

## PEARL EXPLORATION AND PRODUCTION LTD.

### Consolidated Balance Sheets

(unaudited)

(Cdn\$ in thousands)

March 31, 2009

December 31, 2008

#### Assets

##### Current assets

Cash	\$	13,471	\$	24,059
Accounts receivable		9,664		9,536
Income taxes and capital taxes receivable		607		5,607
Prepaid expenses and deposits		1,482		1,658
		25,224		40,860

Investments (note 5)

1,851

9,619

Petroleum and natural gas properties (note 6)

423,761

421,664

\$ 450,836 \$ 472,143

#### Liabilities

##### Current liabilities

Accounts payable and accrued liabilities

\$ 16,654 \$ 34,409

Future income tax

3,560

4,036

Asset retirement obligation (note 8)

23,257

20,064

43,471

58,510

#### Shareholders' equity

Share capital (note 10)

735,182

723,122

Contributed surplus (note 10)

14,081

11,895

Deficit

(341,898)

(321,382)

407,365

413,635

\$ 450,836 \$ 472,143

Commitments and contingencies (note 11)

*See accompanying notes to consolidated financial statements*

## PEARL EXPLORATION AND PRODUCTION LTD.

### Consolidated Statement of Operations, Comprehensive Loss and Deficit

(unaudited)

(Cdn\$ in thousands, except for per share amounts)

	Three months ended March 31	
	2009	2008
<b>Revenue</b>		
Oil and gas sales	\$ 15,755	\$ 57,830
Interest income	65	116
Royalties	(2,874)	(13,931)
	12,946	44,015
<b>Expenses</b>		
Production	10,165	18,884
Transportation	1,304	1,197
General and administrative	2,885	3,027
Depletion, depreciation and accretion	22,104	25,043
Stock-based compensation (recovery)	(13)	901
Interest	20	339
Foreign currency exchange gain	(453)	(36)
	36,012	49,355
Loss before income taxes	(23,066)	(5,340)
<b>Income taxes</b>		
Future income tax (recovery)	(2,752)	(2,249)
Income taxes and capital taxes expense	202	699
	(2,550)	(1,550)
<b>Loss and comprehensive loss for the period</b>	(20,516)	(3,790)
<b>Deficit, beginning of period</b>	(321,382)	(242,520)
<b>Deficit, end of period</b>	\$ (341,898)	\$ (246,310)
Basic and diluted loss per share	\$ (0.10)	\$ (0.02)
Weighted average number of common shares used in computing loss per share:		
basic and diluted	207,555,049	189,241,716

See accompanying notes to consolidated financial statements

## PEARL EXPLORATION AND PRODUCTION LTD.

### Consolidated Statements of Cash Flows

(unaudited)

(Cdn\$ in thousands, except for per share amounts)

	Three months ended March 31	
	2009	2008
<b>Operating activities</b>		
Net Loss	\$ (20,516)	\$ (3,790)
Items not involving cash:		
Depletion, depreciation and accretion	22,104	25,043
Stock-based compensation (recovery)	(13)	901
Future income tax (recovery)	(2,752)	(2,249)
Foreign exchange gain	(453)	(36)
Abandonment costs	(174)	(417)
	(1,804)	19,452
Changes in non-cash working capital balances related to operations	(26,030)	(13,725)
	(27,834)	5,727
<b>Financing activities</b>		
Advances of bank loan	-	25,000
	-	25,000
<b>Investing activities</b>		
Additions to petroleum and natural gas properties	(3,147)	(17,512)
Cash received on acquisition of BlackCore Resources Inc.	5,589	-
Changes in non-cash working capital from investing	14,804	(18,521)
	17,246	(36,033)
<b>Net increase (decrease) in cash</b>	(10,588)	(5,306)
<b>Cash, beginning of period</b>	24,059	4,799
<b>Cash, end of period</b>	\$ 13,471	\$ (507)
<b>Supplementary Information</b>		
Cash interest paid	\$ 9	\$ 339
Cash capital taxes paid	\$ 5	\$ 358

*See accompanying notes to consolidated financial statements*

**PEARL EXPLORATION AND PRODUCTION LTD.**  
**Notes to the Consolidated Financial Statements**  
**(unaudited)**

(tabular amounts in thousands of Cdn\$, except as noted)

## **1. NATURE OF OPERATIONS**

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

These unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”), and follow the same accounting policies as the financial statements for the year ended December, 31 2008, except as noted in note 2 below. These notes do not include all disclosures required in annual financial statements and are incremental to, and should be read in conjunction with the audited financial statements for the year ended December 31, 2008.

