

## SECOND QUARTER 2009 FINANCIAL AND OPERATING RESULTS

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Highlights during the quarter included:

- Stronger oil prices and narrower heavy oil differentials over Q1 positively impacted financial results;
- Revenues of \$22.1 million, a 41% increase over Q1;
- Cash flow from operations of \$7.9 million;
- Completion of a \$46 million equity offering in April;
- Strong balance sheet with \$56.8 million in working capital and no debt;
- Continued progress on preparing development plans for the Company's three core areas of Onion Lake, Blackrod and Mooney;

John Festival, President of BlackPearl, commenting on the second quarter results, indicated that "higher oil prices and narrower differentials resulted in improved financial results for the second quarter compared to the first three months of the year. We also made good progress with our cost reduction initiatives with both operating costs and general and administrative costs lowered from the first quarter amounts. Activity levels were low during the quarter, as we elected to conserve cash; however, as a result of the improvement in oil prices and our recent equity offering, BlackPearl is in a strong financial position. We intend to advance the development of each of our core area projects. We have increased our capital budget and are planning to spend \$85-90 million over the next 18-24 months. Initially, we will drill primary vertical wells at Onion Lake, along with development of the SAGD pilot project at Blackrod, and implement phase one of the polymer flood at Mooney. In addition, we will continue to evaluate thermal recovery options at Onion Lake. These projects are not expected to have an immediate impact on short-term production growth but they will lay the foundation for growth over the next three to five years".

### Operations Review

#### Onion Lake

At Onion Lake, during the second quarter of 2009, we analyzed the results of the Cyclic Steam Stimulation (CSS) pilot that was initiated during the fall of 2008. We achieved positive results from this pilot with peak production rates in excess of 200 barrels of oil per day. However, after our internal review we believe, primarily due to the reservoir thickness, that Onion Lake is amenable to a modified form of SAGD recovery process. The main advantage of using SAGD over CSS is anticipated higher oil recovery rates. Work on the most appropriate thermal recovery process will continue, and in the meantime, we will proceed with development of the field drilling primary vertical wells. We plan to drill 25-30 wells during the second half of 2009, and a total of 50-75 wells over the next two or three years.

## Mooney

At Mooney, no new drilling occurred during the second quarter; however, following successful results from our on-going pilot operation, work is continuing on developing a plan to commence a commercial polymer flood on a portion of the field. This work involves, among other things, determining the type and quantity of polymer to use as well as studying the suitability of using a surfactant/alkali with the polymer flood. The first phase of the polymer flood, which will occur over the existing 44 well development, will likely begin in late 2010.

## Blackrod

The Company continued work on its regulatory application to construct and operate a SAGD pilot project at Blackrod, located in the Athabasca Oil Sands. The application is expected to be filed during the third quarter and it is anticipated approval will take six to twelve months. Our preliminary target is to complete construction and start steaming in the first quarter of 2011. We have also executed an agreement to complete the construction of a 50 mmbtu boiler that will be used to generate steam for the project. In addition, construction of a 31 kilometer permanent road to the worksite will begin in September.

## Production Volumes

Pearl's crude oil and natural gas production volumes decreased to 5,170 Boe per day during the second quarter of 2009 compared with 8,246 Boe per day during the second quarter of 2008. The decrease from the prior year is a result of BlackPearl selling approximately 3,200 Boe per day of production in the second quarter last year. Second quarter production was also 6% lower than the first quarter 2009 of 5,510 Boe per day. The primary reason production is lower is due to natural declines, particularly at Mooney, and the Company's decision to defer work-over capital in the first quarter while oil prices were low.

	Three months ended June 30 2009			Three months ended June 30 2008		
	<u>Oil(bbls/d)</u>	<u>Gas(mcf/d)</u>	<u>Boe/d</u>	<u>Oil(bbls/d)</u>	<u>Gas(mcf/d)</u>	<u>Boe/d</u>
Onion Lake	2,043	120	2,063	2,409	360	2,469
Mooney	1,175	1,494	1,424	1,560	2,922	2,047
South Alberta	85	3,220	622	96	4,168	791
Other	864	1,183	1,061	2,614	1,952	2,939
	4,167	6,017	5,170	6,679	9,402	8,246

	Six months ended June 30 2009			Six months ended June 30 2008		
	<u>Oil(bbls/d)</u>	<u>Gas(mcf/d)</u>	<u>Boe/d</u>	<u>Oil(bbls/d)</u>	<u>Gas(mcf/d)</u>	<u>Boe/d</u>
Onion Lake	2,087	168	2,115	2,219	407	2,287
Mooney	1,269	303	1,320	1,892	2,830	2,364
South Alberta	89	3,324	643	85	4,466	829
Other	849	2,476	1,261	3,499	2,377	3,895
	4,294	6,271	5,339	7,695	10,080	9,375

## Management's Discussion and Analysis

The following is Management's Discussion and Analysis ("MD&A") of the operating and financial results of BlackPearl Resources Inc. ("BlackPearl" or the "Company") for the second quarter 2009. These results are being compared with the three and six month periods ended June 30, 2008. The MD&A should be read in conjunction with the Company's unaudited consolidated financial statements for the three and six months ended June 30, 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](http://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 August 11, 2009.

## **OVERVIEW**

BlackPearl 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”. BlackPearl’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.

BlackPearl’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 second 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. BlackPearl 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 BlackPearl share for a price of \$0.60 when the BlackPearl 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 hired a new management team who were formerly with BlackRock Ventures Inc. The new BlackPearl 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 in the first half of 2009, with total expenditures of \$4.1 million.
- On April 20, 2009, the Company issued 52,334,000 special warrants of BlackPearl at a price of \$0.88 per special warrant for aggregate net proceeds of approximately \$43.7 million. Each special warrant was converted into one common share of the Company on May 6, 2009.
- On May 8, 2009, Pearl Exploration and Production Ltd. changed its name to BlackPearl Resources Inc.

