



700, 444 – 7th Avenue S.W.
Calgary, AB T2P 0X8
Telephone: 403-215-8313
Fax: 403-262-5123

THIRD QUARTER 2009 FINANCIAL AND OPERATING RESULTS

Highlights during the quarter included:

- Revenues of \$24.1 million, a 9% increase over Q2.
- Cash flow from operations of \$8.2 million.
- Strong balance sheet with \$59.9 million in working capital and no debt.
- Initiated a 27 well drilling program at Onion Lake.
- Commenced road construction and completed the steam generator for the Blackrod SAGD pilot.
- Continued the successful polymer pilot at Mooney; 14% recovery to date.
- Reduced operating costs and administrative expenses.

John Festival, President of BlackPearl, commenting on 2009 activities indicated that “When the new management group joined BlackPearl we felt the Company required a more operational focus. Initially, our objective was to reduce operating costs and overhead expenses, strengthen the balance sheet and prepare development plans for our three core properties. We have now completed this phase of the restructuring and we are beginning the implementation phase. We have initiated a 27 well drilling program at Onion Lake, filed our application for a SAGD pilot at Blackrod and have advanced our plans for a polymer flood at Mooney. We believe those three projects have the potential of providing up to 50,000 boe/day of production over the next few years.”

Commenting on third quarter results, Mr. Festival indicated that “Crude oil prices continued to recover during the third quarter; however, as a result of the economic downturn prices were still considerably lower than 2008. During Q3, we were able to increase cash flow as well as maintain production in the 5,000 barrel/day range with limited new capital activity.”

Operations Review

Onion Lake

During the third quarter of 2009, BlackPearl commenced a 27 vertical well drilling program at Onion Lake in Saskatchewan. This program will be completed by the end of the year. Over the last several months we have been preparing a full field development plan and have identified over 200 primary drilling locations at Onion Lake. Our internal review of the property has determined that due to its reservoir thickness, a portion of the field is amenable to thermal development, likely using a modified form of the SAGD process. Thermal activity would likely occur after primary development is completed in three or four years. Our review of the property indicates that Onion Lake has the potential to be a 10,000+ bopd field.

Mooney

No new activity occurred at Mooney during the third quarter; however, the Company continues to operate and monitor its pilot polymer flood operations. The Company has initiated certain external studies to determine the appropriate type and quality of polymer to use, as well as to determine the applicability of adding alkaline or a surfactant as part of the polymer flood. It is expected that our application for the commercial development of a polymer flood at Mooney will be filed during the fourth quarter, with the first phase of a commercial project commencing in the second half of 2010. In order to promote development, the Alberta government has a program for reduced royalties on certain enhanced oil recovery projects such as the proposed polymer flood at Mooney and we will be making an application for royalty relief under this program in the next three to six months.

Blackrod

Work continues on developing this SAGD project in the Athabasca oil sands. We have filed an application with the ERCB to construct and operate a single well SAGD pilot project on the lease. It is anticipated that approval will take 6 to 12 months. We have commenced portions of the pilot that do not require regulatory approval. Construction of the 50MMBTU steam generator to be used for the pilot was completed in October and we have commenced construction of the 31 kilometer road to the facility site. Our target is to complete construction and start steaming in the first quarter of 2011. We estimate the Blackrod lease contains over one billion barrels of petroleum in place and provides the potential to produce 20,000 – 40,000 barrels of oil per day when commercial development begins.

Production Volumes

During the third quarter of 2009, BlackPearl's crude oil and natural gas production volumes were 5,091 boe per day compared with 5,776 boe per day for the same period in 2008. The decrease is attributable to natural declines and minimal new drilling activity in 2009. Year to date, crude oil and natural gas production averaged 5,237 boe per day, a 36% drop for the nine months ended September 30, 2008. The large drop for 2008 is primarily a result of the Company selling properties producing approximately 3,200 boe per day in the second quarter last year.

