$0.40 to \$2.60.

Interest Expense

\$000s, except where noted	Twelve Months Ended December 31, 2008	Fifteen Months Ended December 31, 2007
Interest expense	828	3,710
Per boe (\$)	0.29	1.15

The reduction in interest expense is a result of the Company repaying its bank debt in full with funding provided from asset dispositions in the second quarter. The \$0.8 million of interest expense relates entirely to the Company's bank debt. The Company had an average debt level of \$9.0 million and an effective interest rate of 3.64% for the year ended December 31, 2008.

Write-Downs

\$000s, except where noted	Twelve Months Ended December 31, 2008	Fifteen Months Ended December 31, 2007
Write-down of oil and gas properties	57,427	–
Write-down of goodwill	–	172,921
Write-down of other assets, net	307	–

As a result of a reduction in oil and gas reserves, the Company was required to take a ceiling test write-down of \$57.4 million on its U.S. properties in 2008. The decrease in U.S. reserves was based on a review of technical results of 2008 activities, primarily at San Miguel and Fiddler Creek.

In 2008, through the 2007 acquisition of Watch Resources, the Company acquired an investment in asset-backed commercial paper (“ABCP”). At September 30, 2008, the Company assessed this investment for impairment and determined that the fair value had declined as a result of factors specific to this form of investment. As a result, a write-down was recorded in the amount of \$2.6 million. This write-down was partially offset by a dilution gain on the Company’s investment in Serrano Energy Ltd. On August 20, 2008 a third party participated in a private placement in common shares of Serrano. This private placement resulted in a reduction of Pearl’s ownership position from 37% to 18%. As the shares issued under the placement were sold at a per share price greater than the per share price of the Company’s initial investment, the Company recognized a dilution gain of \$2.3 million.

Income Taxes

\$000s, except where noted	Twelve Months Ended December 31, 2008	Fifteen Months Ended December 31, 2007
Future income tax (recovery)	4,066	(19,518)
Income taxes (recovery)	(517)	4,585
	3,549	(14,933)

The provision for future income taxes in 2008 is an expense of \$4.0 million compared to a recovery of \$19.5 million in 2007. In 2007, management recognized the future income tax benefit on certain previously unrecognized tax pools which gave rise to the large recovery. In 2008, the future tax expense of \$4.0 million is primarily attributable to the Company taking a valuation allowance on several of its tax pools acquired in various acquisitions in prior years. Due to the lower oil and gas reserves at December 31, 2008 the Company was uncertain whether these previously recognized pools would be utilized. In 2008, the Company has a current tax recovery of \$0.5 million. It is comprised of a \$2.0 million expense for Saskatchewan capital tax and resource surcharge, offset by a \$2.5 million recovery for a capital loss recorded on the sale of the Company’s Palo Duro assets.

The \$4.6 million expense in 2007 relates to a capital gain on the sale of certain assets in the U.S. and Saskatchewan capital tax and resource surcharge.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2008, the Company had \$47.0 million of remaining credit capacity available under its \$37.0 million extendible term credit facility and \$10.0 million demand revolving credit facility. The Company was able to eliminate all of its bank borrowings as a result of the \$75 million property disposition during the second quarter of 2008. The amount available under the credit facility is based on the value of oil and gas reserves. The recent economic downturn has seen oil and gas prices drop dramatically, which could impact the loan amount availability under this facility. However, the Company does not anticipate using this facility in any significant amounts and; therefore, any decrease in the borrowing capacity of its reserves should not have a material effect on its 2009 operations.

In addition, at December 31, 2008, the Company had a working capital surplus of \$6.5 million compared to a working capital deficit of \$34.2 million at December 31, 2007.

Funds from operations were \$72.1 million for the year ended December 31, 2008 compared to funds from operations of \$21.6 million for the prior 15-month period. The increase is a direct result of more favourable commodity pricing throughout the majority of 2008.

The Company did not issue any new equity in 2008.