## SELECTED QUARTERLY INFORMATION

	30-Jun 2009	31-Mar 2009	31-Dec 2008	30-Sep 2008	30-Jun 2008	31-Mar 2008	31-Dec 2007	30-Sep 2007
\$000s, except where noted								
Production (Boe/d)	5,170	5,510	6,198	5,776	8,246	10,503	9,507	9,093
Revenue per Boe(\$)	47.07	31.77	36.28	85.02	79.74	60.50	40.30	39.17
Oil & gas revenue	22,143	15,755	20,687	45,180	59,839	57,830	35,250	32,786
Production costs	5,873	10,165	10,299	9,272	11,453	18,883	14,835	12,245
Net earnings (loss) (1)	(10,889)	(20,516)	(83,686)	1,926	6,688	(3,790)	(183,407)	(13,683)
Per share, basic and diluted	(0.05)	(0.10)	(0.44)	0.01	0.04	(0.02)	(1.04)	(0.09)
Cash flow from operations	7,910	(1,804)	3,623	21,021	28,023	19,452	9,609	6,268
Per share, basic and diluted	0.03	(0.01)	0.02	0.11	0.15	0.10	0.05	0.04
Total assets	477,876	450,836	472,143	554,956	543,123	584,237	575,865	654,543
Weighted average shares outstanding (000s)	240,973	207,555	189,242	189,242	189,242	189,242	181,212	145,616

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

## RESULTS OF OPERATIONS

\$ 000s, except where noted

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Net income (loss)	(10,889)	6,688	(31,405)	2,898
Per share, basic and diluted (\$)	(0.05)	0.04	(0.14)	0.02

For the three months ended June 30, 2009, the Company incurred a net loss of \$10.9 million or \$0.05 per share compared to net income of \$6.7 million or \$0.04 per share for the same period ended June 30, 2008. The six month period ended June 30, 2009 yielded losses of \$31.4 million compared to net income of \$2.9 million in 2008. The net loss for the current year is principally a result of lower commodity prices and high depletion costs.

## Commodity Prices

Crude oil prices strengthened during the second quarter, with the West Texas Intermediate (WTI) reference price averaging US\$59.62 per barrel compared with US\$43.08 per barrel in the first quarter. However, oil prices in the second quarter of 2009 were still 52% lower than the second quarter of 2008's average of US\$123.98 per barrel. Lower 2009 commodity prices were due to decreased demand as a result of the global recession and financial crisis. The WTI forward strip price for the remainder of 2009 is approximately US\$72.00 although commodity prices are expected to remain volatile due to the effects of the economic slowdown on supply and demand for commodities.

The majority of BlackPearl's production revenues are derived from the sale of heavy oil, which receives a lower price than light oil due to increased processing requirements for a heavy barrel. Western Canada Select (WCS), a heavy oil reference price, averaged 88% of WTI prices in Q2, compared with 79% in Q1 and 83% in Q2 of 2008. The narrowing of the differential has been attributed to increased heavy oil refining capacity, reduced supply of heavy oil from Mexico and Venezuela, as well as improved pipeline access for heavy crude to the Gulf Coast, a heavy oil refining hub.

	2009			2008		
	Q1	Q2	YTD	Q1	Q2	YTD
WTI price (US\$)	\$43.08	\$59.62	\$51.35	\$97.90	\$123.98	\$110.94
Heavy/Light differential (US\$) (Western Canadian Select)	\$8.92	\$7.43	\$8.17	\$20.45	\$21.62	\$21.04
Foreign Exchange	1.244	1.167	1.206	0.996	0.990	0.993
AECO	\$5.62	\$3.66	\$4.64	\$7.13	\$9.34	\$8.24

Oil prices in Canada are also impacted by the Canada/US exchange rate since oil is generally priced in US dollars. During the second quarter of 2009, the Canadian dollar strengthened against the US dollar, averaging 1.167 compared with 1.244 in the first quarter of 2009. The strengthening of the Canadian dollar partially offsets the improved WTI benchmark pricing experienced in the second quarter.

In the second quarter 2009, natural gas prices decreased 61% compared to the same period in 2008, reflecting lower demand. The AECO-C gas price averaged \$3.66 per GJ in Q2 2009 compared to \$9.34 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 third quarter of 2009.

## ***Oil and Gas Production, Pricing and Revenue***

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Daily production / sales volumes <sup>(1)</sup>				
Oil (bbl/d)	4,167	6,679	4,294	7,695
Natural gas (mcf/d)	6,017	9,402	6,271	10,080
Combined (Boe/d)	5,170	8,246	5,339	9,375
Product pricing (\$)				
Crude oil - per bbl	53.33	84.65	42.40	72.55
Natural gas - per mcf	3.51	9.80	4.32	8.73
Combined - per Boe	47.07	79.74	39.22	68.97
Revenue (\$000s)				
Oil and gas revenue - gross	22,143	59,839	37,898	117,669
Royalties	(5,053)	(14,956)	(7,927)	(28,887)
Oil and gas revenue - net	17,090	44,883	29,971	88,782

*(1) gas production converted at 6:1*

Oil and gas revenues decreased 63% in the second quarter 2009 to \$22.1 million compared with \$59.8 million in 2008. The decrease is attributable to:

- a) a 38% decrease in oil production
- b) a 37% decrease in the average oil price
- c) a 36% decrease in natural gas production
- d) a 64% decrease in the average gas price

Overall, production, on a Boe basis, decreased 37% to 5,170 Boe/d for the three months ended June 30, 2009 compared with 8,246 Boe/d in the same period 2008. For the six months ended June 30, 2009, overall production fell 43% to 5,339 Boe/d from 9,375 Boe/d in 2008. The decrease in 2009 production was impacted by the sale of oil and gas properties in May 2008. At the time of sale these properties were producing approximately 3,200 Boe per day. The remaining decrease in both the three and six month periods is due to natural decline.