	Three months ended September 30 2009			Three months ended September 30 2008		
	Oil(bbl/d)	Gas(mcf/d)	boe/d	Oil(bbl/d)	Gas(mcf/d)	boe/d
Onion Lake	2,329	80	2,342	2,209	347	2,267
Mooney	1,060	1,154	1,252	1,334	2,007	1,669
South Alberta	58	2,768	520	90	4,005	757
Other	800	1,063	977	784	1,797	1,083
	4,247	5,065	5,091	4,417	8,156	5,776

	Nine months ended September 30 2009			Nine months ended September 30 2008		
	<u>Oil(bbl/d)</u>	<u>Gas(mcf/d)</u>	<u>boe/d</u>	<u>Oil(bbl/d)</u>	<u>Gas(mcf/d)</u>	<u>boe/d</u>
Onion Lake	2,169	134	2,192	2,216	457	2,292
Mooney	1,193	1,595	1,459	1,704	2,553	2,129
South Alberta	79	3,137	602	87	4,311	805
Other	822	980	984	2,587	2,113	2,940
	4,263	5,846	5,237	6,594	9,434	8,166

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 third quarter 2009. These results are being compared with the three and nine month periods ended September 30, 2008. The MD&A should be read in conjunction with the Company's unaudited consolidated financial statements for the three and nine months ended September 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. 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 November 10, 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 reserves and production growth, enhanced oil recovery (EOR) development and longer term reserves and production growth using thermal processes.

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 third 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 compared to 2008. BlackPearl has not been immune from these circumstances and this has resulted in significantly lower revenues. The Company has been successful in lowering operating costs and administrative expenses to reduce the effects of 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. Each Class A and Class B warrant 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. As of September 30, 2009, the Class A warrants have vested and can be used to purchase common shares at the option of the holder. 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 which was formerly with BlackRock Ventures Inc. Members of 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, in part, to lower commodity prices, the Company reduced its capital program during the first three quarters of 2009, with total expenditures of \$10.3 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-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
\$000s, except where noted	2009	2009	2009	2008	2008	2008	2008	2007
Production (boe/d)	5,091	5,170	5,510	6,198	5,776	8,246	10,503	9,507
Revenue (\$/boe)	51.94	47.07	31.77	36.28	85.02	79.74	60.50	40.30
Oil & gas revenue	24,065	22,143	15,755	20,687	45,180	59,839	57,830	35,250
Production costs	6,172	5,873	10,165	10,299	9,272	11,453	18,883	14,835
Net earnings (loss) (1)	(12,013)	(10,889)	(20,516)	(83,686)	1,926	6,688	(3,790)	(183,407)
Per share, basic and diluted	(0.05)	(0.05)	(0.10)	(0.44)	0.01	0.04	(0.02)	(1.01)
Cash flow from operations	8,221	7,910	(1,804)	3,624	21,021	28,023	19,452	9,609
Per share, basic and diluted	0.03	0.03	(0.01)	0.02	0.11	0.15	0.10	0.05
Total assets	465,942	477,876	450,836	472,143	554,956	543,123	584,237	575,865
Weighted average shares outstanding (000s)	261,684	240,973	207,555	189,242	189,242	189,242	189,242	181,212

(1) The losses in 2009 are a result of lower commodity prices and higher depletion costs.

RESULTS OF OPERATIONS

\$ 000s, except where noted

	Three months ended		Nine months ended	
	September 30		September 30	
	2009	2008	2009	2008
Net income (loss)	(12,013)	1,926	(43,418)	4,824
Per share, basic and diluted (\$)	(0.05)	0.01	(0.18)	0.03

For the three months ended September 30, 2009, the Company incurred a net loss of \$12.0 million or \$0.05 per share compared to net income of \$1.9 million or \$0.01 per share for the

same period ended September 30, 2008. The nine month period ended September 30, 2009 yielded losses of \$43.4 million compared to net income of \$4.8 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 third quarter, with the West Texas Intermediate (WTI) reference price averaging US\$68.30 per barrel compared with US\$59.62 per barrel in the second quarter and US\$43.08 per barrel in the first quarter. However, oil prices in the third quarter of 2009 were still 42% lower than the third quarter of 2008's average of US\$117.98 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\$79.00 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. The difference between the reference price of light oil and the reference price of heavy oil is commonly referred to as the light/heavy differential. The light/heavy differential averaged 15% in Q3 and 15% for the nine months ended September 30, 2009. The light/heavy differential is considerably narrower than the 5 year average of approximately 28%. The narrowing of the differential has been attributed to increased heavy oil refining capacity, increased demand for Canadian heavy oil due to 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	Q3	YTD	Q1	Q2	Q3	YTD
WTI price (US\$/bbl)	\$43.08	\$59.62	\$68.30	\$57.00	\$97.90	\$123.98	\$117.98	\$113.29
Western Canadian Select Heavy (Cdn\$/bbl)	\$42.62	\$60.66	\$63.77	\$55.68	\$76.79	\$103.43	\$103.96	\$94.73
Light/Heavy differential	21%	12%	15%	15%	21%	17%	15%	18%
Foreign Exchange (Cdn\$/US\$)	1.244	1.167	1.097	1.170	0.996	0.990	1.042	1.009
AECO (Cdn\$/GJ)	\$5.62	\$3.66	\$2.78	\$4.02	\$7.13	\$9.34	\$7.34	\$7.94

