

# 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. for the year ended December 31, 2009. These results are being compared with the year ended December 31, 2008. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the twelve months ended December 31, 2009, together with the accompanying notes.

References to "we", "our", "us", "the Company" or "BlackPearl" means BlackPearl Resources Inc. and its subsidiaries.

All dollar amounts are referenced in thousands of Canadian dollars, except where otherwise noted. The consolidated 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 based on a conversion rate of six thousand cubic feet (mcf) of natural gas for one barrel of oil. Boe 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.

This report includes 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. These terms are used by the Company to analyze operating performance, leverage and liquidity 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. 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.

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 February 25, 2010.

## 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 current core properties include:

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



These core properties 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.

As part of BlackPearl's overall business plan, management intends to sell the majority of the Company's non-core assets. In early 2010, the Company has accepted offers to sell assets producing approximately 350 boe/day of primarily natural gas assets in Southern Alberta and plans to market for sale a 350 boe/day heavy oil field in Saskatchewan. Additional non-core asset sales are planned over the next two or three years.

## 2009 SIGNIFICANT EVENTS

- The deterioration in the financial markets, which began in 2008 as a result of a credit crisis and global recession, continued throughout 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 allows 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 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% interest in the Blackrod area lands (increasing the Company's working interest to 80% in 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 2009 to total expenditures of \$27.9 million. In 2008 capital expenditures were \$107.4 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.

## ANNUAL FINANCIAL INFORMATION

\$000s, except where noted	As at and for the Period Ended		
	12 months December 31, 2009	12 months December 31, 2008	15 months December 31, 2007
Total revenues	<b>89,637</b>	183,536	128,524
Loss from continuing operations and net loss	<b>(47,315)</b>	(78,862)	(227,206)
Per share – basic	<b>(0.19)</b>	(0.42)	(1.73)
Per share – diluted	<b>(0.19)</b>	(0.42)	(1.73)
Cash flow from operations <sup>(1)</sup>	<b>29,004</b>	72,120	21,646
Per share – basic	<b>0.12</b>	0.38	0.16
Per share – diluted	<b>0.12</b>	0.38	0.16
Capital expenditures	<b>27,878</b>	107,367	229,246
Total assets	<b>468,309</b>	472,143	575,865
Common shares outstanding	<b>261,961</b>	189,242	189,242

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

## SELECTED QUARTERLY INFORMATION

\$000s, except where noted	31-Dec 2009	30-Sep 2009	30-Jun 2009	31-Mar 2009	31-Dec 2008	30-Sep 2008	30-Jun 2008	31-Mar 2008
Production (boe/d)	<b>5,306</b>	<b>5,091</b>	<b>5,170</b>	<b>5,510</b>	6,198	5,776	8,246	10,503
Revenue (\$/boe)	<b>56.69</b>	<b>51.94</b>	<b>47.07</b>	<b>31.77</b>	36.28	85.02	79.74	60.50
Oil & gas revenue	<b>27,674</b>	<b>24,065</b>	<b>22,143</b>	<b>15,755</b>	20,687	45,180	59,839	57,830
Production costs	<b>7,251</b>	<b>6,172</b>	<b>5,873</b>	<b>10,165</b>	10,299	9,272	11,453	18,883
Net earnings (loss) <sup>(1)</sup>	<b>(3,897)</b>	<b>(12,013)</b>	<b>(10,889)</b>	<b>(20,516)</b>	(83,686)	1,926	6,688	(3,790)
Per share, basic and diluted (\$)	<b>(0.01)</b>	<b>(0.05)</b>	<b>(0.05)</b>	<b>(0.10)</b>	(0.44)	0.01	0.04	(0.02)
Cash flow from operations	<b>14,677</b>	<b>8,221</b>	<b>7,910</b>	<b>(1,804)</b>	3,623	21,021	28,023	19,452
Per share, basic and diluted (\$)	<b>0.06</b>	<b>0.03</b>	<b>0.03</b>	<b>(0.01)</b>	0.02	0.11	0.15	0.10
Total assets	<b>468,309</b>	<b>465,942</b>	<b>477,876</b>	<b>450,836</b>	472,143	554,956	543,123	584,237
Weighted average shares outstanding (000s)	<b>261,731</b>	<b>261,684</b>	<b>240,973</b>	<b>207,555</b>	189,242	189,242	189,242	189,242

<sup>(1)</sup> The higher losses in 2009, compared to 2008, are a result of lower commodity prices and higher depletion costs. The loss in the fourth quarter of 2008 was the result of a write-down of the carrying value of the Company's US properties of \$57.4 million.



## RESULTS OF OPERATIONS

\$000s, except where noted	2009	2008
Net loss	<b>(47,315)</b>	(78,862)
Per share, basic and diluted (\$)	<b>(0.19)</b>	(0.42)

For the year ended December 31, 2009, the Company incurred a net loss of \$47.3 million or \$0.19 per share compared to a net loss of \$78.9 million or \$0.42 in 2008. The net loss for the current year is principally a result of lower commodity prices and high depletion costs. The 2008 loss is mainly a result of high depletion costs as well, but also includes a \$57.4 million write-down of the Company's U.S. oil and gas assets.