## **2. CHANGES IN ACCOUNTING POLICIES**

On January 1, 2009, the Company adopted the following CICA Handbook Sections:

- Section 3064 “Goodwill and Intangible Assets,” which replaces Section 3062 “Goodwill and other Intangible Assets.” The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets.
- Section 1582 “Business Combinations”, which replaces Section 1581 “Business Combinations”. The new standard establishes principles and requirements of the acquisition method for business combinations and related disclosures.
- Section 1601 “Consolidated Financial Statements” and Section 1602 “Non-controlling Interests”, both of which replace Section 1600 “Consolidated Financial Statements”. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

## **3. RECENT ACCOUNTING PRONOUNCEMENTS**

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

## **4. ACQUISITIONS**

*BlackCore Acquisition* - On January 8, 2009, the Company acquired all of the issued and outstanding shares of BlackCore Resources Inc. in exchange for 17,600,000 common shares of the Company, as well as 5,000,160 Class A and 5,000,160 Class B share purchase warrants. The Class A & B warrants will allow the holder to acquire one Pearl share for a price of \$0.60 when the Pearl share price reaches a volume weighted average price for 30 consecutive days of \$1.50 and \$2.00, respectively. The warrant price was calculated by using the weighted average share price for the five days before and after the date the agreement was entered into.

The consideration, including transaction costs, for the BlackCore acquisition totaled \$12.9 million. The allocation of the purchase price is as follows:

<b>Net assets acquired</b>	
Petroleum and natural gas properties	\$12,691
Working capital	5,468
Asset retirement obligation	(3,023)
Future income tax	(2,274)
<b>Total net assets acquired</b>	<b>\$12,862</b>
<b>Consideration</b>	
Shares	10,560
Warrants	2,200
Acquisition costs	102
<b>Total purchase price</b>	<b>\$12,862</b>

## 5. INVESTMENTS

	March 31, 2009	December 31, 2008
Investment in Serrano Energy Ltd. ("Serrano")	\$ -	\$7,768
MAV Notes (formerly Asset-backed commercial paper)	1,288	1,288
Investment in Tyner Resources Ltd. ("Tyner")	563	563
	<u>\$1,851</u>	<u>\$9,619</u>

- (a) On January 28, 2009, the Company closed an agreement with Serrano Energy Ltd. ("Serrano") to exchange the Company's equity interest in Serrano for a 15% increased interest in the Blackrod area lands and a carried work commitment of \$5 million. The Company was also appointed the operator of the Blackrod project.
- (b) The Company acquired an interest in third party asset-backed commercial paper ("ABCP") with a face value of \$5 million on October 19, 2007 as part of a corporate acquisition. As a result of liquidity issues in the ABCP market, these investments did not settle on maturity. On January 21, 2009, a restructuring plan was implemented which resulted in the Company receiving longer-term replacement notes for its investment in short-term ABCP.

The Company received the following replacement notes:

Notes	Maturity Date (1)	Interest Rate (2)	Face Amount
MAV II Class A-1	July 15, 2056	BA - 0.5%	\$1,537
MAV II Class A-2	July 15, 2056	BA - 0.5%	2,804
MAV II Class B	July 15, 2056	BA - 0.5%	509
MAV II Class C	July 15, 2056	BA +20%	150
			<u>\$5,000</u>

1) Maturity date reflects legal maturity date. The latest maturity date of the underlying assets is December 31, 2016.

2) BA represents Bankers Acceptance interest rates with a maturity of 90 days.

