

PEARL EXPLORATION AND PRODUCTION LTD.

Management's Discussion and Analysis Three months ended March 31, 2009 and 2008

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 quarter ended March 31, 2009. These results are being compared with the 3 month period ended March 31, 2008. The MD&A should be read in conjunction with the Company's unaudited consolidated financial statements for the three months ended March 31, 2009, 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) is calculated at 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 May 5, 2009.

OVERVIEW

Pearl is a Canadian-based oil and gas company whose common shares are traded on the TSX Exchange 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 USA. The Company also holds interests in a number of natural gas properties.

Pearl’s core properties include:

- Onion Lake, Saskatchewan – heavy oil;
- Mooney, Alberta – heavy oil;
- Blackrod, Alberta – heavy oil

These core areas provide the Company with a combination of short term cash flow generation, medium term EOR (Enhanced Oil Recovery) development and longer term thermal growth opportunities.

2009 SIGNIFICANT EVENTS

- The deterioration in the financial markets, which began in 2008 as a result of a credit crisis and global recession, continued during the first quarter of 2009. The worldwide financial crisis has directly impacted the demand for crude oil and natural gas and resulted in dramatically lower commodity prices. Pearl has not been immune from these circumstances and this has resulted in significantly lower revenues.
- On January 1, 2009 the Company amalgamated CODA Holdings (acquired in 2008) with Pearl E & P Canada Ltd.
- 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 and 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. In addition, 2,500,000 common shares of the Company were issued to extinguish the potential contingency payments related to the purchase of lands in the Blackrod area. In conjunction with the acquisition, the Company has hired a new management team who were formerly with BlackRock Ventures Inc. The new Pearl management team were also the principal shareholders of BlackCore.
- On January 28, 2009, the Company closed an agreement with Serrano Energy Ltd. (“Serrano”) to exchange the Company’s equity interest in Serrano for an additional 15% increased interest in the Blackrod area lands (increasing the Company’s working interest to 80% within the main project area) and a carried work commitment of \$5 million. The Company has become the operator of the Blackrod project.
- Due to low commodity prices, the Company curtailed its capital program during the first quarter of 2009, with total expenditures of \$3.1 million.
- 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 net proceeds of approximately \$43.9 million. Each special warrant is convertible into one common share of the Company.

RESULTS OF OPERATIONS

\$ 000s, except where noted

	Three months ended March 31, 2009	Three months ended March 31, 2008
Net loss	(20,516)	(3,790)
Per share (\$)	(0.10)	(0.02)

The Company incurred a net loss of \$20.5 million or \$0.10 per share for the quarter ended March 31, 2009 compared to a loss of \$3.8 million or \$0.02 per share for the three months ended March 31, 2008. The net loss for the year is principally a result of low commodity prices and high depletion costs.

Commodity Prices

In Canada and the US, crude oil prices are generally based on WTI benchmark prices. In the first quarter 2009, WTI prices were significantly lower averaging US\$43.08/bbl compared with US\$97.90/bbl in 2008. The decrease is attributable to the decreased demand for oil as a result of the global recession and financial crisis. The WTI forward strip price for the remainder of 2009 is approximately US\$53 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. During the first quarter of 2009, the WCS reference price averaged 79% of the WTI price, which is consistent with the 78% experienced in Q1 2008. However, more recently heavy oil differentials have narrowed and WCS is selling for 91% of WTI.

Oil prices in Canada are also impacted by the Canada/US exchange rate, since oil is generally priced in US dollars. During the first quarter of 2009, the Canadian dollar was relatively weak against the US dollar with an exchange rate of \$1.2453. This is a significant decrease from the first quarter 2008 where the Canadian dollar was, on average, even with the US dollar.

In the first quarter 2009, natural gas prices decreased 38% compared to the same period in 2008, reflecting lower demand. The AECO-C gas price averaged \$4.66 per GJ in Q1 2009 compared to \$7.49 per GJ in 2008. 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 second quarter of 2009.