### COMMODITY PRICES

Crude oil prices, on average, were weaker in 2009, with the West Texas Intermediate (WTI) reference price averaging US\$61.80 per barrel compared with US\$99.65 per barrel in 2008. 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 2010 is approximately US\$81 although oil prices are expected to remain volatile due to the effects of the economic slowdown on supply and demand.

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 17% in 2009 and 22% in 2008. The recent light/heavy differential is considerably narrower than the five-year average of approximately 26%, a trend that has been attributed to increased heavy oil refining capacity in the U.S., increased demand for Canadian heavy oil due to reduced supply of heavy oil from Mexico and Venezuela, as well as improved pipeline access for Canadian heavy crude to the Gulf Coast, a heavy oil refining hub.

Oil prices in Canada are also impacted by the Canada/U.S. dollar exchange rate since the WTI reference price of oil is in U.S. dollars. During 2009, the Canadian dollar weakened against the U.S. dollar, averaging 1.142 compared with 1.066 in 2008. The weakening of the Canadian dollar partially offsets the reduced WTI benchmark pricing experienced during 2009.

In 2009, natural gas prices decreased 54% compared to 2008, reflecting lower demand. The AECO-C gas price averaged \$3.75 per GJ in 2009 compared to \$8.13 per GJ in 2008. As with oil prices, natural gas prices decreased as a result of lower demand caused by slowing economies and warm weather which resulted in higher than normal gas storage levels.

	2009	2008
WTI oil (US\$/bbl)	<b>61.80</b>	99.65
Western Canadian Select heavy oil (Cdn\$/bbl)	<b>58.69</b>	82.95
Light/heavy differential	<b>17%</b>	22%
Foreign exchange rate (Cdn\$/US\$)	<b>1.142</b>	1.066
AECO natural gas (Cdn\$/GJ)	<b>3.75</b>	8.13

## OIL AND GAS PRODUCTION, PRICING AND REVENUE

	2009	2008
Daily production/sales volumes <sup>(1)</sup>		
Oil (bbls/d)	4,324	6,182
Natural gas (mcf/d)	5,582	8,942
Combined (boe/d)	5,254	7,672
Product pricing		
Oil (\$/bbl)	51.44	69.07
Natural gas (\$/mcf)	4.10	8.11
Combined (\$/boe)	46.74	65.36
Revenue (\$000s)		
Oil and gas revenue – gross	89,637	183,536
Royalties	(21,262)	(45,192)
Oil and gas revenue – net	68,375	138,344

<sup>(1)</sup> Gas production converted at 6:1

Oil and gas revenues decreased 51% in 2009 to \$89.6 million compared with \$183.5 million in 2008. The decrease is attributable to:

- a 30% decrease in oil production;
- a 25% decrease in the average oil price;
- a 38% decrease in natural gas production; and
- a 49% decrease in the average gas price.

On a boe basis, 81% of the Company's oil and gas production was heavy oil. The percentage of revenues derived from heavy oil will likely increase in the future as all of the Company's ongoing development activities will be in heavy oil areas. The Onion Lake area accounted for 44% of total production in 2009 and will contribute a higher proportion in 2010 as it will account for most of BlackPearl's near-term drilling activity.

	2009			2008		
	Oil (bbls/d) <sup>(1)</sup>	Gas (mcf/d)	boe/d	Oil (bbls/d) <sup>(1)</sup>	Gas (mcf/d)	boe/d
Onion Lake	2,276	128	2,297	2,217	366	2,278
Mooney	1,178	1,469	1,423	1,671	2,605	2,105
Ear Lake	424	145	448	360	140	383
Salt Lake	262	543	353	389	794	521
Long Coulee/Little Bow	9	2,407	410	10	3,362	570
Other	175	890	323	1,535	1,675	1,815
	4,324	5,582	5,254	6,182	8,942	7,672

<sup>(1)</sup> Includes NGL's



Overall, average production decreased 32% to 5,254 boe/d for the year ended December 31, 2009 compared with 7,672 boe/d in the same period 2008. The decrease in 2009 production is attributable to the sale of certain oil and gas properties in May 2008. At the time of sale these properties were producing approximately 3,200 boe/d. The decrease in production was also impacted by natural declines and reduced drilling activity in 2009. As a result of a fourth quarter drilling program at Onion Lake, the Company exited 2009 with production in excess of 6,000 boe/d.

The Company did not enter into any hedging arrangements in 2009, and, at the present time, does not anticipate hedging any of its production in 2010.

### ROYALTIES

\$000s, except where noted	2009	2008
Royalties	<b>21,262</b>	45,192
As a percentage of revenue	<b>24%</b>	25%

Royalties decreased 53% from \$45.2 million in 2008 to \$21.3 million in 2009, mainly reflecting lower revenues and production during 2009, as well as lower commodity prices.