Oil prices in Canada are also impacted by the Canada/US dollar exchange rate since the WTI reference price of oil is in US dollars. During the third quarter of 2009, the Canadian dollar strengthened against the US dollar, averaging 1.097 compared with 1.167 in the second quarter of 2009. The strengthening of the Canadian dollar partially offsets the improved WTI benchmark pricing experienced in the third quarter.

In the third quarter 2009, natural gas prices decreased 62% compared to the same period in 2008, reflecting lower demand. The AECO-C gas price averaged \$2.78 per GJ in Q3 2009 compared to \$7.34 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.

Oil and Gas Production, Pricing and Revenue

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Daily production / sales volumes ⁽¹⁾				
Oil (bbl/d)	4,247	4,417	4,263	6,594
Natural gas (mcf/d)	5,065	8,156	5,846	9,434
Combined (boe/d)	5,091	5,776	5,237	8,166
Product pricing				
Oil (\$/bbl)	58.38	95.85	47.76	77.68
Natural gas (\$/mcf)	3.05	8.08	3.96	8.54
Combined (\$/boe)	51.94	85.02	43.34	72.78
Revenue (\$000s)				
Oil and gas revenue - gross	24,065	45,180	61,964	162,849
Royalties	(6,603)	(11,962)	(14,531)	(40,849)
Oil and gas revenue - net	17,462	33,218	47,433	122,000

(1) gas production converted at 6:1

Oil and gas revenues decreased 47% in the third quarter 2009 to \$24.1 million compared with \$45.2 million in 2008. The decrease is attributable to:

- a) a 4% decrease in oil production
- b) a 39% decrease in the average oil price
- c) a 38% decrease in natural gas production
- d) a 62% decrease in the average gas price

On a boe basis, 83% of the Company's oil and gas production was derived from the production of heavy oil.

Overall, production decreased 12% to 5,091 boe/d for the three months ended September 30, 2009 compared with 5,776 boe/d in the same period 2008. The decrease in production is attributable to natural declines and limited drilling activity during the last year. For the nine months ended September 30, 2009, overall production fell 36% to 5,237 boe/d from 8,166 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.

During the third quarter of 2009, BlackPearl's average realized oil price was 78% of the WTI reference price, which is the same for the corresponding period in the previous year. For the nine months ended September 30, 2009, the average realized price was 72% of the WTI price compared to 67% for the same period in 2008. The higher realized price relative to WTI prices reflects the narrowing of the light/heavy oil differential over the last several months.

The Company did not enter into any hedging arrangements in the first nine 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 September 30		Nine months ended September 30	
	2009	2008	2009	2008
Royalties	6,603	11,962	14,531	40,849
As a percentage of revenue	27%	26%	23%	25%

Royalties decreased 45% from \$12.0 million in the third quarter 2008 to \$6.6 million in 2009. This is consistent with the nine month period ended September 30, 2009 as royalties also fell to \$14.5 million from \$40.8 million for the same period in 2008. The decrease reflects lower revenues and production during both the three and nine month periods. Royalty rates are generally dependent on well productivity and commodity prices. The decrease in royalty rates in the first nine months reflect lower oil prices during the nine months of 2009 compared to 2008.

Production Costs

\$000s, except where noted	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Production costs	6,172	9,272	22,210	39,609
Per boe (\$)	13.32	17.45	15.53	17.70

The 33% decrease in overall production costs from the third quarter of 2008 is the result of lower production levels in 2009.

Production costs on a per boe basis averaged \$13.32 for the current quarter which is a decrease over the corresponding three month period average of \$17.45 in 2008. Similarly, the nine month period ended September 30, 2009 saw a decline in production costs per boe, dropping to \$15.53 from \$17.70 for the corresponding period in 2008. The lower rates experienced in 2009 are due to improved operations efficiencies resulting in items such as lower labor costs, fuel and chemical usage and improved sand handling processes.