During the second quarter of 2009, BlackPearl's average realized oil price was 77% of the WTI reference price, compared to 68% for the corresponding period in the previous year. For the six months ended June 30, 2009, the average realized price was 68% of the WTI price compared to 65% for the same period in 2008. The higher realized price relative to WTI prices reflects the narrowing of the heavy oil differential during the second quarter of 2009.

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

## ***Royalties***

\$000s, except where noted	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Royalties	5,053	14,956	7,927	28,887
As a percentage of revenue	23%	25%	21%	25%

Royalties decreased 66% from \$15.0 million in the second quarter 2008 to \$5.1 million in 2009. This is consistent with the six month period ended June 30, 2009 as royalties also fell to \$7.9 million from \$28.9 million for the same period in 2008. The decrease reflects lower revenues and production during both the three and six month periods. Royalty rates are generally dependent on well productivity and commodity prices. The decrease in royalty rates in the first six months reflect the significantly lower oil prices during the first half of 2009. The new drilling incentive program initiated by the Alberta government did not have a significant impact on our operations this quarter and is unlikely to have an impact on our operations for the remainder of 2009 as the majority of our drilling in 2009 will occur in Saskatchewan.

## ***Production Costs***

\$000s, except where noted	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Production costs	5,873	11,453	16,038	30,337
Per Boe (\$)	12.48	15.26	16.60	17.78

The 49% decrease in overall production costs from the second quarter of 2008 reflects the lower production levels in 2009.

Production costs on a per Boe basis averaged \$12.48 for the current quarter which is a decrease over the corresponding three month period average of \$15.26 in 2008. Similarly, the six month period ended June 30, 2009 saw a decline in production costs per Boe, dropping to \$16.60 from \$17.78 for the corresponding period in 2008. Despite an increase in workover and other production costs in the second quarter, the decrease in production costs is a result of several non-recurring adjustments from costs recorded in the first quarter 2009.

## ***Transportation Costs***

\$000s, except where noted	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Transportation costs	687	1,003	1,991	2,201
Per Boe (\$)	1.46	1.34	2.06	1.29

Transportation costs are incurred to move marketable crude oil and natural gas to their selling points. Average transportation costs in the second quarter 2009 were \$1.46 per Boe which was comparable to 2008. For the first six months of 2009, transportation costs per Boe were \$2.06,

which is an increase of \$0.77 over 2008. This is a result of one time adjustments being processed pertaining to 2008 that were settled in the first three months of 2009.

### ***Operating Netback***

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Revenues	\$47.07	\$79.74	\$39.22	\$68.97
Royalties	(10.74)	(19.93)	(8.20)	(16.93)
Transportation costs	(1.46)	(1.34)	(2.06)	(1.29)
Production costs	(12.48)	(15.26)	(16.60)	(17.78)
Netback per Boe	\$22.39	\$43.21	\$12.36	\$32.97

The second quarter 2009 netback of \$22.39 per Boe is significantly higher than the first quarter netback. This increase reflects higher oil prices and lower production costs experienced during the quarter. The three and six month 2009 netbacks were lower than last year due primarily to lower oil and gas prices.

### ***General and Administrative Expenses (“G&A”)***

\$000s, except where noted	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
General and administrative expenses	2,157	3,386	5,042	6,413
Per Boe (\$)	4.59	4.51	5.22	3.76

General and administrative costs of \$2.2 million in the second quarter of 2009 represent a decrease of \$1.2 million from the same quarter in 2008. Similarly, costs in the first six months of 2009 decreased \$1.4 million to \$5.0 million from 2008. The decrease in costs is a result of staff reductions early in 2009, as well as the implementation of other cost reduction initiatives. Salaries and benefits made up approximately 51% of total general and administrative expenses in the first half of 2009. We anticipate general and administrative costs in the second half of 2009 should be similar to the first half results.

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

\$000s, except where noted	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Depletion, depreciation and accretion	19,628	18,992	41,732	44,035
Per Boe (\$)	41.72	25.31	43.18	25.81

DD&A expense was \$19.6 million or \$41.72 per Boe for the second quarter in comparison to \$19.0 million or \$25.31 per Boe for the same three month period in 2008. The six month period resulted in DD&A costs of \$41.7 million or \$43.18 per Boe in 2009 compared to \$44.0 million or \$25.81 per Boe in 2008. 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.

### ***Stock-Based Compensation***

\$000s, except where noted	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Stock-based compensation (recovery)	541	520	528	1,421

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 second quarter 2009, the Company issued 550,000 options at an average exercise price of \$1.12 per option.

The reduction in expenses for the six month period ended June 30, 2009 is a result of a large number of options being forfeited by former employees during the first quarter. Any previous expense recorded that related to the forfeited options were reversed in the current period.

### ***Interest Expense***

\$000s, except where noted	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Interest expense	143	443	163	782
Per Boe (\$)	0.30	0.59	0.17	0.46

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 \$0.2 million of interest expense in 2009 relates to standby fees on the Company's credit facility, as well as interest penalties on late payment of certain taxes.

### ***Income Taxes***

\$000s, except where noted	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Future income tax (recovery)	(2,507)	2,263	(5,258)	14
Income and capital taxes	328	745	530	1,444
	(2,179)	3,008	(4,728)	1,458

The provision for future income taxes in the second quarter 2009 is a recovery of \$2.5 million compared to an expense of \$2.3 million in 2008. The six months ended June 30, 2009 also yielded a recovery of \$5.3 million compared to an expense of \$0.01 million in 2008. Net losses in both the three and six month periods of 2009 triggered the recoveries. In 2009, the Company has a current tax expense of \$0.3 million and \$0.5 million for the three and six month periods, respectively, for Saskatchewan capital tax and resource surcharge compared with \$0.7 million and \$1.4 million recorded in 2008. The decrease in tax is consistent with the decrease in oil prices in 2009.