The Company remains dedicated to a capital budget philosophy which is to fund capital budgets based on available cash flow from operations, non-core asset sales, equity financings, and to limit the timing of its capital expenditures to minimize the amount of debt used. As such, as a result of the dramatic decrease in current commodity prices the Company deferred several of its projects currently in progress including suspension of the FAST pilot at San Miguel and the SAGD pilot at Chittim as well as the suspension of the currently functioning Onion Lake pilot scheduled for March 2009 after the end of the current production cycle. The Company will consider re-instating some of these deferred projects when the price of oil and natural gas increase. In addition, the Company has reduced its capital spending budget for 2009 to \$7.8 million, a drop from \$107.4 million spent in 2008.

As a result of the economic downturn, access to equity and debt markets is limited. As the Company's projects move from pilot projects to development projects, the Company may consider additional issuances of common shares to assist with financing these developments to the extent that sufficient cash flow from operations is inadequate. The Company may consider divesting additional non-core oil and gas assets or farming out interests in oil and gas properties to finance its operations.

CAPITAL EXPENDITURES

Pearl's capital program is focused on heavy oil opportunities. In 2008, Pearl incurred \$107.4 million in capital expenditures. This included participating in drilling 37 wells, constructing facilities at two steam pilot projects, Onion Lake and San Miguel, as well as a waterflood and polymer flood project at Mooney.

Pearl made a major property disposition of approximately \$79 million during 2008.

\$000s, except where noted	Twelve Months Ended December 31, 2008	Fifteen Months Ended December 31, 2007
Land	4,559	5,089
Seismic	3,083	4,491
Drilling and completion	57,107	141,584
Equipment	35,804	33,334
Other	561	1,967
Total exploration and development	101,114	186,465
Corporate acquisition	–	32,573
Property acquisitions	6,253	25,781
Total capital expenditures	107,367	244,819
Property dispositions	(79,097)	(15,574)
Net capital expenditures	28,270	229,245

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The Company has a number of financial obligations in the ordinary course of business. The following table summarizes the outstanding contractual obligations and commitments of the Company as at December 31, 2008:

\$000s, except where noted	2009	2010	2011	2012	2013	Thereafter
Long-term debt	–	–	–	–	–	–
Operating leases ⁽¹⁾	1,457	1,457	1,525	1,593	1,593	4,474
Drilling rig commitment ⁽²⁾	1,400	2,100	–	–	–	–
	2,857	3,557	1,525	1,593	1,593	4,474

(1) Relates to a lease for office premises, including estimated operating costs.

(2) Relates to a commitment to utilize a drilling rig for a minimum number of days per year.

These obligations are expected to be funded through operating cash flow.

The Company also has ongoing obligations related to the abandonment and reclamation of well sites and facilities which have reached the end of their economic lives. Programs to abandon and reclaim them are undertaken regularly in accordance with applicable legislative requirements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The following table outlines the classification, carrying value and fair value of the Company's financial instruments. All of these instruments are used in the normal course of business. The Company has not entered into any derivative financial instruments or any other hedging activities.

\$000s	Classification	2008		2007	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	Held for trading (i)	24,059	24,059	4,799	4,799
Accounts receivable	Loans and receivable (i)	9,536	9,536	25,134	25,134
Investment in ABCP	Held for trading (ii)	1,288	1,288	3,863	3,863
Other investments	Available for sale (iii)	7,768	7,768	–	–
Accounts payable and accrued liabilities	Other financial liabilities (iv)	(34,409)	(34,409)	(69,899)	(69,899)

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

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

The risks associated with these financial instruments include price risk, foreign currency exchange risk, credit risk, interest rate risk and liquidity risk. A description of these risks as they relate to Pearl's financial instruments is provided below.