Oil and Gas Production, Pricing and Revenue

	Three months ended March 31, 2009	Three months ended March 31, 2008
Daily production / sales volumes ⁽¹⁾		
Oil (bbl/d)	4,423	8,710
Natural gas (mcf/d)	6,527	10,757
Combined (boe/d)	5,510	10,503
Product pricing (\$)		
Crude oil - per bbl	31.99	63.28
Natural gas - per mcf	5.08	7.79
Combined - per boe	31.77	60.50
Revenue (\$000s)		
Oil and gas revenue – gross	15,755	57,830
Royalties	(2,874)	(13,931)
Oil and gas revenue – net	12,881	43,899

(1) gas production converted at 6:1

Oil and gas revenues decreased 73% in the first quarter 2009 to \$15.8 million compared with \$57.8 million in 2008. The decrease is attributable to:

- a) a 49% decrease in oil production
- b) a 49% decrease in the average oil price
- c) a 39% decrease in natural gas production
- d) a 35% decrease in the average gas price

Overall, production, on a boe basis, decreased 48% to 5,510 boe/d in the first quarter 2009 compared with 10,503 boe/d in the same period 2008. 2009 production was impacted by the sale of oil and gas properties in May 2008. The properties that were sold were producing approximately 3,200 boe per day at the time of sale. The remaining decrease is due to natural decline during 2008 and the shutting in of some wells in 2009 due to lower prices. Until commodity prices improve, the Company will limit its capital expenditures, including maintenance capital. As a result, production for the remainder of 2009 will likely decrease from first quarter levels. With minimal maintenance capital, the Company anticipates that production will average between 4,500 and 5,000 boe per day for the remainder of the year.

During the first quarter of 2009, Pearl's average realized oil price was 60% of the WTI reference price, compared to 64% for the corresponding period in the previous year.

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

Royalties

\$000s, except where noted	Three months ended March 31, 2009	Three months ended March 31, 2008
Royalties	2,874	13,931
as a percentage of revenue	18%	24%

Royalties have decreased significantly from \$13.9 million in the first quarter 2008 to \$2.9 million in 2009. The decrease is consistent with the lower revenues and production during the current period. Royalty rates are generally dependent on well productivity and commodity prices. The decreased royalty rates in the first quarter reflect the significantly lower oil prices during the first three months of 2009. Effective January 1, 2009, the New Royalty Framework adopted by the Alberta government was implemented. The new royalty formulas would result in sliding scale royalties of up to 50%. The new royalty structure did not have a significant impact on our operations this quarter due to dramatically lower commodity prices, which kept royalty rates low.

Production Costs

\$000s, except where noted	Three months ended March 31, 2009	Three months ended March 31, 2008
Production costs	10,165	18,884
Per boe (\$)	20.50	19.76

The decrease in production costs from the first quarter of 2008 reflects the lower production levels in 2009.

Production costs on a per BOE basis averaged \$20.50 for the current quarter which is an increase over the corresponding three month period average of \$19.76 in 2008. The increase in per unit operating costs for the period is principally due to a number of wells producing for partial months. A number of wells were shut-in for economic reasons and other wells were shut-in requiring maintenance. Fixed costs continue on these wells even though they are not on production.

Transportation Costs

\$000s, except where noted	Three months ended March 31, 2009	Three months ended March 31, 2008
Transportation costs	1,304	1,197
Per boe (\$)	2.63	1.25

Transportation costs are incurred to move marketable crude oil and natural gas to their selling points. Average transportation costs in the first quarter 2009 were \$2.63 per BOE which is a \$1.38 per boe increase over 2008. The increase is a result of one time adjustments being processed pertaining to prior months that were settled in the first quarter of 2009.

Operating Netback

	Three months ended March 31, 2009	Three months ended March 31, 2008
Revenues	\$31.77	\$60.50
Royalties	(5.80)	(14.58)
Transportation costs	(2.63)	(1.25)
Operating costs	(20.50)	(19.76)
Netback per boe (\$)	2.84	24.91

The 2008 netback of \$2.84 per boe has decreased significantly from the \$24.91 per boe reported in the same quarter of 2008. This decrease is consistent with the significant decrease in oil revenue due to low market prices for oil in the first quarter 2009.