The Company's largest area, Onion Lake, is on the Onion Lake First Nation reserve, and royalties are paid to the First Nation based on Saskatchewan Crown equivalent rates.

The New Royalty Framework (NRF) in Alberta took effect January 1, 2009. The NRF generally increased royalty rates in Alberta, with some sensitivity to well production rates and commodity prices, and also eliminated most royalty incentive and holiday programs. Subsequent to the introduction of the NRF, the Alberta government has introduced various amendments to the royalty structure in response to the economic downturn and the resulting decrease in oilfield activity. These amendments included a 5% royalty for one year for production from new wells drilled after March 31, 2009.

Approximately 35% of BlackPearl's total production is from Alberta-based properties. The significant areas affected by the new royalty schemes are Mooney and Little Bow/Long Coulee. Mooney has higher volume wells, which was negatively affected by the NRF royalty changes; Little Bow/Long Coulee have low productivity wells and pay lower royalties than under the old royalty structure.

The Alberta government is currently undertaking a review of the energy sector to determine if, among other things, the royalty structure in Alberta is competitive with other jurisdictions. Results of this review are expected in the first quarter of 2010.

### PRODUCTION COSTS

\$000s, except where noted	2009	2008
Production costs	<b>29,461</b>	49,907
Per boe (\$)	<b>15.36</b>	17.77

The 41% decrease in overall production costs in 2009 versus 2008 is the result of lower production levels.

Production costs on a per boe basis averaged \$15.36 in 2009, a decrease from \$17.77 in 2008. The lower rates are due to improved operating efficiencies resulting in lower labour costs, fuel and chemical usage and improved sand-handling processes. Management expects production expenses will remain on the order of \$15 per boe in 2010. New heavy oil wells tend to have higher initial expenses due to increased sand production but these fixed costs can be reduced on a per boe basis by higher production.

### TRANSPORTATION COSTS

\$000s, except where noted	2009	2008
Transportation costs	3,466	3,664
Per boe (\$)	1.81	1.30

Transportation costs are incurred to move marketable crude oil and natural gas to their selling points. Average transportation costs in 2009 were \$1.81 per boe which is an increase from the \$1.30 realized in 2008. Changes in transportation costs are generally related to moving crude oil to different sales points to capture better marketing opportunities.

### OPERATING NETBACK

	2009	2008
Revenues	46.74	65.36
Royalties	11.09	16.11
Transportation costs	1.81	1.30
Production costs	15.36	17.77
Netback per boe	18.48	30.18

The 2009 netback of \$18.48 per boe is considerably lower than the \$30.18 reported in 2008, but is consistent with the lower oil and gas prices during the year.

### GENERAL AND ADMINISTRATIVE EXPENSES (G&A)

\$000s, except where noted	2009	2008
Gross G&A expense (before provision for bad debts)	9,681	16,075
Operator recoveries	(1,446)	(2,891)
	8,235	13,184
Provision for bad debts	(1,322)	1,816
Net G&A expense	6,913	15,000
Per boe (\$)	3.60	5.34

The decrease in general and administrative costs is a result of staff reductions implemented early in 2009 as well as other cost reduction initiatives adopted by the Company that resulted in savings in areas such as outside consulting fees, travel costs and office expenses.



In 2008, BlackPearl recorded a provision for bad debts of \$1.8 million. This included taking a \$0.6 million provision for receivables due from SemCanada Crude Company and SemCanada Energy Company, which filed for creditor protection in Canada and the United States. In 2009, as a result of collecting some of the receivables we had taken provision for in prior years, as well as exercising our right of offset to net some of our liabilities against receivables, we were able to reduce the provision for bad debts previously set up, resulting in a recovery of \$1.3 million in 2009.

Net general and administrative costs are expected to be in the area of \$8 million in 2010. As production volumes are expected to increase in 2010, general and administrative costs on a boe basis should decline.

#### DEPLETION, DEPRECIATION AND ACCRETION (DD&A)

\$000s, except where noted	2009	2008
Depletion, depreciation and accretion	81,100	85,385
Per boe (\$)	42.29	30.41

DD&A expense was \$81.1 million or \$42.29 per boe for 2009 in comparison to \$85.3 million or \$30.41 per boe for 2008. Although production decreased in 2009, the Company still recognized a higher depletion rate as a result of a significant reduction in proved reserves as detailed in the Company's 2008 reserve report. Proved reserves increased in the 2009 report and, as a result, the Company expects a slightly lower depletion rate in 2010. A write-down in the amount of \$2.9 million of the US assets has been included in 2009 depletion, depreciation and accretion in the Company's December 31, 2009 financial statements.

#### STOCK-BASED COMPENSATION

\$000s, except where noted	2009	2008
Stock-based compensation	1,461	3,116
Per boe (\$)	0.76	1.11

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. In 2009, the Company issued 6.3 million options at prices ranging from \$0.63 to \$2.21 per share. In addition, 0.3 million options were exercised and 3.7 million were forfeited.

The reduction in expenses for 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 was reversed in the current period.

