

**BLACKPEARL RESOURCES INC.**  
**Management's Discussion and Analysis**  
**Three and Nine months ended September 30, 2009 and 2008**

The following is Management's Discussion and Analysis ("MD&A") of the operating and financial results of BlackPearl Resources Inc. ("BlackPearl" or the "Company") for the third quarter 2009. These results are being compared with the three and nine month periods ended September 30, 2008. The MD&A should be read in conjunction with the Company's unaudited consolidated financial statements for the three and nine months ended September 30, 2009, together with the accompanying notes.

All dollar amounts are referenced in thousands of Canadian dollars, except where otherwise noted. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

Throughout this MD&A the calculation of barrels of oil equivalent (boe) is calculated at a conversion rate of six thousand cubic feet (mcf) of natural gas for one barrel of oil. boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalence conversion method primarily applicable at the burner tip and does not represent a value equivalence at the wellhead.

Included in this report are references to terms commonly used in the oil and gas industry, such as, cash flow and funds from operations which represent cash flow from operating activities expressed before changes in non-cash working capital, and cash flow per share, and are used by the Company to analyze operating performance, leverage and liquidity. These terms do not have standardized meanings prescribed by GAAP and therefore may not be comparable with the calculations of similar measures for other entities. Consequently, these are referred to as non-GAAP measures. Management uses these non-GAAP measurements to evaluate the Company's performance and to provide shareholders and investors with additional information to measure the Company's performance and efficiency and its ability to fund a portion of its future activities.

Additional information relating to the Company, including its Annual Information Form, is available on SEDAR at [www.sedar.com](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 November 10, 2009.

## OVERVIEW

BlackPearl is a Canadian-based oil and gas company whose common shares are traded on the TSX Exchange under the symbol “PXX” and on the First North (OMX Nordic Exchange) under the symbol “PXXS”. BlackPearl’s main focus is heavy oil projects in Western Canada and the USA. The Company also holds interests in a number of natural gas properties.

BlackPearl’s core properties include:

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

These core areas provide the Company with a combination of short term cash flow generation, medium term reserves and production growth, enhanced oil recovery (EOR) development and longer term reserves and production growth using thermal processes.

## 2009 SIGNIFICANT EVENTS

- The deterioration in the financial markets, which began in 2008 as a result of a credit crisis and global recession, continued during the third quarter of 2009. The worldwide financial crisis has directly impacted the demand for crude oil and natural gas and resulted in dramatically lower commodity prices compared to 2008. BlackPearl has not been immune from these circumstances and this has resulted in significantly lower revenues. The Company has been successful in lowering operating costs and administrative expenses to reduce the effects of lower revenues.
- On January 1, 2009 the Company amalgamated CODA Holdings (acquired in 2008) with Pearl E&P Canada Ltd.
- On January 8, 2009, the Company acquired all of the issued and outstanding shares of BlackCore Resources Inc. in exchange for 17,600,000 common shares of the Company, as well as 5,000,160 Class A and 5,000,160 Class B share purchase warrants. Each Class A and Class B warrant allow the holder to acquire one BlackPearl share for a price of \$0.60 when the BlackPearl share price reaches a volume weighted average price for 30 consecutive days of \$1.50 and \$2.00, respectively. As of September 30, 2009, the Class A warrants have vested and can be used to purchase common shares at the option of the holder. In addition, 2,500,000 common shares of the Company were issued to extinguish the potential contingency payments related to the purchase of lands in the Blackrod area. In conjunction with the acquisition, the Company hired a new management team which was formerly with BlackRock Ventures Inc. Members of the new BlackPearl management team were also the principal shareholders of BlackCore.
- On January 28, 2009, the Company closed an agreement with Serrano Energy Ltd. (“Serrano”) to exchange the Company’s equity interest in Serrano for an additional 15% increased interest in the Blackrod area lands (increasing the Company’s working interest

to 80% within the main project area) and a carried work commitment of \$5 million. The Company has become the operator of the Blackrod project.

- Due, in part, to lower commodity prices, the Company reduced its capital program during the first three quarters of 2009, with total expenditures of \$10.3 million.
- On April 20, 2009, the Company issued 52,334,000 special warrants of BlackPearl at a price of \$0.88 per special warrant for aggregate net proceeds of approximately \$43.7 million. Each special warrant was converted into one common share of the Company on May 6, 2009.
- On May 8, 2009, Pearl Exploration and Production Ltd. changed its name to BlackPearl Resources Inc.