The replacement notes have been classified as held-for-trading which will require them to be measured at fair value at each period end with changes in fair value included in the consolidated statement of operations in the period in which they arise. Currently there is not an active market for the replacement notes. Until a market develops for these notes, the fair value will be determined using a probability weighted discounted cash flow considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments. As at March 31, 2009 and December 31, 2008, the Company has estimated the fair value of the notes at \$1,288,000.

No gain or loss was recorded on the exchange of ABCP for the replacement notes.

- (c) On December 30, 2008 the Company sold all of its interests in certain lands, wells, pipelines and other associated equipment located in the Palo Duro Basin area of Texas. In exchange, Pearl received 18,756,414 common shares of Tyner Resources Ltd. These shares are valued at a price of \$0.03. The share price was calculated by using the weighted average share price for the five days before and after the transaction date. This investment represents 26.4% of the outstanding shares of Tyner and is subject to equity accounting as significant influence exists.

## 6. PETROLEUM AND NATURAL GAS PROPERTIES

	<b>March 31, 2009</b>		
	<b>Cost</b>	<b>Accumulated depreciation and depletion</b>	<b>Net book value</b>
Petroleum and natural gas properties	\$622,798	\$201,141	\$421,657
Office equipment	2,953	849	2,104
	<u>\$625,751</u>	<u>\$201,990</u>	<u>\$423,761</u>
	<b>December 31, 2008</b>		
	<b>Cost</b>	<b>Accumulated depreciation and depletion</b>	<b>Net book value</b>
Petroleum and natural gas properties	\$600,297	\$180,581	\$419,716
Office equipment	2,739	791	1,948
	<u>\$603,036</u>	<u>\$181,372</u>	<u>\$421,664</u>

The depletion and ceiling test calculations have excluded the cost of unproved properties of \$38.9 million (December 31, 2008 – \$31.1 million) and included future development costs of \$34.6 million (December 31, 2008 – \$34.7 million).

The Company performed the ceiling test calculations at March 31, 2009 to assess whether the carrying value of the petroleum and natural gas properties were recoverable. A writedown in the amount of \$1.1 million of the US assets has been included in depletion, depreciation and accretion in the Company's March 31, 2009 financial statements.

## 7. BANK CREDIT FACILITY

The Company has a credit facility with a Canadian chartered bank which is comprised of a \$37 million revolving 364-day extendible term facility, and a \$10 million demand revolving operating facility. The Company may borrow, repay and re-borrow advances with the aggregated outstanding not to exceed the total credit facility. The facility bears interest at the bank prime rate, banker's acceptance or LIBOR loan rates plus applicable margins and is secured by a general securities agreement. At March 31, 2009, there were no advances outstanding under this facility.

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

## 8. ASSET RETIREMENT OBLIGATION

The total future asset retirement obligation was estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows required to settle the asset retirement obligations is approximately \$37.1 million which will be incurred over the next 28 years with the majority of costs incurred between 2010 and 2024.

A credit adjusted risk-free rate of 6.5 percent and an inflation factor of 2 percent was used to calculate the fair value of the asset retirement obligation.

Changes to the asset retirement obligation were as follows:

	<u>2009</u>	<u>2008</u>
<b>Asset retirement obligation at beginning of period</b>	<b>\$ 20,064</b>	<b>\$ 16,586</b>
Liabilities acquired through acquisitions, net of dispositions	<b>3,023</b>	(6,464)
Liabilities incurred during the period	-	896
Adjustment for change in reserve life, abandonment costs, inflation and discount rates	-	8,545
Actual remediation costs	<b>(174)</b>	(668)
Accretion	<b>344</b>	1,169
<b>Asset retirement obligation at end of period</b>	<b>\$ 23,257</b>	<b>\$ 20,064</b>

## 9. RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2009 the Company entered into the following transactions with related parties in the normal course of business, which are recorded at the exchange amount established and agreed to by the related parties:

The Company paid \$45,000 (2008 – \$45,000) to Namdo Management Services Ltd. ("Namdo") for executive and support services pursuant to a services agreement. Namdo is a private corporation owned by Lukas H. Lundin, a director of the Company.