## INTEREST EXPENSE

\$000s, except where noted	2009	2008
Interest income	(321)	(1,511)
Interest expense	277	828
Net interest expense (income)	(44)	(683)
Per boe (\$)	(0.02)	(0.24)

Interest expense consists mainly of standby fees on the Company's undrawn credit facility. Any interest earned on excess cash held by the Company is netted against interest expense. The decrease in 2009 is a result of less favourable interest rates on excess cash during the year.

## INCOME TAXES

\$000s, except where noted	2009	2008
Current income and other taxes	(2,351)	(517)
Future income tax (recovery)	(5,634)	4,066
	(7,985)	3,549

BlackPearl pays Saskatchewan resource surcharge based on its production revenues in the province. The recovery of current income tax in 2009 is the result of amendments filed on previously paid amounts for Saskatchewan resource surcharge. The Company does not have any current income tax payable and does not expect to pay current income taxes in 2010. The Company has the following estimated tax pools as at December 31, 2009:

\$000s, except where noted	Rate %	2009	2008
Canadian exploration expenses	100	\$ 9,581	\$ 9,353
Canadian development expenses	30	119,686	143,840
Canadian oil and gas property expenses	10	15,128	12,701
Undepreciated capital costs	10-30	173,977	168,532
Non-capital losses (various expiry dates)	100	92,173	64,107
Share issuance costs	5 years	10,419	12,435
		\$ 420,964	\$ 410,968

The provision for future income taxes in 2009 is a recovery of \$5.6 million compared to an expense of \$4.1 million in 2008. The significant write-down in 2008, together with the net loss in 2009, triggered the recovery.

## LIQUIDITY AND CAPITAL RESOURCES

BlackPearl began 2009 with a working capital position of \$6.5 million and an undrawn credit facility of \$47 million. However, in the first quarter, due to low commodity prices, the Company did not generate any positive cash flow from operations. Management is committed to a philosophy of funding capital budgets from available cash flow from operations, working capital, non-core asset sales, equity financings and minimizing the use of debt. As a result, early in the year BlackPearl reduced capital expenditures to a minimum and conserved its working capital. Due to the economic slowdown and uncertainty in the financial and credit markets, access to additional capital was limited.



In the spring, oil prices began to improve and financial markets began to stabilize. The Company's cash flow was improving but was insufficient to fund a meaningful capital program. With the equity markets opening up management completed an offering of 52.3 million common shares at \$0.88 per share, which raised net proceeds of \$43.7 million. This financing provided the financial flexibility to plan a capital expenditure program for the next 12 to 18 months that was not completely tied to the generation of operating cash flow. With the successful equity placement, the Company opted to reduce its credit facility to \$25 million to reduce standby fees and other charges. 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.

At December 31, 2009, BlackPearl had a working capital position of \$58 million and an undrawn credit facility. 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 ratio is defined as current assets plus unutilized credit under the credit facility compared to current liabilities. The Company had a working capital ratio of 6.1:1 at December 31, 2009 and was in compliance with these covenants throughout 2009.

Cash flow from operations was \$29.0 million in 2009, compared to \$72.1 million in 2008. The decrease is a direct result of lower commodity pricing and lower production levels in 2009.

## CAPITAL EXPENDITURES

BlackPearl's capital program is focused on heavy oil opportunities. During 2009, BlackPearl's capital program totalled \$27.9 million, a significant decrease from the \$107.4 million spent in 2008.

\$000s	2009	2008
Land	3,692	4,559
Seismic	168	3,083
Drilling and completion	18,849	57,107
Equipment	5,169	35,804
Other	–	561
Total exploration and development	27,878	101,114
Property acquisitions	–	6,253
Total capital expenditures	27,878	107,367
Property dispositions	(250)	(79,097)
Net capital expenditures	27,628	28,270

## SEGMENTED INFORMATION

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

2009			
\$000s	Canada	U.S.	Consolidated
Total revenues, net of royalties	\$ 67,922	\$ 453	\$ 68,375
Net loss	(42,876)	(4,439)	(47,315)
Segment assets	461,529	6,780	468,309
Capital additions	\$ 25,837	\$ 2,041	\$ 27,878

  

2008			
\$000s	Canada	U.S.	Consolidated
Total revenues, net of royalties	\$ 136,440	\$ 1,904	\$ 138,344
Net income	(20,921)	(57,941)	(78,862)
Segment assets	459,659	12,484	472,143
Capital additions	\$ 86,765	\$ 20,602	\$ 107,367

## CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The Company has a number of financial obligations in the ordinary course of business. The following table summarizes the outstanding contractual obligations and commitments of the Company as at December 31, 2009:

\$000s	2010	2011	2012	2013	2014	Thereafter
Long-term debt	–	–	–	–	–	–
Operating leases <sup>(1)</sup>	1,098	1,166	1,234	1,234	1,626	2,946
Drilling rig commitment <sup>(2)</sup>	616	935	1,211	319	–	–
	1,714	2,101	2,445	1,553	1,626	2,946

<sup>(1)</sup> Relates to a lease for office premises, including estimated operating costs (net of sublease recoveries). The Company's office lease was executed jointly with another party. Under the terms of the lease, BlackPearl and the other party are joint and severally liable for the obligations pursuant to the lease. Accordingly, if the other party or any of the subtenants of a portion of the space are unable to fulfill their lease obligation, BlackPearl would be required to pay an additional \$19.3 million (including an estimate for operating costs) over the next seven years.