Transportation Costs

\$000s, except where noted	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Transportation costs	731	686	2,721	2,886
Per boe (\$)	1.58	1.29	1.90	1.29

Transportation costs are incurred to move marketable crude oil and natural gas to their selling points. Average transportation costs in the third quarter 2009 were \$1.58 per boe which is an increase from the \$1.29 realized in the same period 2008. For the first nine months of 2009, transportation costs per boe were \$1.90, which is an increase of \$0.61 over 2008. Changes in transportation costs are generally related to moving crude oil to different sales points to capture better marketing opportunities.

Operating Netback

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Revenues	\$51.94	\$85.02	\$43.34	\$72.78
Royalties	(14.25)	(22.51)	(10.16)	(18.26)
Transportation costs	(1.58)	(1.29)	(1.90)	(1.29)
Production costs	(13.32)	(17.45)	(15.53)	(17.70)
Netback per boe	\$22.79	\$43.77	\$15.75	\$35.53

The third quarter 2009 netback of \$22.79 per boe is consistent with the second quarter netback. The three and nine month 2009 netbacks were lower than last year due primarily to lower oil and gas prices.

General and Administrative Expenses (“G&A”)

	Three months ended September 30		Nine months ended September 30	
\$000s, except where noted	2009	2008	2009	2008
General and administrative expenses	1,611	3,566	6,653	9,979
Per boe (\$)	3.48	6.71	4.65	4.46

General and administrative costs of \$1.6 million in the third quarter of 2009 represent a decrease of \$2.0 million from the same quarter in 2008. Similarly, costs in the first nine months of 2009 decreased \$3.3 million to \$6.7 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 that has resulted in reductions in such things as consulting fees and travel costs. In addition, provision for bad debts was \$1.1 million lower in 2009 compared to 2008. Salaries and benefits made up approximately 48% of total general and administrative expenses in the first three quarters of 2009.

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

	Three months ended September 30		Nine months ended September 30	
\$000s, except where noted	2009	2008	2009	2008
Depletion, depreciation and accretion	20,179	13,671	61,911	57,706
Per boe (\$)	43.55	25.73	43.30	25.79

DD&A expense was \$20.2 million or \$43.55 per boe for the third quarter in comparison to \$13.7 million or \$25.73 per boe for the same three month period in 2008. The nine month period resulted in DD&A costs of \$61.9 million or \$43.30 per boe in 2009 compared to \$57.7 million or \$25.79 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 September 30		Nine months ended September 30	
	2009	2008	2009	2008
Stock-based compensation	105	775	633	2,196

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. No options were issued in the third quarter 2009.

The reduction in expenses for the nine month period ended September 30, 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 the unvested forfeited options were reversed in the current period.

Interest Expense

\$000s, except where noted	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Interest expense (income)	105	(393)	92	(337)
Per boe (\$)	0.33	(0.74)	0.22	(0.15)

Interest expense in 2009 consists mainly of stand-by fees on the Company's undrawn credit facility. Any interest earned on excess cash held by the Company is netted against interest expense.

Income Taxes

\$000s, except where noted	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Future income tax (recovery)	(376)	2,650	(5,634)	2,664
Income and capital taxes	423	498	953	1,942
	47	3,148	(4,681)	4,606

The provision for future income taxes in the third quarter 2009 is a recovery of \$0.4 million compared to an expense of \$2.7 million in 2008. The nine months ended September 30, 2009 also yielded a recovery of \$5.6 million compared to an expense of \$2.7 million in 2008. Net losses in both the three and nine month periods of 2009 triggered the recoveries. Current income tax expense is primarily made up of the Saskatchewan resource surcharge. The decrease in current tax is consistent with the decrease in revenues in 2009.

LIQUIDITY AND CAPITAL RESOURCES

In the second quarter 2009, the Company's existing credit facility was reviewed and amended. At September 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 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 September 30, 2009, the Company had a working capital surplus of \$59.9 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 are initially being used for working capital purposes, but will ultimately be used to fund our capital expenditure programs.

Funds from operations were \$8.2 million and \$14.3 million for the three and nine month periods ended September 30, 2009, respectively, compared to funds from operations of \$21.0 million and \$68.5 million for the prior 2008 periods. The decrease is a direct result of lower commodity pricing and lower production levels in 2009.

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 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 third quarter ended 2009, BlackPearl incurred \$6.2 million in capital expenditures, a significant decrease from the \$39.5 million spent in the third quarter of 2008.