## 10. SHARE CAPITAL

### (a) Authorized:

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

### (b) Common Shares Issued:

	<b>Number of Shares</b>	<b>Attributed Value</b>
Balance as at December 31, 2008 and December 31, 2007	189,241,716	\$723,122
Shares issued for BlackCore acquisition (note 4)	17,600,000	10,560
Shares issued for property acquisitions	2,500,000	1,500
Balance as at March 31, 2009	209,341,716	\$735,182

(c) Warrants Outstanding:

	Number of warrants	Weighted average exercise price per share
Outstanding at December 31, 2008	0	\$ 0.00
Issued Class A on BlackCore Acquisition (note 4)	5,000,160	0.60
Issued Class B on BlackCore Acquisition (note 4)	5,000,160	0.60
Outstanding at March 31, 2009	10,000,320	\$ 0.60

Each warrant allows the holder to acquire, on or before January 13, 2013, one Pearl share for a price of \$0.60 when the Company's share price reaches a volume weighted average price for 30 consecutive days of \$1.50 (Class A warrants) and \$2.00 (Class B warrants).

(d) Stock Options Outstanding

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

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

	Number of Options	Weighted Average Exercise Price (\$)
Outstanding at December 31, 2008	11,138,436	2.16
Granted	2,110,500	0.63
Forfeit	(1,249,667)	\$3.00
Balance, end of the period	11,999,269	\$1.81

The following stock options were outstanding at March 31, 2009:

		Options Outstanding		Options Exercisable		
Range of Exercise Prices (\$)	Number	Weighted-Average Exercise Price (\$)	Weighted-Average Life (Years)	Number	Weighted-Average Exercise Price (\$)	Weighted-Average Life (Years)
0.40 – 1.50	7,140,500	0.69	4.78	1,194,509	0.69	4.84
1.51 – 3.00	2,326,166	2.23	3.95	593,333	2.53	3.73
3.01 – 4.50	1,113,603	3.88	2.45	750,936	4.03	1.96
4.51 – 5.28	1,419,000	5.11	2.78	1,086,000	5.12	2.76
	11,999,269	1.81	4.16	3,624,778	3.01	3.44

**(e) Stock Based Compensation**

Stock based compensation recoveries of \$13,000, net of expenditures of \$586,000, has been recorded in the Consolidated Statements of Operations and Deficit for the quarter ended March 31, 2009 (2008 – expense of \$901,000). The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option pricing model. The weighted average fair value of options granted during 2009 and the assumptions used in their determination are noted below:

	<b>Three Months Ended March 31, 2009</b>	<b>Year Ended December 31, 2008</b>
Weighted average fair value of stock options granted (per option)	\$0.32	\$0.73
Expected life of stock options (years)	2.00	5.00
Volatility (weighted average)	94%	117%
Risk free rate of return (weighted average)	0.97%	1.69%
Expected dividend yield	0%	0%

**(f) Contributed Surplus Continuity**

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
Balance, beginning of the period	\$ 11,895	\$ 8,778
Stock-based compensation	586	3,749
Recovery of expense on forfeited stock options	(600)	(633)
Warrants issued on BlackCore acquisition	2,200	-
Balance, end of period	<u>\$ 14,081</u>	<u>\$ 11,895</u>

**11. COMMITMENTS AND CONTINGENCIES**

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

- (a) The Company has an eight-year operating lease for office space as at March 31, 2009, the payments (net of sublease proceeds) due under this lease agreement (including an estimate for operating costs) are as follows:

	2009	2010	2011	2012	2013	Subsequent to 2013
Office rent	\$1,093	\$1,457	\$1,525	\$1,593	\$1,593	\$4,474

- (b) The Company has contracted drilling rig services over the next four years. In the event that the Company does not utilize the minimum contracted days, the Company would be obligated to pay the rig operator a variable rate based on days not utilized under the contracts. As at March 31, 2009, the payments that would be due under the agreement (assuming no drilling days used) are as follows:

	2009	2010	2011	2012	2012	Subsequent to 2013
Drilling Contract	\$319	\$616	\$935	\$1,211	\$319	Nil

- (c) In connection with the November, 2007 property acquisition from PetroHunter, the Company may be required to pay a performance payment of US \$9.8 million in cash at such time prior to November 6, 2010 if either: (i) production from the assets reaches 5,000 barrels of oil per day; or (ii) proven reserves from the assets is greater than 50 million barrels of oil. As at March 31, 2009, there was no production from and no reserves attributable to these assets.