<sup>(2)</sup> Relates to a commitment to utilize a drilling rig from a specific company for a minimum number of days per year.

These obligations are expected to be funded from 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. Remediation programs are undertaken regularly in accordance with applicable legislative requirements.

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

At December 31, 2009, BlackPearl's financial assets and liabilities primarily consisted of cash, accounts receivable, taxes receivable and accounts payable and accrued liabilities. The Company is exposed to commodity price risk, foreign exchange risk, credit risk, interest rate and liquidity risks associated with these financial assets and liabilities.



A description of these risks as they relate to BlackPearl is provided below. The Company has not entered into any derivative financial instruments or any other hedging activities to reduce these risks.

#### **COMMODITY PRICE RISK**

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in the price of oil and natural gas. Commodity prices are impacted by world economic events that affect supply and demand, which are generally beyond the Company's control. Changes in crude oil and natural gas prices may significantly affect the Company's results of operations, costs generated from operating activities, capital spending and the Company's ability to meet its obligations. The majority of the Company's production is sold under short-term contracts; consequently, BlackPearl is at risk to near-term price movements. A \$1.00 change in oil prices at the wellhead would have altered net earnings for 2009 by approximately \$1.2 million. 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. Throughout 2009, the Company did not use derivative financial instruments to manage its exposure to this risk.

#### **FOREIGN CURRENCY EXCHANGE RISK**

The Company is exposed to risks arising from fluctuations in foreign currency exchange rates and the volatility of those rates. This exposure primarily relates to: (i) prices received for its crude oil and natural gas are primarily determined in reference to U.S. dollars; (ii) certain expenditure commitments, deposits, accounts receivable, and accounts payable which are denominated in U.S. dollars, and (iii) its operations in the United States. The Company manages this risk by monitoring foreign exchange rates and evaluating their effects on using Canadian or U.S. vendors as well as timing of transactions. As at December 31, 2009, the Company has not entered into any fixed rate contracts. As at December 31, 2009, the Company held US\$2,302,000 in cash and short-term deposits and other net working capital items of US\$2,159,000.

As at December 31, 2009, if US\$ exchange rates had been \$0.10 lower with all other variables held constant, after-tax earnings for the period would have been approximately \$543,000 higher, due to a decreased foreign exchange loss. An equal but opposite impact would have occurred to net earnings had exchange rates been \$0.10 higher. The Company does not hedge its foreign currency risk.

#### **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 2009, the Company did not experience any collection issues with its marketers. At December 31, 2009, more than 81% of total accounts receivables were 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 or can withhold production from partners in the event of non-payment. As at December 31, 2009, accounts receivable included an allowance for doubtful accounts of \$826,000 from joint-

interest partners. These amounts primarily relate to joint-venture 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 these properties and will largely be unable to direct or control the activities of the operators. In addition, the Company's activities may be impacted by the ability, expertise, judgement and financial capability of the operators. As at December 31, 2009, one of the operators of a U.S. property in which the Company has an interest had filed for creditor protection in U.S. bankruptcy court and had failed to pay certain suppliers, resulting in various liens on the property. Subsequent to December 31, 2009 the operator sold its interest in the property and the liens are in the process of being removed.

As at December 31, 2009, the Company held \$56.4 million in cash at various financial institutions throughout Canada and the U.S., as well as \$1.3 million in investments. At December 31, 2009, two Canadian financial institutions held approximately 95% of the Company's cash and short-term deposits. Cash balances in excess of the Company's day-to-day requirements are invested in short-term deposits of less than 30 days.

#### **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.

#### **LIQUIDITY RISK**

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

The Company manages this risk by maintaining a conservative balance sheet with minimal use of long-term debt. As at December 31, 2009, the Company had an undrawn \$25 million credit facility, and a positive working capital position of \$58.0 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:

	<u>&lt;6 Months</u>	<u>6 months – 1 Year</u>	<u>1-2 Years</u>
Accounts payable and accrued liabilities	\$ 16,318	–	–

#### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.



## OUTSTANDING SHARE DATA

As at February 25, 2010, the Company had 262,024,051 common shares outstanding, 10,000,320 vested warrants outstanding and 13,390,999 stock options outstanding under its stock-based compensation.

## RELATED PARTY TRANSACTIONS

Namdo Management Services Ltd. (Namdo) provided executive and support services to the Company. During 2009, the Company paid Namdo \$45,000 (2008 – \$180,000). Namdo is a private corporation owned by a former director of the Company.