## **LIQUIDITY AND CAPITAL RESOURCES**

In the second quarter 2009, the Company's existing credit facility was reviewed and amended. At June 30, 2009, the Company had \$25.0 million of credit capacity available under its extendible term credit facility. At the beginning of the year BlackPearl had a \$47 million undrawn credit facility. With the Company's recent equity placement, the Company determined that it did not require a \$47 million facility and, as a result, to reduce standby fees and other charges, the Company elected to reduce the facility to \$25 million. The amount available under the credit facility is based on the value of oil and gas reserves. The next annual review of the Company's credit facility is scheduled to be completed by May 31, 2010.

In addition, at June 30, 2009, the Company had a working capital surplus of \$56.8 million compared to a working capital surplus of \$6.5 million at December 31, 2008. The increase in working capital is a result of the issuance, in April, of 52,334,000 common shares for net proceeds of approximately \$43.7 million. These funds will initially be used for working capital purposes, but will ultimately be used to fund our capital expenditure programs.

Funds from operations were \$7.9 million and \$6.1 million for the three and six month periods ended June 30, 2009, respectively, compared to funds from operations of \$28.0 million and \$47.5 million for the prior 2008 periods. The decrease is a direct result of lower commodity pricing and lower production levels in 2009. Our objective in a low price environment is to remain cash flow neutral. We have addressed the reduced 2009 cash flows 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. In the second quarter 2009, the WTI price averaged US\$59.62, yielding positive cash flows for both the three and six month periods.

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, and the recent increase in oil prices, the Company's Board of Directors has recently approved a revised capital budget of approximately \$85 million, to be spent over the next 18 months. This capital will be used to continue development of BlackPearl's core areas of Onion Lake, Mooney and Blackrod, as well as selectively work on new exploration opportunities. This budget will be funded by existing working capital and cash flow from operations.

## **CAPITAL EXPENDITURES**

BlackPearl's capital program is focused on heavy oil opportunities. For the second quarter ended 2009, BlackPearl incurred \$0.9 million in capital expenditures, a significant decrease from the \$17.6 million spent in the second quarter of 2008. Second quarter 2009 costs included well equipping costs and a small land purchase. No drilling activity occurred during the second quarter of 2009.

\$000s, except where noted	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Land	264	172	573	864
Seismic	-	203	-	561
Drilling and completion	44	8,947	1,517	12,721
Equipment	624	6,711	1,976	19,131
Other	-	439	-	561
Total exploration and development	932	16,472	4,066	33,838
Property acquisitions	-	1,133	13	1,279
Total capital expenditures	932	17,605	4,079	35,117
Property dispositions	-	(75,336)	-	(75,336)
Net capital expenditures	932	(57,731)	4,079	(40,219)

## 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 June 30, 2009			
	Canada	USA	Consolidated	
Total revenues, net of royalties	\$ 17,122	\$ 79	\$ 17,201	
Net loss	(9,679)	(1,210)	(10,889)	
Segment assets	467,630	10,246	477,876	
Capital additions	\$ 932	\$ -	\$ 932	

\$000s	Three Months Ended June 30, 2008			
	Canada	USA	Consolidated	
Total revenues, net of royalties	\$ 45,209	\$ 284	\$ 45,493	
Net income (loss)	6,942	(253)	6,689	
Segment assets	480,145	62,978	543,123	
Capital additions	\$ 11,714	\$ 5,891	\$ 17,605	

\$000s	Six Months Ended June 30, 2009			
	Canada	USA	Consolidated	
Total revenues, net of royalties	\$ 29,924	\$ 223	\$ 30,147	
Net loss	(28,907)	(2,498)	(31,405)	
Segment assets	467,630	10,246	477,876	
Capital additions	\$ 2,654	\$ 1,425	\$ 4,079	

\$000s	Six Months Ended June 30, 2008			
	Canada	USA	Consolidated	
Total revenues, net of royalties	\$ 88,845	\$ 663	\$ 89,508	
Net income (loss)	3,004	(106)	2,898	
Segment assets	480,145	62,978	543,123	
Capital additions	\$ 25,215	\$ 9,902	\$ 35,117	

## 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 June 30, 2009:

\$000s	2009	2010	2011	2012	2013	Thereafter
Long-term debt	-	-	-	-	-	-
Operating leases <sup>(1)</sup>	729	1,457	1,525	1,593	1,593	4,474
Drilling rig commitment <sup>(2)</sup>	213	616	935	1,211	319	-
Steam Generator contract <sup>(3)</sup>	1,187	-	-	-	-	-
	2,129	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.

(3) Relates to a commitment to construct a 50 mmbtu steam boiler.

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 June 30, 2009		As at December 31, 2008	
			Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	Held for Trading	(i)	\$55,563	\$55,563	\$24,059	\$24,059
Accounts receivable	Loans and receivable	(i)	10,742	10,742	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)	(12,634)	(12,634)	(34,410)	(34,410)

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 August 11, 2009, the Company had 261,684,050 common shares outstanding, 10,000,320 warrants outstanding and 10,848,000 stock options outstanding under its stock-based compensation.

#### **RELATED PARTY TRANSACTIONS**

Namdo Management Services Ltd. ("Namdo") provided executive and support services to the Company. For the six months ended June 30, 2009, the Company paid Namdo \$45,000 (2008 - \$45,000). Namdo is a private corporation owned by a former 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 second 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 and has commenced the detailed assessment and design phase of the project. The Company's internal staff has been appointed the task of performing the actual conversion, while the Company's external auditors have been engaged to act as advisors. A comprehensive analysis of the impact of the IFRS differences, identified in the initial diagnostic assessment, is currently being performed and documented. 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**

During the first half of 2009, capital expenditures were curtailed as a slowdown in economic activity resulted in reduced demand and lower commodity prices. Crude oil prices have improved, however, prices are expected to remain volatile due to an uncertain economic environment. As a result of the recent improvement in oil prices, as well as our recent equity offering, we intend to expand our capital expenditure program in order to advance the development of our core area projects. Over the next 18-24 months we anticipate capital spending of \$80-90 million.