Commodity Price Risk

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

Foreign Currency Exchange Risk

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

Credit Risk

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

The Company's accounts receivable are primarily with oil and gas marketers and joint-venture partners. Receivables from oil and gas marketers are generally collected on the 25th day of the month following production. The Company attempts to mitigate this risk by assessing the financial strength of its counterpart and establishing relationships with larger purchasers with established credit history. During 2008, the Company recorded an allowance for doubtful accounts in the amount of \$0.6 million related to the balance owing by one of its gas marketers that filed for creditor protection. The Company has not experienced any other collection issues with its marketers. Receivables from joint-venture partners arise when the Company conducts joint operations on behalf of its partners and invoices them for their share of costs. To mitigate the risk of non-payment from joint-venture partners the Company can require partners to pay certain costs in advance. As well, the Company has the ability to withhold production from partners in the event of non-payment. In 2008, the Company made a provision for doubtful accounts from joint-venture partners in the amount of \$1.2 million. These amounts primarily relate to receivables inherited from other companies that were acquired by Pearl over the last two years.

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

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

Interest Rate Risk

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

Liquidity Risk

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

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

\$000s	<6 Months	6 Months - 1 Year	1-2 Years
Accounts payable and accrued liabilities	34,409	–	–

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

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

OUTSTANDING SHARE DATA

As at March 19, 2009, the Company had 209,341,716 common shares outstanding, 10,000,320 warrants outstanding and 11,999,269 stock options outstanding under its stock-based compensation plan.

RELATED PARTY TRANSACTIONS

Tanganyika Oil Company Ltd. ("Tanganyika") provides administrative and technical services to the Company from time to time based upon time and expenses incurred by Tanganyika. Tanganyika is considered a related party as a result of a number of common officers and directors. For the year ended December 31, 2008, Tanganyika charged the Company \$81,000 (2007 – \$271,000). On December 19, 2008, all of the outstanding shares of Tanganyika were sold to a third party. As a result, it is no longer considered to be a related party as of December 31, 2008.

Namdo Management Services Ltd. ("Namdo") provides executive and support services to the Company. For the twelve months 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.

PROPOSED TRANSACTIONS

As of the date of this MD&A, the Company does not have any pending transactions.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's financial statements requires management to make estimates and assumptions that affect reported assets and liabilities, disclosure of contingencies and revenues and expenses. Management is also required to adopt accounting policies that require the use of significant estimates. Actual results could differ materially from those estimates. A summary of significant accounting policies adopted by Pearl can be found in notes 2 and 3 to the Consolidated Financial Statements.

Management believes the most critical accounting policies, including judgements in their application, which may have an impact on the Company's financial results, relate to the accounting for property, plant and equipment, and asset retirement obligations (ARO). The rate at which the Company's assets are depreciated or otherwise written off and the asset retirement liability provided for, with the associated accretion expensed to the income statement are subject to a number of judgements about future events, many of which are beyond management's control. Reserves recognition is central to much of the accounting for an oil and gas company, as described below.

The following areas contain estimates made by management:

- (i) *Proved oil and natural gas reserves* – Proved oil and natural gas reserves, as defined in National Instrument 51-101 with reference to the Canadian Oil and Natural Gas Evaluation Handbook, 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.

DeGolyer and MacNaughton Canada Limited, an independent reserve evaluator, using all available geological and reservoir data as well as historical production data has prepared the Company's oil and natural gas reserve estimates. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in the Company's development plans. The reserve estimates are also used in determining the Company's borrowing base for its credit facilities. For the year ended December 31, 2008, there was a significant downward revision of the Company's oil and gas reserves. The effect of changes in proved oil and natural gas reserves on the financial results and position of the Company is described below.

- (ii) *Depreciation, depletion and accretion expense* – Pearl uses the full cost method of accounting for exploration and development activities whereby all costs associated with these activities are capitalized whether successful or not. The aggregate of capitalized costs, net of certain costs related to unproved properties, and estimated future development costs is amortized using the unit-of-production method based on estimated proved reserves. Changes in estimated proved reserves or future development costs have a direct impact on depreciation and depletion expense. As a result of the downward revision of the December 31, 2008, reserve estimate the Company had a significant increase in depletion in the fourth quarter.