General and Administrative Expenses (“G&A”)

<hr/> \$000s, except where noted	Three months ended March 31, 2009	Three months ended March 31, 2008
General and administrative expenses	2,885	3,027
Per boe (\$)	5.82	3.17

General and administrative costs of \$2.9 million in the first quarter of 2009 are consistent with the \$3 million in costs in 2008. The first quarter 2009 expenses include approximately \$0.4 million in severance costs. As a result of these staff reductions and other cost reduction measures we anticipate lower general and administrative costs in future quarters.

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

<hr/> \$000s, except where noted	Three months ended March 31, 2009	Three months ended March 31, 2008
Depletion, depreciation and accretion	22,104	25,043
Per boe (\$)	44.57	26.20

DD&A expense was \$22.1 million or \$44.57 per boe for the current year in comparison to \$25.0 million or \$26.20 per boe for the prior three month period. The higher rate in 2009 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 remain high for the remainder of 2009. If oil prices remain low, the Company may potentially be required to take a “ceiling test” write-down in future periods.

Stock-Based Compensation

<hr/> \$000s, except where noted	Three months ended March 31, 2009	Three months ended March 31, 2008
Stock-based compensation (recovery)	(13)	901

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 first quarter 2009, the Company issued 2.1 million options at \$0.63 per option.

The expense recovery in the first quarter 2009 is a result of a large number of options being forfeited by former employees during the period. Any previous expense recorded that related to vesting options would be reversed in the current period. During the three month period, the value of forfeited options exceeded the value of those vesting.

Interest Expense

<hr/> \$000s, except where noted	Three months ended March 31, 2009	Three months ended March 31, 2008
Interest expense	20	339
Per boe (\$)	0.04	0.35

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 of 2008. The \$0.02 million of interest expense in 2009 relates to standby fees on the Company's credit facility and a small amount of interest on taxes.

Income Taxes

\$000s, except where noted	Three months ended March 31, 2009	Three months ended March 31, 2008
Future income tax (recovery)	(2,752)	(2,249)
Income taxes (recovery)	202	699
	(2,550)	(1,550)

The provision for future income taxes in the first quarter 2009 is a recovery of \$2.8 million compared to a recovery of \$2.2 million in 2008. Net losses in both periods triggered the recovery. As a percentage of net losses, the recovery in 2009 is less than in 2008. This is due to an increase in the valuation allowance taken on the Company's tax assets during 2009. In 2009, the Company has a current tax expense of \$0.2 million for Saskatchewan capital tax and resource surcharge compared with \$0.7 million recorded in 2008. The decrease in tax is consistent with the decrease in oil prices in 2009.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2009, 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 amount available under the credit facility is based on the value of oil and gas reserves. The Company's credit facility is scheduled for review on May 31, 2009. Based on discussions with the bank, we were provided with an indicative proposal to renew the existing credit facilities with a borrowing base of \$45 million. However, consistent with credit markets around the world, the cost of obtaining credit has increased. With the Company's recent equity placement, the Company does not believe it will require a \$45 million facility and, as a result, to reduce standby fees and other charges, the Company is considering reducing its credit facility to \$25 million.

In addition, at March 31, 2009, the Company had a working capital surplus of \$8.6 million compared to a working capital surplus of \$6.5 million at December 31, 2008. Subsequent to March 31, 2009, the Company entered into an agreement to issue 52,334,000 common shares for net proceeds of approximately \$43.9 million. These funds will initially be used for working capital purposes, but will ultimately be used to fund our capital expenditure programs.

Funds used for operations were (\$1.8) million for the period ended March 31, 2009 compared to funds from operations of \$19.5 million for the prior three month period. The decrease is a direct result of lower commodity pricing in 2009. Our objective in a low price environment is to remain cash flow neutral. We have addressed the negative cash flow in the first quarter by implementing several cost reduction strategies, including a significant reduction in staff levels. Based on current production levels we have estimated that our cash flow from operations break-even point is in range of US\$40-45 (WTI) per barrel.

During the first quarter of 2009, the Company issued 20,100,000 shares at a price of \$0.60 per share as consideration for the acquisition of BlackCore Resources Inc. and to complete a property acquisition in the Blackrod area.