A number of these projects, such as the polymer flood at Mooney, and the demonstration SAGD project at Blackrod require extensive regulatory approval and will not have an immediate impact on production. However, advancement of these projects is critical for the long term growth of the Company. In addition, we plan to drill primary heavy oil wells at Onion Lake which will allow us to offset natural production declines from existing wells and maintain production in the range of 5,000 barrels per day. At current prices and, production of 5,000 barrels per day, we anticipate generating \$25-30 million in annual cash flows from operations which will be used to fund our continuing capital program.

## **FORWARD-LOOKING STATEMENTS**

This report contains certain forward-looking statements and forward looking information within the meaning of applicable Canadian securities legislation (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, and which rely on assumptions such as 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 BlackPearl's recent share issuance;
- Future earnings and cash flow from operations;
- 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; and
- 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;
- Environmental and safety risks related to its oil and gas properties; and
- 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.

BlackPearl 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. Although we believe that the expectations conveyed by the forward-looking statements are reasonable based on information available to us on the date such forward-looking statements were made, 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.

**BLACKPEARL RESOURCES INC.**  
(formerly Pearl Exploration & Production Ltd.)

**Consolidated Balance Sheets**  
(unaudited)

<b>(Cdn\$ in thousands)</b>	<b>June 30</b>	<b>December 31</b>
	<b>2009</b>	<b>2008</b>
<b>Assets</b>		
Current assets		
Cash	\$ 55,563	\$ 24,059
Accounts receivable	10,742	9,536
Income taxes and capital taxes receivable	1,557	5,607
Prepaid expenses and deposits	1,566	1,658
	<u>69,428</u>	<u>40,860</u>
Investments (note 5)	1,288	9,619
Petroleum and natural gas properties (note 6)	407,160	421,664
	<u>\$ 477,876</u>	<u>\$ 472,143</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 12,634	\$ 34,410
Future income tax	382	4,034
Asset retirement obligations (note 8)	23,519	20,064
	<u>36,535</u>	<u>58,508</u>
<b>Shareholders' equity</b>		
Share capital (note 10)	779,508	723,122
Contributed surplus (note 10)	14,620	11,895
Deficit	(352,787)	(321,382)
	<u>441,341</u>	<u>413,635</u>
	<u>\$ 477,876</u>	<u>\$ 472,143</u>

Commitments and contingencies (note 11)  
See accompanying notes to consolidated financial statements

**BLACKPEARL RESOURCES INC.**  
(formerly Pearl Exploration and Production Ltd.)

**Consolidated Statement of Operations, Comprehensive Income (Loss) and Deficit**  
(unaudited)

(Cdn\$ in thousands, except for per share amounts)	Three months ended		Six months ended	
	June 30		June 30	
	2009	2008	2009	2008
<b>Revenue</b>				
Oil and gas sales	\$ 22,143	\$ 59,839	\$ 37,898	\$ 117,669
Interest income	111	609	176	726
Royalties	(5,053)	(14,956)	(7,927)	(28,887)
	<u>17,201</u>	<u>45,492</u>	<u>30,147</u>	<u>89,508</u>
<b>Expenses</b>				
Production	5,873	11,453	16,038	30,337
Transportation	687	1,003	1,991	2,201
General and administrative	2,157	3,386	5,042	6,413
Depletion, depreciation and accretion	19,628	18,992	41,732	44,035
Stock-based compensation	541	520	528	1,421
Interest	143	443	163	782
Foreign currency exchange loss (gain)	684	(1)	230	(37)
Write-down of investments	556	-	556	-
	<u>30,269</u>	<u>35,796</u>	<u>66,280</u>	<u>85,152</u>
Income (loss) before income taxes	<u>(13,068)</u>	9,696	<u>(36,133)</u>	4,356
<b>Income taxes</b>				
Future income tax (recovery)	(2,507)	2,263	(5,258)	14
Current income taxes and capital taxes	328	745	530	1,444
	<u>(2,179)</u>	<u>3,008</u>	<u>(4,728)</u>	<u>1,458</u>
<b>Comprehensive Income (loss) for the period</b>	<b>(10,889)</b>	6,688	<b>(31,405)</b>	2,898
<b>Deficit, beginning of period</b>	<u>(341,898)</u>	(246,310)	<u>(321,382)</u>	(242,520)
<b>Deficit, end of period</b>	<b>\$ (352,787)</b>	<b>\$ (239,622)</b>	<b>\$ (352,787)</b>	<b>\$ (239,622)</b>
Basic and diluted earnings (loss) per share	\$ (0.05)	\$ 0.04	\$ (0.14)	\$ 0.02
Weighted average number of common shares used in computing loss per share:				
basic	240,973,284	189,241,716	224,356,482	189,241,716
diluted	243,109,576	189,241,716	224,882,641	189,241,716