Certain costs related to unproved properties and major development projects may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly to determine if proved reserves should be assigned, at which point they would be included in the depletion calculation, or for impairment, for which any write-down would be charged to depreciation and depletion expense.

- (iii) *Ceiling test* – The Company is required to review the carrying value of all property, plant, and equipment for potential impairment. Impairment is indicated if the carrying value of the long-lived asset or oil and gas cost centre is not recoverable by the future undiscounted cash flows. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the long-lived asset is charged to earnings.

The ceiling test is based on estimates of reserves prepared by qualified independent evaluators, production rate, crude oil and natural gas prices, future costs and other relevant assumptions. By their nature, reserve estimates are subject to measurement uncertainty and the impact of ceiling test calculations on the consolidated financial statements of changes to reserve estimates could be material. As at December 31, 2008, the Company recorded a \$57.4 million write-down of its U.S. oil and gas assets.

- (iv) *Asset retirement obligations* – The asset retirement obligations are estimated based on existing laws, contracts or other policies. The fair value of the obligation is based on estimated future costs for abandonment and reclamation discounted at a credit-adjusted risk-free rate. The costs are included in property, plant and equipment and amortized over their useful life. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings and for revisions to the estimated future cash flows. The estimates or assumptions required to calculate asset retirement obligations include, among other items, abandonment and reclamation amounts, inflation rates, credit-adjusted discount rates and timing of retirement of assets. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.
- (v) *Income taxes* – The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded. In addition, the Company is required to estimate whether it will be able to utilize all of its existing tax pools before their expiry. In 2008, due to the decrease in oil and gas reserves, the Company recorded a valuation allowance of \$29.0 million of its tax pools as it was uncertain whether it could use all of the resource pools it acquired in certain acquisitions in prior years.
- (vi) *Stock-based compensation* – The Company uses the fair value method to account for stock options. The determination of the amounts for stock-based compensation is based on estimates of stock volatility, interest rates and the term of the option. By their nature, these estimates are subject to measurement uncertainty.

RISKS AND UNCERTAINTIES

The Company is exposed to a number of risks and uncertainties inherent in exploring for, developing and producing crude oil and natural gas. These risks and uncertainties include, but are not limited to, the following:

- operational risk of finding and producing reserves economically;
- uncertainties associated with estimating the quantity of reserves;
- changes in global economic conditions; particularly in Canada and the U.S.;
- competition for, among other things, capital, undeveloped land, skilled labour and equipment;
- risk of fluctuating oil and natural gas prices;
- risk of changes to interest rates;
- risk of fluctuating foreign currency exchange rates;
- credit or counterparty risk with respect to non-performance by counterparties to financial instruments;
- marketing reserves at acceptable prices;
- cost of capital risk associated with securing the needed capital to carry out the Company's operations;
- uncertainty associated with obtaining drilling licenses and other regulatory consents and approvals;
- production risks associated with sour hydrocarbons;
- risk of changes in governmental policies, especially related to royalty legislation, income tax laws, incentive programs, operating practices and environmental protection, social instability or other political, economic or diplomatic developments in its operations; and
- environmental and safety risks related to its oil and gas properties.

Many of the previously mentioned risks are beyond the Company's control, and it is impossible to ensure that any exploration drilling program or piloting program will ultimately result in commercial operations. The Company does not currently utilize derivative instruments to hedge its commodity price, foreign currency exchange or interest rate risks.

Pearl strives to minimize and manage these risks in a number of ways, including:

- employing qualified professional and technical staff;
- maintaining a healthy balance sheet that minimizes the use of debt;
- carrying insurance to provide reasonable amount of protection from risk of loss;
- communicating openly with members of the public regarding its activities;
- concentrating in areas with long-life reserves to reduce the risk associated with commodity price cycles;
- monitoring price trends and establishing relationships with creditworthy counterparties;
- utilizing the latest technology for finding and developing reserves;
- constructing high-quality, environmentally-sensitive, safe production facilities; and
- maximizing operational control of drilling and producing operations.