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 our capital expenditures to minimize the amount of debt used. Our original capital budget for 2009 was approximately \$8 million. This budget reflected the difficult commodity price environment, as well as the Company's desire to maintain financial flexibility given the limited availability for additional capital. As a

result of the Company's recent equity financing, this budget will be expanded but the Company has not finalized its plans for this capital. However, the Company's intention is to continue development of its core areas of Onion Lake, Mooney and Blackrod as well as selectively work on new exploration opportunities.

CAPITAL EXPENDITURES

Pearl's capital program is focused on heavy oil opportunities. For the first quarter ended 2009, Pearl incurred \$3.1 million in capital expenditures, a significant decrease from the \$17.5 million spent in the first quarter of 2008. First quarter 2009 costs included facility costs and the drilling of one well in the Mooney area.

\$000s, except where noted	Three months ended March 31, 2009	Three months ended March 31, 2008
Land	308	392
Seismic	-	358
Drilling and completion	1,474	4,859
Equipment	1,352	12,420
Other	-	122
Total exploration and development	3,134	18,151
Property acquisitions	13	146
Total capital expenditures	3,147	18,297
Property dispositions	-	(785)
Net capital expenditures	3,147	17,512

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	Three Months Ended March 31, 2009		
	Canada	USA	Consolidated
Total revenues, net of royalties	\$ 12,802	\$ 144	\$ 12,946
Net loss	(19,227)	(1,289)	(20,516)
Segment assets	440,272	10,564	450,836
Capital additions	\$ 1,659	\$ 1,488	\$ 3,147

\$000s	Three Months Ended March 31, 2008		
	Canada	USA	Consolidated
Total revenues, net of royalties	\$ 43,636	\$ 379	\$ 44,015
Net income (loss)	(3,937)	147	(3,790)
Segment assets	529,679	54,558	584,237
Capital additions	\$ 13,395	\$ 4,117	\$ 17,512

SELECTED QUARTERLY INFORMATION

	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun
\$000s, except where noted	2009	2008	2008	2008	2008	2007	2007	2007
Production (boe/d)	5,510	6,198	5,776	8,246	10,503	9,507	9,093	7,910
Revenue per boe(\$)	31.77	36.28	85.02	79.74	60.50	40.30	39.17	41.40
Oil & gas revenue	15,755	20,687	45,180	59,839	57,830	35,250	32,786	29,801
Production costs	10,165	10,299	9,272	11,453	18,883	14,835	12,245	10,949
Net earnings (loss) (1)	(20,516)	(83,686)	1,926	6,688	(3,790)	(183,407)	(13,683)	(7,225)
Per share, basic and diluted	(0.10)	(0.44)	0.01	0.04	(0.02)	(1.04)	(0.09)	(0.05)
Cash flow from operations	(1,804)	3,623	21,021	28,023	19,452	9,609	6,268	973
Per share, basic and diluted	(0.01)	0.02	0.11	0.15	0.10	0.05	0.04	0.01
Total assets	450,836	472,143	554,956	543,123	584,237	575,865	654,543	620,792
Weighted average shares outstanding (000s)	207,555	189,242	189,242	189,242	189,242	181,212	145,616	133,935

(1) The loss in the first quarter 2009 is a result of low commodity prices and high depletion costs.

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 March 31, 2009:

\$000s	2009	2010	2011	2012	2013	Thereafter
Long-term debt	-	-	-	-	-	-
Operating leases ⁽¹⁾	1,093	1,457	1,525	1,593	1,593	4,474
Drilling rig commitment ⁽²⁾	319	616	935	1,211	319	-
	1,412	2,073	2,460	2,804	1,912	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		As at March 31, 2009		As at December 31, 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 receivable	(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 (maturity dates, interest rates etc) 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.

The risks associated with these financial instruments include price risk, foreign currency exchange risk, credit risk, interest rate risk and liquidity risk which are more fully discussed in note 13 of the Interim Financial Statements.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

OUTSTANDING SHARE DATA

As at May 5, 2009, the Company had 209,341,716 common shares outstanding, 10,000,320 warrants outstanding and 11,354,667 stock options outstanding under its stock-based compensation plan and 52,334,000 special warrants which are exercisable into 52,334,000 common shares of the Company.

