

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
	\$1,284	\$9,619

- (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
			\$5,000

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%

	For the nine months ended September 30, 2009	For the twelve months ended December 31, 2008
(f) Contributed Surplus Continuity		
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.