## PROPOSED TRANSACTIONS

The Company has accepted offers to sell certain oil and gas properties, producing approximately 350 boe/day, for about \$10 million. The offers are subject to completion of the purchaser's due diligence and execution of a formal binding purchase and sale agreement.

## 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 adopted by BlackPearl can be found in notes 2 and 3 to the Consolidated Financial Statements.

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

The following areas contain estimates made by management:

- (i) *Oil and natural gas reserves* – Estimating oil and gas reserves is a subjective process. It requires significant judgements using geological, engineering and economic data. Some of the important assumptions made in preparing an estimate of oil and gas reserves include expected reservoir performance, future rates of production, oil and gas price forecasts, future operating and development costs, timing of expenditures and future fiscal regimes. These estimates can change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions change. The Company's oil and gas reserves are evaluated by Sproule Associates Limited, an independent reserve evaluator.

Reserves estimates can have a significant impact on net earnings, as they are a key component in the calculation of depletion. The reserve estimates are also used in determining the Company's borrowing base for its credit facilities.

- (ii) *Depreciation, depletion and accretion expense* – BlackPearl uses the full cost method of accounting for exploration and development activities whereby all costs associated with these activities are capitalized whether successful or not. The aggregate of capitalized costs, net of certain costs related to unproved properties, and estimated future development costs is amortized using the unit-of-production method based on estimated proved reserves. Changes in estimated proved reserves or future development costs have a direct impact on depreciation and depletion expense.

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

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

The ceiling test is based on estimates of reserves prepared by qualified independent evaluators, production rate, crude oil and natural gas prices, future costs and other relevant assumptions. By their nature, reserve estimates are subject to measurement uncertainty and the impact of ceiling test calculations on the consolidated financial statements of changes to reserve estimates could be material.

At December 31, 2009, the carrying value of the Company's Canadian oil and gas properties (less the amount for unproved properties) exceeded the undiscounted cash flows from proved properties only; therefore, assessing impairment using discounted cash flows from both proved and probable reserves was required. In performing this test, proved plus probable reserves were discounted at a risk-free rate of 4%. This calculation resulted in the discounted cash flows exceeding the carrying value of the oil and gas properties by approximately \$235.5 million, and therefore no impairment was recorded.

As at December 31, 2009 the Company recorded a \$2.9 million write-down of its U.S. oil and gas assets as this represents their salvage value.

- (iv) *Asset retirement obligation* – The asset retirement obligation is estimated based on existing laws, contracts or other policies. The fair value of the obligation is based on estimated future costs for abandonment and reclamation, discounted at a credit-adjusted risk-free rate. The costs are included in property, plant and equipment and amortized over their useful life. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings and for revisions to the estimated future cash flows. The estimates or assumptions required to calculate asset retirement obligation includes, among other items, abandonment and reclamation amounts, inflation rates, credit-adjusted discount rates and timing of retirement of assets. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.



The following significant assumptions were assumed for the purpose of estimating asset retirement obligation:

	2009	2008
Undiscounted abandonment costs (\$000s)	\$ 38,290	\$ 34,600
Credit-adjusted risk-free rate	6.5%	6.5%
Inflation rate	2%	2%
Average years to reclamation	13	14

(v) *Income taxes* – The Company follows the liability method of accounting for income taxes. Under this method the Company records future income tax assets and liabilities based on temporary differences between the carrying value and tax basis of the Company's assets and liabilities. Future income tax provisions require estimating the timing of these temporary differences and estimating whether tax assets will be realized before expiry.

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded. In addition, the Company is required to estimate whether it will be able to utilize all of its existing tax pools before their expiry.

(vi) *Stock-based compensation* – The Company uses the fair value method to account for stock options. The determination of the amounts for stock-based compensation is based on estimates of stock volatility, risk-free interest rates and the expected lives of the option. By their nature, these estimates are subject to measurement uncertainty.

(vii) *Other estimates* – The Company is required to make certain estimates for revenues, royalties, operating costs and capital expenditures as at a specific reporting date if actual amounts for these items have not been received.

## RISKS AND UNCERTAINTIES

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

- risk of fluctuating oil and natural gas prices;
- operational risk of finding and producing reserves economically;
- uncertainties associated with estimating the quantity of reserves;
- risk associated with securing the needed capital to carry out the Company's operations;
- changes in global economic conditions, particularly in Canada and the U.S.;
- risk of changes in government 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, risk of changes to interest rates;
- environmental and safety risks related to its oil and gas properties;
- competition for, among other things, capital, undeveloped land, skilled labour and equipment;
- risk of fluctuating foreign currency exchange rates;

- credit or counterparty risk with respect to non-performance by counterparties to financial instruments;
- risk of changes to interest rates;
- marketing reserves at acceptable prices;
- uncertainty associated with obtaining drilling licenses and other regulatory consents and approvals; and
- production risks associated with sour hydrocarbons.

Further information regarding these risks may be found under the heading “Risk Factors” in the Annual Information Form.