\$000s, except where noted	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Land	815	1,208	1,388	2,072
Seismic	109	407	109	969
Drilling and completion	4,194	27,830	5,711	40,550
Equipment	1,122	5,237	3,098	24,368
Other	-	-	-	561
Total exploration and development	6,240	34,682	10,306	68,520
Property acquisitions	-	4,798	13	6,077
Total capital expenditures	6,240	39,480	10,319	74,597
Property dispositions	(250)	(3,761)	(250)	(79,097)
Net capital expenditures	5,990	35,719	10,069	(4,500)

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 September 30, 2009			
	Canada	USA	Consolidated	
Total revenues, net of royalties	\$ 17,337	\$ 125	\$ 17,462	
Net loss	(10,981)	(1,032)	(12,013)	
Segment assets	456,438	9,504	465,942	
Capital additions	\$ 5,736	\$ 504	\$ 6,240	

\$000s	Three Months Ended September 30, 2008			
	Canada	USA	Consolidated	
Total revenues, net of royalties	\$ 32,622	\$ 596	\$ 33,218	
Net income	1,704	222	1,926	
Segment assets	484,803	70,153	554,956	
Capital additions	\$ 34,367	\$ 5,113	\$ 39,480	

\$000s	Nine Months Ended September 30, 2009			
	Canada	USA	Consolidated	
Total revenues, net of royalties	\$ 47,085	\$ 348	\$ 47,433	
Net loss	(39,888)	(3,530)	(43,418)	
Segment assets	456,438	9,504	465,942	
Capital additions	\$ 8,390	\$ 1,929	\$ 10,319	

\$000s	Nine Months Ended September 30, 2008			
	Canada	USA	Consolidated	
Total revenues, net of royalties	\$ 120,742	\$ 1,258	\$ 122,000	
Net income	4,707	117	4,824	
Segment assets	484,803	70,153	554,956	
Capital additions	\$ 59,476	\$ 15,121	\$ 74,597	

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 September 30, 2009:

\$000s	2009	2010	2011	2012	2013	Thereafter
Long-term debt	-	-	-	-	-	-
Operating leases ⁽¹⁾	364	1,457	1,525	1,593	1,593	4,474
Drilling rig commitment ⁽²⁾	-	616	935	1,211	319	-
	364	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		<u>As at September 30, 2009</u>		<u>As at December 31, 2008</u>	
			Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	Held for Trading	(i)	\$59,795	\$59,795	\$24,059	\$24,059
Accounts receivable	Loans and receivable	(i)	10,194	10,194	9,536	9,536
Investment in MAV Notes	Held for Trading	(ii)	1,284	1,284	1,288	1,288
Other investments	Available for sale	(iii)	-	-	7,768	7,768
Accounts payable and accrued liabilities	Other Financial liabilities	(iv)	(12,830)	(12,830)	(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 commodity 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 November 10, 2009, the Company had 261,700,717 common shares outstanding, 10,000,320 warrants outstanding and 10,049,333 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 nine months ended September 30, 2009, the Company paid Namdo \$45,000 (2008 - \$135,000). 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 Financial 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 three quarters of 2009, capital expenditures were reduced 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 months we anticipate capital spending of \$80-90 million.

A number of these projects, such as the polymer flood at Mooney, and the pilot 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 \$35-40 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)

(Cdn\$ in thousands)	September 30	December 31
	2009	2008
Assets		
Current assets		
Cash	\$ 59,795	\$ 24,059
Accounts receivable	10,194	9,536
Income taxes and capital taxes receivable	1,227	5,607
Prepaid expenses and deposits	1,489	1,658
	<u>72,705</u>	<u>40,860</u>
Investments (note 5)	1,284	9,619
Petroleum and natural gas properties (note 6)	391,953	421,664
	<u>\$ 465,942</u>	<u>\$ 472,143</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 12,830	\$ 34,410
Future income tax	-	4,034
Asset retirement obligations (note 8)	23,696	20,064
	<u>36,526</u>	<u>58,508</u>
Shareholders' equity		
Share capital (note 10)	779,491	723,122
Contributed surplus (note 10)	14,725	11,895
Deficit	(364,800)	(321,382)
	<u>429,416</u>	<u>413,635</u>
	<u>\$ 465,942</u>	<u>\$ 472,143</u>