## 12. SEVERANCE BENEFITS

During the first quarter 2009, the Company realized a number of staff terminations. As a result, the Company has included severance benefits in the aggregate amount of \$431,000 in general and administrative costs in the Company's financial statements. All severance benefits have been paid as at March 31, 2009.

## 13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

### (a) Fair value of financial instruments

The following tables set out the Company's classification carrying amount and fair values of its financial assets and liabilities as at March 31, 2009 and December 31, 2008:

	Classification	2009		2008	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	Held-for-trading (i)	\$13,471	\$13,471	\$24,059	\$24,059
Accounts receivable	Loans and receivables (i)	9,664	9,664	9,536	9,536
Investment in MAV Notes	Held-for-trading (ii)	1,288	1,288	1,288	1,288
Other investments	Available-for-sale (iii)	-	-	7,768	7,768
Accounts payable and accrued liabilities	Other financial liabilities (iv)	(16,654)	(16,654)	(34,409)	(34,409)

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 MAV Notes is determined by a probability-weighted discounted cash flows considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments.

- (iii) Investment in shares of a private company are valued at fair market value based on some comparable transactions involving the issuance of additional shares of the private company.
- (iv) The fair value of accounts payable and accrued liabilities approximates their carrying amounts due to the short-term nature of the instruments.

#### **(b) Commodity price risk**

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

#### **(c) Foreign currency exchange risk**

The Company is exposed to risks arising from fluctuations in foreign currency exchange rates and the volatility of those rates. This exposure primarily relates to: (i) prices received for its crude oil and natural gas are primarily determined in reference to US dollars; (ii) certain expenditure commitments, deposits, accounts receivable, and accounts payable which are denominated in US 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 US vendors as well as timing of transactions. At this time, the Company has not entered into any fixed rate contracts. As at March 31, 2009, the Company held US\$4,182,000 in cash and short-term deposits.

As at March 31, 2009, if US\$ exchange rates had been \$0.10 lower with all other variables held constant, after tax earnings for the period would have been approximately \$185,000 higher, due to an increased foreign exchange gain. An equal opposite impact would have occurred to net earnings had exchange rates been \$0.10 higher. The Company considers this risk to be limited and does not hedge this risk.

#### **(d) Credit Risk**

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

The Company's accounts receivable are primarily with oil and gas marketers and joint venture partners. Receivables from oil and gas marketers are generally collected on the 25<sup>th</sup> day of the month following production. The Company attempts to mitigate this risk by assessing the financial strength of its counterpart and entering into relationships with larger purchasers with established credit history. During the first quarter of 2009, the Company has not experienced any collection issues with its marketers. At March 31, 2009, over 67% of total accounts receivables are for accrual revenues. Receivables from joint venture partners arise when the Company conducts joint operations on behalf of its partners and invoices them for their share of costs. To mitigate the risk of non-payment from joint venture partners the Company can require partners to pay certain costs in advance as well as the Company has the ability to withhold production from partners in the event of non-payment.

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 March 31, 2009, the Company held \$13.5 million in cash at various major banks throughout Canada and the USA, as well as \$1.3 million in investments. At March 31, 2009, two Canadian chartered banks each held approximately 40% of our cash and short term deposits. Cash balances in excess of the Company's day to day requirements are invested at the bank in short-term deposits of less than 30 days.

**(e) Interest Rate Risk**

Interest rate risk refers to the risk that a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. 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.