See accompanying notes to consolidated financial statements

**BLACKPEARL RESOURCES INC.**  
(formerly Pearl Exploration and Production Ltd.)

**Consolidated Statements of Cash Flows**  
**(unaudited)**

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

	Three months ended		Six months ended	
	June 30		June 30	
	2009	2008	2009	2008
<b>Operating activities</b>				
Net income (loss)	\$ (10,889)	\$ 6,688	\$ (31,405)	\$ 2,898
Items not involving cash:				
Depletion, depreciation and accretion	19,628	18,992	41,732	44,035
Stock-based compensation	541	520	528	1,421
Future income tax (recovery)	(2,507)	2,263	(5,258)	14
Foreign exchange loss (gain)	684	(1)	230	(37)
Recovery of accounts receivable	-	(190)	-	(190)
Write-down of investments	556	-	556	-
Abandonment costs	(103)	(249)	(277)	(666)
	<u>7,910</u>	<u>28,023</u>	<u>6,106</u>	<u>47,475</u>
Changes in non-cash working capital balances related to operations	<u>(11,301)</u>	<u>3,167</u>	<u>(37,331)</u>	<u>(10,559)</u>
	<u>(3,391)</u>	<u>31,190</u>	<u>(31,225)</u>	<u>36,916</u>
<b>Financing activities</b>				
Proceeds on issue of common shares, net of costs	43,652	-	43,652	-
Advances of bank loan	-	-	-	25,000
Repayments of bank loan	-	(20,000)	-	(20,000)
	<u>43,652</u>	<u>(20,000)</u>	<u>43,652</u>	<u>5,000</u>
<b>Investing activities</b>				
Additions to petroleum and natural gas properties	(932)	(17,605)	(4,079)	(35,117)
Proceeds from sale of assets	-	75,336	-	75,336
Cash received on acquisition of BlackCore Resources Inc.	-	-	5,589	-
Changes in non-cash working capital from investing	2,763	(13,665)	17,567	(32,185)
	<u>1,831</u>	<u>44,066</u>	<u>19,077</u>	<u>8,034</u>
<b>Net increase in cash</b>	<b>42,092</b>	<b>55,256</b>	<b>31,504</b>	<b>49,950</b>
<b>Cash (indebtedness), beginning of period</b>	<b>13,471</b>	<b>(507)</b>	<b>24,059</b>	<b>4,799</b>
<b>Cash, end of period</b>	<b>\$ 55,563</b>	<b>\$ 54,749</b>	<b>\$ 55,563</b>	<b>\$ 54,749</b>
Supplementary Information				
Cash interest paid	\$ 15	\$ 443	\$ 24	\$ 782
Cash capital taxes paid	\$ 67	\$ 652	\$ 72	\$ 1,010

See accompanying notes to consolidated financial statements

**BLACKPEARL RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
**(unaudited)**

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

**1. NATURE OF OPERATIONS**

On May 8, 2009, Pearl Exploration and Production Ltd. formally changed its name to BlackPearl Resources Inc. BlackPearl Resources Inc. (collectively with its subsidiaries, the “Company” or “BlackPearl”) 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 and methods of computation as the audited consolidated financial statements for the year ended December, 31 2008, except for new accounting policies adopted in note 2 below. Certain disclosures, which are normally required to be included in the notes to the annual consolidated financial statements have been condensed or omitted. The interim consolidated financial statements should be read in conjunction with the audited annual 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. FUTURE ACCOUNTING POLICIES**

The CICA Accounting Standards Board (“AcSB”) has confirmed that the use of International Financial Reporting Standards (“IFRS”) will be required for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011 for publicly accountable profit-oriented enterprises. Companies will be required to provide comparative IFRS information for 2010. The Company is assessing the potential impacts of this changeover and developing a plan for the conversion, but the Company has not at this time made any determination on the impact on the Company’s financial statements.

**4. ACQUISITIONS**

On January 8, 2009, the Company acquired all of the issued and outstanding shares of BlackCore Resources Inc., a private oil and gas company, 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 BlackPearl share for a price of \$0.60 when the BlackPearl 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 obligations	(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

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
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
	<u>\$1,288</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 June 30, 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, BlackPearl received 18,756,414 common shares of Tyner Resources Ltd. at a price of \$0.03 per share. The Company has written down the value of its investment in Tyner to NIL in accordance with equity investment accounting, based on BlackPearl's ownership interest in Tyner, and the significant loss incurred since the acquisition was made on December 30, 2008.

## 6. PETROLEUM AND NATURAL GAS PROPERTIES

	<b>June 30, 2009</b>		
	<b>Cost</b>	<b>Accumulated depreciation and depletion</b>	<b>Net book value</b>
Petroleum and natural gas properties	\$625,527	\$220,372	\$405,155
Office equipment	2,924	919	2,005
	<u>\$628,451</u>	<u>\$221,291</u>	<u>\$407,160</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 \$39.4 million (December 31, 2008 – \$31.1 million) and included future development costs of \$34.5 million (December 31, 2008 – \$34.7 million).

The Company performed the ceiling test calculations at June 30, 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 six months ended June 30, 2009 financial statements.

## 7. BANK CREDIT FACILITY

The Company has a credit facility with a Canadian chartered bank which is comprised of a \$25 million revolving 364-day extendible term 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 or at banker's acceptance or LIBOR loan rates, plus applicable margins, which varies depending on the Company's working capital ratio. At June 30, 2009, a prime rate based drawdown would be at the bank's prime rate plus 0.75%. The Company also incurs a standby fee for undrawn amounts. The facility is secured by a fixed and floating charge on the assets of the Company and is secured by a general securities agreement. At June 30, 2009, there were no advances outstanding under this facility.

The facility is subject to annual reviews. The next scheduled review is to be completed by May 31, 2010.

## 8. ASSET RETIREMENT OBLIGATIONS

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:

	<b>For the six months ended</b>	<b>For the twelve months ended</b>
	<b>June 30, 2009</b>	<b>December 31, 2008</b>
<b>Asset retirement obligations at beginning of period</b>	\$ 20,064	\$ 16,586
Liabilities acquired through acquisitions, net of dispositions	3,012	(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	(277)	(668)
Accretion	720	1,169
<b>Asset retirement obligations at end of period</b>	<b>\$ 23,519</b>	<b>\$ 20,064</b>

## 9. RELATED PARTY TRANSACTIONS

During the six months ended June 30, 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 former 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:	Number of Shares	Attributed Value
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
Shares issued for cash (i)	52,334,000	46,046
Shares issued upon exercise of stock options	8,334	8
Share issuance costs, net of tax		(1,728)
Balance as at June 30, 2009	261,684,050	\$779,508

(i) On April 20, 2009, the Company issued 52,334,000 special warrants of BlackPearl at a price of \$0.88 per special warrant for aggregate gross proceeds of \$46 million. On May 6, 2009 each special warrant was converted into one common share of the Company.