ENVIRONMENTAL RISKS

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. In 2002, the Government of Canada ratified the Kyoto Protocol (the "Protocol"), which calls for Canada to reduce its greenhouse gas emissions to specified levels. There has been much public debate with respect to Canada's ability to meet these targets and the government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies for reducing greenhouse gases, whether to meet the limits required by the Protocol or as otherwise determined, could have a material impact on the nature of oil and natural gas operations, including those of the Company. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict either the nature of those requirements or the impact on the Company and its operations and financial condition.

NEW ACCOUNTING STANDARDS ADOPTED

January 1, 2008, the Company adopted the new CICA Handbook Sections 3862 "Financial Instruments – Disclosures", 3863 "Financial Instruments – Presentation", and 1535 "Capital Disclosures". The adoption of these standards has had no material impact on the Company's net income or cash flows. Additional information on the implementation of these new standards can be found in Note 3 to the Annual Audited Consolidated Financial Statements.

RECENT ACCOUNTING PRONOUNCEMENTS

Goodwill and Intangible Assets

As of January 1, 2009, Pearl will be required to adopt Section 3064 "Goodwill and Intangible Assets," which revises the requirement for recognition, measurement, presentation and disclosure of intangible assets and replaces the existing Goodwill and Intangible Asset standard. The adoption of this standard should not have a material impact on the Company's consolidated financial statements.

International Financial Reporting Standards

In January 2006, the CICA Accounting Standards Board (“AcSB”) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, the Accounting Standards Board confirmed in February, 2008 that International Reporting Standards (“IFRS”) will replace Canadian GAAP for profit-oriented Canadian publicly accountable enterprises in 2011.

During 2008, the Canadian Accounting Standards Board (AcSB) confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP for interim and annual reporting purposes. The required changeover date is for fiscal years beginning on or after January 1, 2011.

The Company has commenced the process to transition from current Canadian GAAP to IFRS. There are three phases in the process: diagnostic, detailed assessment and design and implementation. The Company has completed a high level review of the major differences between current Canadian GAAP and IFRS. In early 2009 the Company will commence the detailed assessment and design phase of the project. The detailed assessment and design phase involves establishing work teams to complete a comprehensive analysis of the impact of the IFRS differences identified in the initial diagnostic assessment. In addition, an initial evaluation of IFRS transition exemptions and an analysis of financial systems will be performed.

During the implementation phase, the Company will execute the required changes to business processes, financial systems, accounting policies, disclosure controls and internal controls over financial reporting. At this time, the impact on financial statements is not reasonably determinable.

CONTROL CERTIFICATION

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to management to allow for timely decisions regarding required disclosures. The Company carried out an evaluation and effectiveness of the Company’s disclosure controls and procedures as of December 31, 2008. The evaluation was carried out under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer conclude that the Company’s disclosure controls and procedures are effective in providing reasonable, not absolute, assurance that its objectives are met and is not expected to prevent or detect all errors or fraud. During the year ended December 31, 2008, the Company did not implement any significant changes in internal controls over financial reporting or disclosure controls.

Internal Controls Over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer are responsible for the design of internal control procedures over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company has identified certain weaknesses related to lack of segregation of duties and the lack of in-house expertise for complex accounting and taxation issues, due principally to a limited number of staff in a small company. These weaknesses have been mitigated or compensated for by close managerial monitoring of operations and through consultation with external experts. Identified weaknesses could result in a more than likelihood that a material misstatement would not be prevented or detected by the internal controls. Management and the Board of Directors attempt to mitigate the risk of a material misstatement in financial reporting; however, there can be no

assurance that the risk can be reduced to a remote likelihood of a material misstatement. There have been no changes in the Company's systems of internal control over financial reporting that would materially affect, or is reasonably likely to materially affect, the company's internal controls over financial reporting.