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 a reasonable amount of protection from risk of loss;
- Communicating openly with members of the public regarding its activities;
- Concentrating in areas with long-life reserves to reduce the risk associated with commodity price cycles;
- Monitoring price trends and establishing relationships with creditworthy counterparties;
- Utilizing the latest technology for finding and developing reserves;
- Constructing high-quality, environmentally sensitive and safe production facilities; and
- Maximizing operational control of drilling and producing operations.

## ENVIRONMENTAL RISKS

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. In 2002, the Government of Canada ratified the Kyoto Protocol (the Protocol), which calls for Canada to reduce its greenhouse gas emissions to specified levels. In addition, in December 2009, Canada was a signatory to the United Nations Framework Convention on Climate Change (Copenhagen Accord) which committed Canada to quantified economy-wide emissions targets for 2020. There has been much public debate with respect to Canada’s ability to meet these targets and the government’s strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies for reducing greenhouse gases, whether to meet the limits required by the Protocol, the Copenhagen Accord or as otherwise determined, could have a material impact on the nature of oil and natural gas operations, including those of the Company. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict either the nature of those requirements or the impact on the Company and its operations and financial condition.



## **NEW ACCOUNTING STANDARDS ADOPTED**

January 1, 2009, the Company adopted the new CICA Handbook Sections 3064 “Goodwill and Intangible Assets”; 1582 “Business Combinations”; 1601 “Consolidated Financial Statements”, 1602 “Non-controlling Interests” and amendments to Section 3862 “Financial Instruments – Disclosures”. The adoption of these standards has had no material impact on the Company’s net income or cash flows. Additional information on the implementation of these new standards can be found in Note 3 to the Company’s Annual Audited 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. The Company has identified property, plant and equipment, asset retirement obligations, income taxes and impairment testing as areas that may be significantly affected by the changeover to IFRS.

Establishing new IFRS accounting policies has begun and is expected to be completed by the end of the first quarter of 2010. The Company also expects to have an opening balance sheet (January 1, 2010) that is in accordance with IFRS by the end of the first half of 2010.

One of the major steps for many oil and gas companies moving to IFRS is transitioning away from the full cost accounting method for property, plant and equipment costs. The full cost method is not supported by IFRS. The International Accounting Standards Board has approved a transition amendment to IFRS 1 – First Time Adoption of IFRS that will allow Canadian oil and gas companies that use the full cost method of accounting for exploration and development activities to use their independent reserve report to allocate their property, plant and equipment full cost pool to individual cash generating units, which is required under IFRS. BlackPearl has elected to utilize this exemption.

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 cannot be reasonably determined.

## CONTROL CERTIFICATION

### DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to management to allow for timely decisions regarding required disclosures. The Company carried out an evaluation and effectiveness of the Company's disclosure controls and procedures as at December 31, 2009. The evaluation was carried out under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer. The Company's Chief Executive Officer and Chief Financial Officer, together with management, have concluded, based on their evaluation of the effectiveness of the Company's disclosure controls and procedures as at year-end, that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company is (i) recorded, processed, summarized and reported within the time periods specified in Canadian securities law and (ii) accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures will necessarily prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

### INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal control over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal control over financial reporting at the financial year-end of the Company and concluded that the Company's internal control over financial reporting is effective, at the financial year-end of the Company, for the foregoing purpose.

The Company is required to disclose herein any change in the Company's internal control over financial reporting during the period that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. No material changes in the Company's internal control over financial reporting were identified during such period that has materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.



## FOURTH QUARTER 2009 ACTIVITIES

Crude oil prices increased by 12% in the fourth quarter 2009 from the third quarter, with WTI oil averaging US\$76.19 per barrel. Heavy oil prices also increased from the third quarter. The Bow River Heavy oil price differential averaged US\$10.93 per barrel in the fourth quarter compared to US\$9.30 per barrel in the third quarter. The increase in commodity prices is attributable to a slight increase in demand as markets slowly start to recover from the recent worldwide economic downturn, which originally caused a lower demand for commodities. This also resulted in an increase in BlackPearl's average wellhead price from \$51.94 in Q3 to \$56.69 in Q4.

BlackPearl sold an average of 5,306 boe per day during the fourth quarter, an increase of 4% over the third quarter level. The increased sales volumes are attributable to continued development at Onion Lake. Production revenues were \$27.7 million in the fourth quarter of 2009 compared to \$24.1 million in the third quarter, due to the increase in wellhead prices. Operating costs increased slightly from the third quarter, averaging \$14.85 per barrel from \$13.32. The slight increase is a result of 25 new wells coming online at Onion Lake during Q4. Operating costs were incurred on those wells without a full month of production. Cash flow from operations and net loss in the fourth quarter were \$14.7 million and \$3.9 million, respectively, compared to \$8.2 million and \$12.0 million, respectively in the third quarter. The increased cash flow in the fourth quarter of 2009 was due to the increase in heavy oil prices. The net loss in the fourth quarter of 2009 was due to the high depletion rate that was present throughout 2009.