**(f) Liquidity Risk**

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

The Company manages this risk by maintaining a conservative balance sheet with minimal use of long term debt. As at March 31, 2009, the Company had a \$47 million credit facility with no amounts outstanding, and a positive working capital position of \$8.6 million. The Company believes it has sufficient funding from these sources to meet its foreseeable obligations. The maturity dates for the Company's financial liabilities are as follows:

	<b>&lt;6 Months</b>	<b>6 months -1 Year</b>	<b>1-2 Years</b>
Accounts payable and accrued liabilities	\$16,654	-	-

Subsequent to March 31, 2009 the Company entered into an agreement to issue additional common shares for gross proceeds of \$46 million (See note 15) which will initially be used to augment working capital, but ultimately will be used to fund the Company's capital expenditure programs.

**(g) Capital management**

The Company defines capital as working capital, total debt and equity. The current capital management strategy is designed to minimize the use of long term debt and maintain positive working capital. This strategy should provide the financial flexibility to fund the Company's capital program and profitable growth opportunities. The unutilized \$47 million credit facility capacity provides liquidity to the Company. This structure can be adjusted as a result of changes in economic conditions or risks associated with its oil and gas assets. During 2008, the Company elected to eliminate its existing bank debt from the sale of certain non-strategic assets. In order to maintain or adjust its capital structure, the Company may from time to time issue additional common shares. As a result of the economic global downturn access to its capital markets may be limited. In addition, the Company's credit facilities are based on its petroleum and natural gas reserves whose values are impacted by, among other things, global commodity prices. The Company will adjust its capital spending if access to external capital sources is unavailable. In order to manage the balance in the Company's capital structure, some of the financial tests that Pearl considers is debt to equity ratios, debt to cash flow from operating activities and interest coverage tests.

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

Company was in compliance with these covenants throughout the first quarter of 2009.

#### 14. 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:

	<b>Three Months Ended March 31, 2009</b>		
	<b>Canada</b>	<b>USA</b>	<b>Consolidated</b>
<b>Total revenues, net of royalties</b>	\$ 12,802	\$ 144	\$ 12,946
Expenses	34,952	1,513	36,465
Foreign currency loss (gain)	(373)	(80)	(453)
Net income (loss) before income taxes	(21,777)	(1,289)	(23,066)
Income taxes	(2,550)	-	(2,550)
<b>Net (loss)</b>	<b>(19,227)</b>	<b>(1,289)</b>	<b>(20,516)</b>
<b>Segment assets</b>	<b>440,272</b>	<b>10,564</b>	<b>450,836</b>
<b>Segment petroleum and natural gas properties</b>	<b>420,541</b>	<b>3,220</b>	<b>423,761</b>
<b>Capital additions</b>	<b>\$ 1,659</b>	<b>\$ 1,488</b>	<b>\$ 3,147</b>

	<b>Three Months Ended March 31, 2008</b>		
	<b>Canada</b>	<b>USA</b>	<b>Consolidated</b>
<b>Total revenues, net of royalties</b>	\$ 43,636	\$ 379	\$ 44,015
Expenses	49,136	254	49,390
Foreign currency gain	(4)	(31)	(35)
Income (loss) before income taxes	(5,496)	156	(5,340)
Income taxes (recovery)	(1,559)	9	(1,550)
<b>Net income (loss)</b>	<b>(3,937)</b>	<b>147</b>	<b>(3,790)</b>
<b>Segment assets</b>	<b>529,679</b>	<b>54,558</b>	<b>584,237</b>
<b>Segment petroleum and natural gas properties</b>	<b>471,534</b>	<b>49,801</b>	<b>521,335</b>
<b>Capital additions</b>	<b>\$ 13,395</b>	<b>\$ 4,117</b>	<b>\$ 17,512</b>

#### 15. SUBSEQUENT EVENTS

On April 20, 2009 the Company issued 52,334,000 special warrants of Pearl at a price of \$0.88 per special warrant for aggregate gross proceeds of \$46 million. Each special warrant is convertible into one common share of the Company.

#### 16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in 2009.

For further information, please contact:

**John Festival** - President and Chief Executive Officer  
Tel.: (403) 215-8313  
E-mail: john.festival@pxx.ca

**Don Cook** – Chief Financial Officer  
Tel: (403) 215-8313  
E-mail: don.cook@pxx.ca

Pearl's Certified Advisor on First North is E. Öhman J:or Fondkommission AB.  
Company Registration Number: 409596-1  
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