FOURTH QUARTER 2008 ACTIVITIES

Crude oil prices decreased by 50% in the fourth quarter 2008 from the third quarter, with WTI oil averaging US\$58.73 per barrel. Heavy oil prices dropped more sharply from the third quarter. The Bow River Heavy oil price differential averaged US\$17.65 per barrel in the fourth quarter compared to US\$16.52 per barrel in the third quarter. The decrease in commodity prices is attributable to the worldwide economic downturn, which has resulted in lower demand for commodities.

The decrease in heavy oil prices during the fourth quarter is also attributable to seasonal fluctuations in heavy oil demand and additional supplies of heavy oil being on the market due to increased production. As a result of these factors, Pearl's average wellhead price dropped from \$95.85 per barrel in the third quarter to \$33.73 per barrel in the fourth quarter of 2008.

Pearl sold an average of 6,198 barrels of oil per day during the fourth quarter, an increase of 7% over third-quarter levels. The increased sales volumes are attributable to continued development at Mooney and Ear Lake. Production revenues were \$20.7 million in the fourth quarter of 2008 compared to \$45.2 million in the third quarter, due to the decrease in wellhead prices. Operating costs were comparable to the third quarter, averaging \$18.06 per barrel. Cash flow from operations and net earnings (loss) in the fourth quarter were \$3.6 million and (\$83.6) million, respectively, compared to \$21.0 million and \$1.9 million, respectively in the third quarter. The reduced cash flow in the fourth quarter of 2008 was due to the decrease in heavy oil prices. The significant net loss in the fourth quarter of 2008 was due to the decrease in revenues and an increase in depletion due to the downward revision of proved reserves on the reserve estimate as at December 31, 2008 and a \$57.4 million write-down of the Company's U.S. oil and gas assets due to a ceiling test impairment.

Capital expenditures in the fourth quarter of 2008 were \$32.8 million, 17% lower than in the third quarter. The decrease reflects the deteriorating economic conditions and the Company's decision to suspend most of its capital spending.

OUTLOOK

Late in 2008, economies worldwide slowed considerably, particularly in the U.S. This has caused a reduction in demand for oil and gas, resulting in a significant deterioration in commodity prices from levels experienced for most of 2008. The WTI forward strip price for 2009 is presently approximately US\$48 per barrel. As a result of these forecast low prices, the Company has elected to approve a modest 2009 capital budget of \$7.8 million. The majority of capital costs in this budget are discretionary and the Company can alter the amounts as the need arises. The capital budget is expected to be funded from working capital and cash flow from operating activities.

The low price environment will see the Company selectively shut-in some of its high cost production that is not profitable at these price levels. In addition, Pearl will likely see a drop in daily oil production throughout 2009 as it defers all but necessary capital expenditures. Heavy oil production tends to have higher costs to produce than light oil and, therefore, low prices have a more dramatic effect on a heavy oil producer. Management believes it is prudent to remain fiscally

conservative during these challenging times and plan to remain cash flow neutral until there is some recovery in oil prices. In addition to capital spending restrictions, Pearl has also implemented several cost reduction initiatives in the field and in head office to maintain its cash and working capital.

Sensitivities

The significant factors that affect the Company's financial performance include commodity prices, heavy oil differentials, exchange rates and production volumes.

The following table summarizes the approximate effect these factors may have on the Company's 2009 performance based on using average daily production of approximately 4,200 barrels of oil per day, a WTI price of US\$48 per barrel, a Bow River/WTI heavy oil price differential of US\$10 per barrel, and a U.S./Canadian dollar exchange rate of \$0.81.