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

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

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

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2009	2008	2009	2008
Revenue				
Oil and gas sales	\$ 24,065	\$ 45,180	\$ 61,964	\$ 162,849
Royalties	(6,603)	(11,962)	(14,531)	(40,849)
	<u>17,462</u>	<u>33,218</u>	<u>47,433</u>	<u>122,000</u>
Expenses				
Production	6,172	9,272	22,210	39,609
Transportation	731	686	2,721	2,886
General and administrative	1,611	3,566	6,653	9,979
Depletion, depreciation and accretion	20,179	13,671	61,911	57,706
Stock-based compensation	105	775	633	2,196
Interest (income)	105	(393)	92	(337)
Foreign currency exchange loss	525	260	756	224
Dilution gain on investments	-	(2,268)	-	(2,268)
Write-down of investments	-	2,575	556	2,575
	<u>29,428</u>	<u>28,144</u>	<u>95,532</u>	<u>112,570</u>
Income (loss) before income taxes	<u>(11,966)</u>	5,074	<u>(48,099)</u>	9,430
Income taxes				
Future income tax (recovery)	(376)	2,650	(5,634)	2,664
Current income taxes	423	498	953	1,942
	<u>47</u>	<u>3,148</u>	<u>(4,681)</u>	<u>4,606</u>
Comprehensive Income (loss) for the period	<u>(12,013)</u>	1,926	<u>(43,418)</u>	4,824
Deficit, beginning of period	<u>(352,787)</u>	<u>(239,622)</u>	<u>(321,382)</u>	<u>(242,520)</u>
Deficit, end of period	<u>\$ (364,800)</u>	<u>\$ (237,696)</u>	<u>\$ (364,800)</u>	<u>\$ (237,696)</u>
Basic and diluted earnings (loss) per share	\$ (0.05)	\$ 0.01	\$ (0.18)	\$ 0.03
Weighted average number of common shares used in computing loss per share:				
basic	261,684,050	189,241,716	236,935,695	189,241,716
diluted ⁽¹⁾	261,684,050	189,241,716	236,935,695	189,242,004

See accompanying notes to consolidated financial statements

⁽¹⁾ Any impact of unexercised stock options or warrants are not included in the calculation of net loss per share or weighted average number of shares outstanding as they would be anti-dilutive.

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

Consolidated Statements of Cash Flows
(unaudited)

(Cdn\$ in thousands)

	Three months ended		Nine months ended	
	September 30		September 30	
	2009	2008	2009	2008
Operating activities				
Net income (loss)	\$ (12,013)	\$ 1,926	\$ (43,418)	\$ 4,824
Items not involving cash:				
Depletion, depreciation and accretion	20,179	13,671	61,911	57,706
Stock-based compensation	105	775	633	2,196
Future income tax (recovery)	(376)	2,650	(5,634)	2,664
Foreign exchange loss	525	260	756	224
Gain on investments	-	(2,268)	-	(2,268)
Write-down of accounts receivable	-	1,014	-	825
Write-down of investments	-	2,575	556	2,575
Abandonment costs	(199)	417	(476)	(250)
	<u>8,221</u>	<u>21,020</u>	<u>14,328</u>	<u>68,496</u>
Changes in non-cash working capital balances related to operations	4,474	3,501	(32,858)	(7,059)
	<u>12,695</u>	<u>24,521</u>	<u>(18,530)</u>	<u>61,437</u>
Financing activities				
Proceeds on issue of common shares, net of costs	(23)	-	43,629	-
Advances of bank loan	-	-	-	25,000
Repayments of bank loan	-	(5,000)	-	(25,000)
	<u>(23)</u>	<u>(5,000)</u>	<u>43,629</u>	<u>-</u>
Investing activities				
Additions to petroleum and natural gas properties	(6,240)	(39,480)	(10,319)	(74,597)
Proceeds from sale of petroleum and natural gas properties	250	3,761	250	79,097
Proceeds from sale of investment	4	-	4	-
Cash received on acquisition of BlackCore Resources Inc.	-	-	5,589	-
Changes in non-cash working capital from investing	(2,454)	13,737	15,113	(18,448)
	<u>(8,440)</u>	<u>(21,982)</u>	<u>10,637</u>	<u>(13,948)</u>
Net increase (decrease) in cash	4,232	(2,461)	35,736	47,489
Cash, beginning of period	55,563	54,749	24,059	4,799
Cash, end of period	\$ 59,795	\$ 52,288	\$ 59,795	\$ 52,288
Supplementary Information				
Cash interest paid	\$ 489	\$ 27	\$ 513	\$ 809
Cash capital taxes paid	\$ 351	\$ -	\$ 715	\$ 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. Each Class A and B warrant 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. As of September 30, 2009, the Class A warrants have vested and can be used to purchase common shares at the option of the holder.