Capital expenditures in the fourth quarter of 2009 were \$17.6 million, 181% higher than in the third quarter. The increase is a result of the drilling of 28 wells at Onion Lake during Q4.

## OUTLOOK

In 2010, BlackPearl is planning an \$85-\$90 million capital expenditure program. The major components of this program will include:

- Onion Lake area – \$30 million: activities to include drilling 50 primary development wells and upgrading infrastructure;
- Blackrod area – \$17-\$20 million: activities to include constructing a single-well SAGD pilot, with associated infrastructure; and
- Mooney area – \$25-\$30 million: activities to include constructing the first phase of a commercial polymer flood.

The funding for this program is expected to come from existing working capital (\$58 million at December 31, 2009), cash flow from operations of \$40-\$50 million (see below) and possible non-core asset sales (\$10-\$30 million). Although the Company has a \$25 million un-drawn credit facility, management does not expect to utilize this facility to fund the 2010 capital program. If commodity prices drop and cash flow is not as high as anticipated the Company could reduce its capital program, initially by reducing the number of wells drilled at Onion Lake.

Production in the first quarter of 2010 is expected to be between 6,000 and 6,500 boe/d. The planned capital spending at Blackrod and Mooney will not immediately add to this production base; however, drilling at Onion Lake is expected to result in a 2010 exit rate of 7,500-8,000 boe/d, net of natural declines from base production. These production volumes could be impacted by non-core asset sales. Management expects to sell the Southern Alberta gas properties during the first quarter of 2010 which are producing approximately 350 boe/d and has started to market a heavy oil field that is currently producing approximately 350 boe/d.

Based on an average production rate of 6,400 boe/d, management expects to generate cash flow from operations of \$45-\$50 million, assuming WTI oil prices of US\$72, a light/heavy differential of US\$10 and a US/CDN dollar exchange rate of 0.95.

### SENSITIVITIES

The significant factors that would affect forecast cash flows include commodity prices, heavy oil differentials, exchange rates and production volumes.

The following table summarizes the approximate effect changes in these factors could have on the Company's 2010 performance:

(\$000s, except production data)	Cash Flow	Net Earnings
Price change		
US\$5 per barrel decrease in the price of WTI oil	7,480	7,480
US\$2 per barrel increase in the light/heavy differential	2,992	2,992
Exchange rate		
\$0.05 change in US/CDN rate	4,488	4,488
Production rate		
500 barrel per day change	4,753	2,227

BlackPearl has no specific plans to access additional capital in 2010; however, this will be reviewed internally on a regular basis. In summary, 2010 will be more active than 2009. Management believes the Company has a strong suite of assets and that stabilized prices, as well as a strong balance sheet, will help further develop BlackPearl's core properties.



## **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 historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as “anticipate”, “believe”, “plan”, “continuous”, “estimate”, “expect”, “may”, “will”, “project”, “should”, “predict”, “targeting”, “seek”, “intend”, “could”, “potential” or similar words. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon. In particular, this report contains forward-looking statements pertaining to the following:

- business plans and strategies;
- capital expenditure programs;
- methods and ability to finance capital expenditure programs;
- future oil and gas prices and their impact on BlackPearl;
- the quantity of reserves;
- anticipated production levels;
- future costs including operating and administrative costs and royalty rates;
- future cash flows and its uses;
- future earnings;
- future asset dispositions; and
- tax pools.

Actual results could differ materially from the results anticipated in these forward-looking statements as a result of several risk factors. These factors include, but are not limited to, volatility of oil and natural gas prices, ability to replace reserves, uncertainties associated with estimating oil and gas reserves, substantial capital requirements and the Company's ability to access additional capital, risks and uncertainties inherent in exploration and development activities, government regulation and changes in legislation, environmental matters, aboriginal claims, dependence on key personnel, availability of drilling equipment and skilled personnel, expiration of licenses and leases, competition, conflicts of interest, issuance of debt or equity, title to properties, variations in exchange rates and hedging and uncertainty in global financial markets. Further information regarding these risk factors may be found under the heading “Risk Factors” in the Annual Information Form.

With respect to forward-looking statements contained in this report, management has made assumptions regarding future production levels; future oil and gas prices; future operating costs; timing and amount of capital expenditures; the ability to obtain financing on acceptable terms; availability of skilled labour and drilling and related equipment; general economic and financial market conditions; continuation of existing tax and regulatory regimes; and the ability to market oil and natural gas successfully to current and new customers. A description of some of the assumptions used for 2010 are located in the “Outlook” section of this MD&A. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

Statements relating to “reserves” are forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves described exist in the quantities predicted or estimated and can profitably be produced in the future.

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

Readers are also cautioned that the foregoing list of factors and risks is not exhaustive. Consequently, there is no representation by the Company that actual results achieved will be the same in whole or in part as those set out in the forward-looking information. Furthermore, the forward-looking statements contained in this report are made as of the date hereof, and the Company does not undertake any obligation, except as required by applicable securities legislation, to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained herein are expressly qualified by this cautionary statement.