\$000s, except production data	Cash Flow	Net Earnings
Price change		
US\$1 change in WTI oil	826	826
CDN\$0.50 change in AECO gas price	932	932
Exchange rate		
\$0.01 change in US\$/CDN\$ exchange rate	374	374
Production rates		
500 barrels per day change	1,157	(6,370)

The equity and credit markets are expected to remain tight in 2009. We have no specific plans to access additional capital in 2009; however, this will be reviewed internally on a regular basis. Pearl currently has not used its \$47 million bank credit facility. The amount available under the facility is based on the value of the Company's oil and gas reserves.

In summary, 2009 will be a challenging year; however, we believe that we have a good suite of assets and our strong balance sheet will help us weather the current low price environment.

NEW ROYALTY LEGISLATION

The Alberta government's "New Royalty Framework" came into effect on January 1, 2009. On conventional oil, royalty rates payable to the government will increase from a maximum of 35% to a maximum of 50%, with a similar type of increase for natural gas. The royalty formula is based on commodity prices and well productivity. This could impact future drilling as wells may not be economic with the higher royalty rates. The new royalty structure will have the most dramatic effect on the Company's conventional heavy oil Mooney property in northern Alberta where per well productivity rates are higher. On November 19, 2008, the Alberta government announced changes to the new royalty program. For new wells spud after November 19, 2008 the producer can elect to pay using "transition well royalty formulas" which are generally lower than what are included in the New Royalty Framework for the period November 19, 2008 to December 31, 2013. The transitional program will not likely affect Pearl in 2009 due to its limited drilling program planned.

Forward-Looking Statements

In the interest of providing Pearl's shareholders and potential investors with information regarding Pearl, including management's assessment of Pearl's future plans and operations, certain statements contained in this document constitute forward-looking statements or information (collectively "forward-looking statements") within the meaning of the "safe harbour" provisions of applicable securities legislation. Forward-looking statements are typically identified by such words as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "potential", "targeting", "intend", "could", "might", "should", "believe" or similar words suggesting future events or future performance. In addition, statements relating to "reserves" or "resources" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and resources described exist in the quantities predicted or estimated and can be profitably produced in the future. In particular, this document contains forward-looking statements pertaining to, without limitation, the following: the impact on the Company's reserves and business of the new Alberta Royalty Framework and drilling plans; tie-in of wells; environmental regulation compliance costs and strategy; production estimates; netback estimates; business strategy, including strategy in respect of both the Onion Lake and Mooney enhanced oil recovery projects; product balance; the sufficiency of the Company's environmental program; the funding of asset retirement obligations; management's beliefs and outlook for the maintenance of productive capacity; management's outlook for oil, heavy oil and natural gas prices; management's forecast 2009 net capital expenditures and the allocation of funding thereof; the section on "Outlook" which sets forth management's expectations as to production, revenue and net capital expenditures for 2009; the sensitivity of assumptions regarding 2009 cash flow and net income changes in certain operational and financial metrics; currency exchange rates and the effect on funding operations in the United States; forecast cash flow; the timing and likelihood of the recovery of the tax recoveries in the United States and the impact of that on 2009 estimated cash flow; the nature and effectiveness of risk management strategies; management's belief that Pearl will be successful in renewing or replacing its credit facilities on acceptable terms when they expire in May 2009; the quantity and recoverability of oil and natural gas reserves and resources, including the quantity of discovered heavy oil resources in place at Onion Lake and Mooney; and the ability of Pearl to economically develop its contingent resources at its Blackrod project and convert these resources into reserves.

With respect to forward-looking statements contained in this document, management has made assumptions regarding, among other things: future oil and natural gas prices and differentials between light, medium and heavy oil prices; future capital expenditure levels; future oil and natural gas production levels; future exchange rates; the cost of expanding Pearl's property holdings; the ability to obtain equipment in a timely manner to carry out development activities; the ability of insurance to offset the financial impact of any incidents; the ability to market oil and natural gas production 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 exploitation activities. In addition, the "Outlook" section is based on specific assumptions as to commodity prices and exchange rates, planned capital expenditures and the Company's success in maintaining and adding new production through our exploitation activities.