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

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

5. INVESTMENTS

	September 30, 2009	December 31, 2008
Investment in Serrano Energy Ltd. (“Serrano”)	\$ -	\$7,768
MAV Notes (formerly Asset-backed commercial paper)	1,284	1,288
Investment in Tyner Resources Ltd. (“Tyner”)	-	563
	<u>\$1,284</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 September 30, 2009, the Company has estimated the fair value of the notes at \$1,284,000 (December 31, 2008 - \$1,288,000). This includes a principle repayment of \$4,000 which was received during the third quarter 2009. 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

	September 30, 2009		
	Cost	Accumulated depreciation and depletion	Net book value
Petroleum and natural gas properties	\$631,208	\$241,186	\$390,022
Office equipment	2,915	984	1,931
	<u>\$634,123</u>	<u>\$242,170</u>	<u>\$391,953</u>

	December 31, 2008		
	Cost	Accumulated depreciation and depletion	Net book value
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 \$39.7 million (December 31, 2008 – \$31.1 million) and included future development costs of \$34.4 million (December 31, 2008 – \$34.7 million).

The Company performed the ceiling test calculations at September 30, 2009 to assess whether the carrying value of the petroleum and natural gas properties were recoverable. A writedown in the amount of \$1.7 million of the US assets has been included in depletion, depreciation and accretion in the Company's nine months ended September 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 September 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 September 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 \$36.9 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:

	For the nine months ended	For the twelve months ended
	September 30, 2009	December 31, 2008
Asset retirement obligations at beginning of period	\$ 20,064	\$ 16,586
Liabilities acquired through acquisitions, net of dispositions	2,938	(6,464)
Liabilities incurred during the period	64	896
Adjustment for change in reserve life, abandonment costs, inflation and discount rates	-	8,545
Actual remediation costs	(479)	(668)
Accretion	1,109	1,169
Asset retirement obligations at end of period	\$ 23,696	\$ 20,064

9. RELATED PARTY TRANSACTIONS

During the nine months ended September 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 – \$135,000) 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		(1,745)
Balance as at September 30, 2009	261,684,050	\$779,491

(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 September 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). As of September 30, 2009, the Class A warrants have vested and can be used to purchase common shares at the option of the holder.

(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	(3,724,602)	3.32
Outstanding at September 30, 2009	10,066,000	\$1.36

The following table summarizes stock options which were outstanding at September 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	4.30	1,371,509	0.75	4.37
1.51 – 3.00	1,364,500	2.28	3.42	454,834	2.28	3.42
3.01 – 4.50	144,000	3.38	3.09	48,000	3.38	3.09
4.51 – 5.15	892,000	5.10	2.28	594,667	5.10	2.28
	10,066,000	1.36	3.98	2,469,010	2.13	3.66

(e) Stock Based Compensation

Stock based compensation of \$633,000, net of recoveries of \$1,159,000, has been recorded in the Consolidated Statements of Operations and Deficit for the nine-month period ended September 30, 2009 (2008 – expense of \$2,196,000). 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:

	Nine Months Ended September 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%

(f) Contributed Surplus Continuity

	For the nine months ended September 30, 2009	For the twelve months ended December 31, 2008
Balance, beginning of the period	\$ 11,895	\$ 8,778
Stock-based compensation	1,792	3,749
Recovery of expense on forfeited stock options	(1,159)	(632)
Warrants issued on BlackCore acquisition	2,200	-
Transferred to share capital on exercise of stock options	(3)	-
Balance, end of period	\$ 14,725	\$ 11,895

11. COMMITMENTS AND CONTINGENCIES

- (a) The Company has a seven-year operating lease for office space as at September 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	\$364	\$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 September 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	-	\$616	\$935	\$1,211	\$319	Nil

- (c) In connection with the November, 2007 property acquisition from PetroHunter, the Company may be required to pay a performance payment of US \$9.8 million in cash at such time prior to November 6, 2010 if either: (i) production from the assets reaches 5,000 barrels of oil per day; or (ii) proven reserves from the assets is greater than 50 million barrels of oil. As at September 30, 2009, there was no production from and no reserves attributable to these assets.