### (c) Warrants Outstanding:

	Number of warrants	Weighted average exercise price per share
Outstanding at December 31, 2008	-	\$ 0.00
Class A warrants issued on BlackCore Acquisition (note 4) (i)	5,000,160	0.60
Class B warrants issued on BlackCore Acquisition (note 4) (i)	5,000,160	0.60
Outstanding at June 30, 2009	10,000,320	\$ 0.60

(i) Each outstanding warrant allows the holder to acquire, on or before January 13, 2013, one BlackPearl 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, employees and certain consultants 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. The term and the vesting period of any options granted are determined at the discretion of the board of directors. The maximum term for options granted is ten years. The exercise price of the option cannot be less than the five-day volume weighted average trading price of the common shares immediately preceding the day the option is 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	2,660,500	0.73
Exercised	(8,334)	0.63
Forfeited	(2,942,602)	3.49
Outstanding at June 30, 2009	10,848,000	\$1.45

The following table summarizes stock options which were outstanding at June 30, 2009:

Options Outstanding				Options Exercisable		
Range of Exercise Prices (\$)	Number of Options	Weighted-Average Exercise Price (\$)	Weighted-Average Life (Years)	Number of Options	Weighted-Average Exercise Price (\$)	Weighted-Average Life (Years)
0.40 – 1.50	7,665,500	0.72	4.55	1,369,509	0.75	4.62
1.51 – 3.00	1,886,500	2.24	3.70	400,167	2.52	3.48
3.01 – 4.50	394,000	3.61	3.24	131,333	3.61	3.24
4.51 – 5.28	902,000	5.10	2.53	583,000	5.11	2.51
	10,848,000	1.45	4.19	2,484,009	2.21	3.87

**(e) Stock Based Compensation**

Stock based compensation of \$528,000, net of recoveries of \$707,000, has been recorded in the Consolidated Statements of Operations and Deficit for the six-month period ended June 30, 2009 (2008 – expense of \$1,421,000). 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:

	Six Months Ended June 30, 2009	Year Ended December 31, 2008
Weighted average fair value of stock options granted (per option)	\$0.37	\$0.73
Expected life of stock options (years)	2.01	5.00
Volatility (weighted average)	94%	117%
Risk free rate of return (weighted average)	0.99%	1.69%
Expected dividend yield	0%	0%

	For the six months ended	For the twelve months ended
(f) Contributed Surplus Continuity	June 30, 2009	December 31, 2008
Balance, beginning of the period	\$ 11,895	\$ 8,778
Stock-based compensation	1,235	3,749
Recovery of expense on forfeited stock options	(707)	(632)
Warrants issued on BlackCore acquisition	2,200	-
Transferred to share capital on exercise of stock options	(3)	-
Balance, end of period	<u>\$ 14,620</u>	<u>\$ 11,895</u>

## 11. COMMITMENTS AND CONTINGENCIES

- (a) The Company has an eight-year operating lease for office space as at June 30, 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	\$729	\$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 June 30, 2009, the payments that would be due under the agreement (assuming no drilling days used) are as follows:

	2009	2010	2011	2012	2013	Subsequent to 2013
Drilling Contract	\$213	\$616	\$935	\$1,211	\$319	Nil

- (c) The Company has contracted for the construction of a 50 mmbtu steam boiler. As at June 30, 2009, the remaining payments due under the agreement is as follows:

	2009	2010	2011	2012	2013	Subsequent to 2013
Construction Contract	\$1,187	-	-	-	-	Nil

- (d) 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 June 30, 2009, there was no production from and no reserves attributable to these assets.

## 12. SEVERANCE BENEFITS

During the first quarter 2009, the Company incurred 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 were paid in the first quarter 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 June 30, 2009 and December 31, 2008:

	Classification	June 30, 2009		December 31, 2008	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	Held-for-trading (i)	\$55,563	\$55,563	\$24,059	\$24,059
Accounts receivable	Loans and receivables (i)	10,742	10,742	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)	(12,634)	(12,634)	(34,410)	(34,410)

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 cash flow model 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 BlackPearl 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. As at June 30, 2009, the Company has not entered into any fixed rate contracts. As at June 30, 2009, the Company held US\$4,224,000 in cash and short-term deposits.

As at June 30, 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 \$110,000 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 does not hedge its foreign currency 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 25th day of the month following production. The Company attempts to mitigate this risk by assessing the financial strength of its counterpart and entering into relationships with larger purchasers with established credit history. During the first quarter of 2009, the Company has not experienced any collection issues with its marketers. At June 30, 2009, over 82% 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. As at June 30, 2009, accounts receivable includes an allowance for doubtful accounts of \$2,535,000 from joint interest partners. These amounts primarily relate to receivables inherited from other companies that were acquired by BlackPearl over the last three 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.

The Company is not the operator of certain oil and gas properties in which it has an ownership interest. The Company is dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. In addition, the Corporation's activities may be impacted by the ability, expertise, judgment and financial capability of the operators. As at June 30, 2009, one of the operators of a US property in which the Company has an interest in has filed for creditor protection in US bankruptcy court and has failed to pay certain suppliers, resulting in various liens on the property. The impact on the Company's interest in the property has not been determined.