RELATED PARTY TRANSACTIONS

Namdo Management Services Ltd. ("Namdo") provides executive and support services to the Company. For the three months ended March 31, 2009, the Company paid Namdo \$45,000 (2008 - \$45,000). 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 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 comprehensive discussion of the Company's significant accounting policies is contained in the MD&A and audited consolidated financial statements for the year ended December 31, 2008. There have been no significant changes in critical accounting estimates since December 31, 2008.

NEW ACCOUNTING STANDARDS ADOPTED

January 1, 2009, the Company adopted the new CICA Handbook Sections 3064 "Goodwill and Intangible Assets"; 1582 "Business Combinations"; 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests". 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 2 to the Company's first quarter unaudited Consolidated Financial Statements.

RECENT ACCOUNTING PRONOUNCEMENTS

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 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. During the second quarter of 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 and Internal Controls over Financial Reporting

Management reported on its disclosure controls and procedures and the design of its internal controls over financial reporting in the year end 2008 MD&A. There has been no material change to the Company's disclosure controls or procedures or to the design of internal controls over financial reporting since that time. It should be noted that the Chief Executive Officer and Chief Financial Officer believe the internal controls, including compensating controls to overcome the lack of certain segregation of duties and the utilization of outside advice to assist with complex taxation, accounting and reporting issues to overcome limited in-house expertise on these matters, are designed appropriately given the nature and size of the Company's operations. Because of their inherent limitations, internal controls over financial reporting may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute assurance that objectives of the control systems are met.

OUTLOOK

Late in 2008 economies worldwide slowed considerably, particularly in the US. 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\$53 per barrel. As a result of these forecast low prices, the Company has significantly reduced its planned capital spending for 2009. However, in light of equity financing in April, the Company will expand its capital expenditure program going forward in order to advance development of projects in our core areas. Some of these projects, such as EOR at Mooney and development of a thermal pilot at Blackrod will require extensive regulatory approval and have a relatively long lead time before we will see a response in terms of increase production and reserves.

The low price environment has resulted in the Company selectively shutting-in some of its high cost production that is not profitable at these price levels. This will likely continue into the second quarter. In addition, Pearl will likely see a further drop in daily oil production throughout Q2 2009 as maintenance capital is deferred until prices improve. 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. We believe it is prudent to remain fiscally conservative during these challenging times and plan to focus spending on promising projects that have yet to be developed. This will help ensure the Company better positions itself to maximize profits upon the recovery of oil prices. In addition to capital spending restrictions, we have also implemented several cost reduction initiatives in the field and in head office to maintain our cash and working capital.

The equity and credit markets are expected to continue to remain tight in 2009. As a result of the recent equity financing, 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.

In summary, the remainder of 2009 will continue to 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.

Forward-Looking Statements

This MD&A contains certain forward-looking statements and forward looking information (collectively referred to as "forward-looking statements"). All statements other than statements of historic fact are forward-looking statements. 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:

- Future crude oil and natural gas prices
- The timing and amount of future oil and gas production
- Expected operating costs, general and administrative and other costs
- Impact of new government legislation regarding royalties
- Use of funds from Pearl's recent equity offering
- Expectations regarding the ability to raise capital to fund the Company's capital program
- Renewal of the Company's credit facilities in May 2009
- Future earnings
- Future drilling plans and capital expenditure programs
- The Company's business plans and strategies
- Supply and demand for oil and natural gas

- The Company's ability to add reserves through acquisitions, exploration and development
- The impact of federal and provincial governmental regulation

The forward-looking statements are subject to known and unknown risks and uncertainties and other factors which may cause actual results to differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A which include but are not limited to:

- 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 US
- competition for, among other things, capital, undeveloped land, skilled labor 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.
- Ability, expertise, judgment and financial capability of joint interest partners

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 credit worthy 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.

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

Readers are also cautioned that the foregoing list of factors is not exhaustive.