12. SEVERANCE BENEFITS

During the first quarter of 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 September 30, 2009 and December 31, 2008:

	Classification	September 30, 2009		December 31, 2008	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	Held-for-trading (i)	\$59,795	\$59,795	\$24,059	\$24,059
Accounts receivable	Loans and receivables (i)	10,194	10,194	9,536	9,536
Investment in MAV Notes	Held-for-trading (ii)	1,284	1,284	1,288	1,288
Other investments	Available-for-sale (iii)	-	-	7,768	7,768
Accounts payable and accrued liabilities	Other financial liabilities (iv)	(12,830)	(12,830)	(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 September 30, 2009, the Company has not entered into any fixed rate contracts. As at September 30, 2009, the Company held US\$4,148,000 in cash and short-term deposits.

As at September 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 \$445,000 higher, due to an decreased foreign exchange loss. 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 September 30, 2009, over 81% of total accounts receivables are for revenue accruals. 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 September 30, 2009, accounts receivable includes an allowance for doubtful accounts of \$2,412,000 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 September 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 September 30, 2009, the Company held \$59.8 million in cash at various major banks throughout Canada and the USA, as well as \$1.3 million in investments. At September 30, 2009, two Canadian chartered banks 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 September 30, 2009, the Company had an undrawn \$25 million credit facility, and a positive working capital position of \$59.9 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	\$12,830	-	-

(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 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 nine 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:

Three Months Ended September 30, 2009			
	Canada	USA	Consolidated
Total revenues, net of royalties	\$ 17,337	\$ 125	\$ 17,462
Expenses	28,253	650	28,903
Foreign currency loss	18	507	525
Net (loss) before income taxes	(10,934)	(1,032)	(11,966)
Income taxes	47	-	47
Net (loss)	(10,981)	(1,032)	(12,013)
Segment assets	456,438	9,504	465,942
Segment petroleum and natural gas properties	388,810	3,143	391,953
Capital additions	\$ 5,736	\$ 504	\$ 6,240

Nine Months Ended September 30, 2009			
	Canada	USA	Consolidated
Total revenues, net of royalties	\$ 47,085	\$ 348	\$ 47,433
Expenses	91,941	2,279	94,220
Foreign currency loss (gain)	(287)	1,043	756
Write-down of investments	-	556	556
Net (loss) before income taxes	(44,569)	(3,530)	(48,099)
Income tax recovery	(4,681)	-	(4,681)
Net (loss)	(39,888)	(3,530)	(43,418)
Segment assets	456,438	9,504	465,942
Segment petroleum and natural gas properties	388,810	3,143	391,953
Capital additions	\$ 8,390	\$ 1,929	\$ 10,319

Three Months Ended September 30, 2008

	Canada		USA		Consolidated
Total revenues, net of royalties	\$ 32,622	\$	596	\$	\$ 33,218
Expenses	27,197		380		27,577
Foreign currency loss (gain)	298		(38)		260
Write-downs	2,575		-		2,575
Dilution gain on investment	(2,268)		-		(2,268)
Income before income taxes	4,820		254		5,074
Income taxes	3,116		32		3,148
Net income	1,704		222		1,926
Segment assets	484,803		70,153		554,956
Segment petroleum and natural gas properties	404,318		60,378		464,696
Capital additions	\$ 34,367	\$	5,113	\$	39,480

Nine Months Ended September 30, 2008

	Canada		USA		Consolidated
Total revenues, net of royalties	\$ 120,742	\$	1,258	\$	\$ 122,000
Expenses	110,864		1,176		112,040
Foreign currency loss (gain)	286		(63)		223
Write-downs	2,575		-		2,575
Dilution gain on investment	(2,268)		-		(2,268)
Net income before income taxes	9,285		145		9,430
Income taxes	4,578		28		4,606
Net income	4,707		117		4,824
Segment assets	484,802		70,153		554,955
Segment petroleum and natural gas properties	404,318		60,378		464,696
Capital additions	\$ 59,476	\$	15,121	\$	74,597

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

CORPORATE OFFICE BLACKPEARL RESOURCES INC.

700, 444 – 7th Avenue S.W.
Calgary, Alberta
T2P 0X8 Canada
Telephone: (403) 215-8313
Facsimile: (403) 265-8324
Website: www.blackpearlresources.ca

BANKER

ATB Financial
Calgary, Alberta

AUDITOR

PricewaterhouseCoopers LLP
111—5th Avenue S.W.
Calgary, Alberta

TRANSFER AGENT

Computershare Trust Company of Canada
600, 530—8th Avenue S.W.
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 year ending
December 31, 2009 will be published
on or before February 28, 2010