As at June 30, 2009, the Company held \$55.6 million in cash at various major banks throughout Canada and the USA, as well as \$1.3 million in investments. At June 30, 2009, two Canadian chartered banks each held approximately 99% 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 due to the floating interest rate charged on advances. 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 June 30, 2009, the Company had a \$25 million credit facility with no amounts outstanding, and a positive working capital position of \$56.8 million. The Company believes it has sufficient funding from these sources to meet its foreseeable obligations. The maturity dates for the Company's financial liabilities are as follows:

	<6 Months	6 months -1 Year	1-2 Years
Accounts payable and accrued liabilities	\$12,634	-	-

(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 \$25 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 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 BlackPearl considers are debt to equity ratios, debt to cash flow from operating activities and interest coverage tests. To facilitate the management and control of these ratios, the Company prepares annual operating and capital budgets. These budgets are generally updated quarterly, or more frequently if circumstances change. In order to improve its financial flexibility, the Company raised approximately \$43 million of additional equity during the second quarter of 2009. These funds will be used to expand exploration and development programs over the next 18-24 months.

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 bank credit facility compared to current liabilities. The Company was in compliance with these covenants throughout the first six months 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 June 30, 2009</b>		
	<b>Canada</b>	<b>USA</b>	<b>Consolidated</b>
<b>Total revenues, net of royalties</b>	\$ 17,122	\$ 79	\$ 17,201
Expenses	28,912	118	29,030
Foreign currency loss (gain)	68	615	683
Write-down of investments	-	556	556
Net income (loss) before income taxes	(11,858)	(1,210)	(13,068)
Income taxes	(2,179)	-	(2,179)
<b>Net (loss)</b>	<b>(9,679)</b>	<b>(1,210)</b>	<b>(10,889)</b>
<b>Segment assets</b>	<b>467,630</b>	<b>10,246</b>	<b>477,876</b>
<b>Segment petroleum and natural gas properties</b>	<b>403,919</b>	<b>3,211</b>	<b>407,160</b>
<b>Capital additions</b>	\$ 932	\$ -	\$ 932

	<b>Six Months Ended June 30, 2009</b>		
	<b>Canada</b>	<b>USA</b>	<b>Consolidated</b>
<b>Total revenues, net of royalties</b>	\$ 29,924	\$ 223	\$ 30,147
Expenses	63,864	1,630	65,415
Foreign currency loss (gain)	(305)	535	230
Write-down of investments	-	556	556
Net income (loss) before income taxes	(33,635)	(2,498)	(36,133)
Income taxes	(4,728)	-	(4,728)
<b>Net (loss)</b>	<b>(28,907)</b>	<b>(2,498)</b>	<b>(31, 405)</b>
<b>Segment assets</b>	<b>467,630</b>	<b>10,246</b>	<b>477,876</b>
<b>Segment petroleum and natural gas properties</b>	<b>403,919</b>	<b>3,211</b>	<b>407,160</b>
<b>Capital additions</b>	\$ 2,654	\$ 1,425	\$ 4,079

<b>Three Months Ended June 30, 2008</b>					
	<b>Canada</b>		<b>USA</b>		<b>Consolidated</b>
<b>Total revenues, net of royalties</b>	\$	45,209	\$	284	\$ 45,493
Expenses		35,254		543	35,797
Foreign currency loss (gain)		(7)		6	(1)
Income (loss) before income taxes		9,962		(265)	9,697
Income taxes (recovery)		3,020		(12)	(3,008)
<b>Net income (loss)</b>		<b>6,942</b>		<b>(253)</b>	<b>6,689</b>
<b>Segment assets</b>		480,145		62,978	543,123
<b>Segment petroleum and natural gas properties</b>		385,192		55,512	440,704
<b>Capital additions</b>	\$	11,714	\$	5,891	\$ 17,605

<b>Six Months Ended June 30, 2008</b>					
	<b>Canada</b>		<b>USA</b>		<b>Consolidated</b>
<b>Total revenues, net of royalties</b>	\$	88,845	\$	663	\$ 89,508
Expenses		84,391		797	85,188
Foreign currency loss (gain)		(11)		(25)	(36)
Net income (loss) before income taxes		4,465		(109)	4,356
Income taxes		1,461		(3)	1,458
<b>Net (loss)</b>		<b>3,004</b>		<b>(106)</b>	<b>2,898</b>
<b>Segment assets</b>		480,145		62,978	543,123
<b>Segment petroleum and natural gas properties</b>		385,192		55,512	440,704
<b>Capital additions</b>	\$	25,215	\$	9,902	\$ 35,117

## 15. COMPARATIVE FIGURES

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

## DIRECTORS

**John H. Craig**  
Director  
Toronto, Ontario

**Brian D. Edgar**  
Director  
Vancouver, British Columbia

**John L. Festival**  
Director, President and Chief Executive Officer

**Keith C. Hill**  
Chairman, Director  
West Vancouver, British Columbia

**Victor Luhowy**  
Director  
Priddis, Alberta

## OFFICERS

**John Festival**  
President & Chief Executive Officer  
Calgary, Alberta

**Don Cook**  
Chief Financial Officer  
Calgary, Alberta

**Chris Hogue**  
Vice President, Operations  
Calgary, Alberta

**Ed Sobel**  
Vice President, Exploration  
Calgary, Alberta

**Diane Phillips**  
Corporate Secretary  
Calgary, Alberta

## CORPORATE INFORMATION

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**AUDITOR**  
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**TRANSFER AGENT**  
Computershare Trust Company of Canada  
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Calgary, Alberta

### STOCK EXCHANGE LISTING

TSX Exchange  
Trading Symbol: PXX  
First North (OMX Nordic Exchange)  
Trading Symbol: PXXS

**COMPANY REGISTRATION NUMBER**  
409596-1

**CERTIFIED ADVISOR ON FIRST NORTH**  
E. Öhman J:or Fondkommission AB.

The report for the quarter ending  
September 30, 2009 will be published  
on or before November 13, 2009