## SELECTED QUARTERLY INFORMATION

	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
\$000s, except where noted	2009	2009	2009	2008	2008	2008	2008	2007
Production (boe/d)	5,091	5,170	5,510	6,198	5,776	8,246	10,503	9,507
Revenue (\$/boe)	51.94	47.07	31.77	36.28	85.02	79.74	60.50	40.30
Oil & gas revenue	24,065	22,143	15,755	20,687	45,180	59,839	57,830	35,250
Production costs	6,172	5,873	10,165	10,299	9,272	11,453	18,883	14,835
Net earnings (loss) (1)	(12,013)	(10,889)	(20,516)	(83,686)	1,926	6,688	(3,790)	(183,407)
Per share, basic and diluted	(0.05)	(0.05)	(0.10)	(0.44)	0.01	0.04	(0.02)	(1.01)
Cash flow from operations	8,221	7,910	(1,804)	3,624	21,021	28,023	19,452	9,609
Per share, basic and diluted	0.03	0.03	(0.01)	0.02	0.11	0.15	0.10	0.05
Total assets	465,942	477,876	450,836	472,143	554,956	543,123	584,237	575,865
Weighted average shares outstanding (000s)	261,684	240,973	207,555	189,242	189,242	189,242	189,242	181,212

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

## RESULTS OF OPERATIONS

\$ 000s, except where noted

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

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

same period ended September 30, 2008. The nine month period ended September 30, 2009 yielded losses of \$43.4 million compared to net income of \$4.8 million in 2008. The net loss for the current year is principally a result of lower commodity prices and high depletion costs.

## Commodity Prices

Crude oil prices strengthened during the third quarter, with the West Texas Intermediate (WTI) reference price averaging US\$68.30 per barrel compared with US\$59.62 per barrel in the second quarter and US\$43.08 per barrel in the first quarter. However, oil prices in the third quarter of 2009 were still 42% lower than the third quarter of 2008's average of US\$117.98 per barrel. Lower 2009 commodity prices were due to decreased demand as a result of the global recession and financial crisis. The WTI forward strip price for the remainder of 2009 is approximately US\$79.00 although commodity prices are expected to remain volatile due to the effects of the economic slowdown on supply and demand for commodities.

The majority of BlackPearl's production revenues are derived from the sale of heavy oil, which receives a lower price than light oil due to increased processing requirements for a heavy barrel. The difference between the reference price of light oil and the reference price of heavy oil is commonly referred to as the light/heavy differential. The light/heavy differential averaged 15% in Q3 and 15% for the nine months ended September 30, 2009. The light/heavy differential is considerably narrower than the 5 year average of approximately 28%. The narrowing of the differential has been attributed to increased heavy oil refining capacity, increased demand for Canadian heavy oil due to reduced supply of heavy oil from Mexico and Venezuela, as well as improved pipeline access for heavy crude to the Gulf Coast, a heavy oil refining hub.

	2009				2008			
	Q1	Q2	Q3	YTD	Q1	Q2	Q3	YTD
WTI price (US\$/bbl)	\$43.08	\$59.62	\$68.30	\$57.00	\$97.90	\$123.98	\$117.98	\$113.29
Western Canadian Select Heavy (Cdn\$/bbl)	\$42.62	\$60.66	\$63.77	\$55.68	\$76.79	\$103.43	\$103.96	\$94.73
Light/Heavy differential	21%	12%	15%	15%	21%	17%	15%	18%
Foreign Exchange (Cdn\$/US\$)	1.244	1.167	1.097	1.170	0.996	0.990	1.042	1.009
AECO (Cdn\$/GJ)	\$5.62	\$3.66	\$2.78	\$4.02	\$7.13	\$9.34	\$7.34	\$7.94

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

In the third quarter 2009, natural gas prices decreased 62% compared to the same period in 2008, reflecting lower demand. The AECO-C gas price averaged \$2.78 per GJ in Q3 2009 compared to \$7.34 per GJ in 2008. Similar to oil prices, natural gas prices decreased as a result of lower demand caused by slowing economies and warm weather which resulted in higher gas storage levels.

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

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

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

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

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

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

Overall, production decreased 12% to 5,091 boe/d for the three months ended September 30, 2009 compared with 5,776 boe/d in the same period 2008. The decrease in production is attributable to natural declines and limited drilling activity during the last year. For the nine months ended September 30, 2009, overall production fell 36% to 5,237 boe/d from 8,166 boe/d in 2008. The decrease in 2009 production was impacted by the sale of oil and gas properties in May 2008. At the time of sale these properties were producing approximately 3,200 boe per day.

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

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

## ***Royalties***

\$000s, except where noted	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Royalties	6,603	11,962	14,531	40,849
As a percentage of revenue	27%	26%	23%	25%

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

## ***Production Costs***

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

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

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

## ***Transportation Costs***

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

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

## ***Operating Netback***

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

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

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

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

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

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

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

DD&A expense was \$20.2 million or \$43.55 per boe for the third quarter in comparison to \$13.7 million or \$25.73 per boe for the same three month period in 2008. The nine month period resulted in DD&A costs of \$61.9 million or \$43.30 per boe in 2009 compared to \$57.7 million or \$25.79 per boe in 2008. The higher rate in 2009 is a result of a reduction in proved reserves as detailed in the Company’s 2008 reserve report. Due to the reduction in reserves, the Company anticipates that the depletion rate per boe will remain high for the remainder of 2009.

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

\$000s, except where noted	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Stock-based compensation	105	775	633	2,196

The Company uses the fair value method of accounting for stock options granted to directors, officers, employees and consultants whereby the fair value of all stock options granted is recorded as a charge to operations. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes options pricing model. No options were issued in the third quarter 2009.

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

### ***Interest Expense***

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

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

### ***Income Taxes***

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

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

## **LIQUIDITY AND CAPITAL RESOURCES**

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

In addition, at September 30, 2009, the Company had a working capital surplus of \$59.9 million compared to a working capital surplus of \$6.5 million at December 31, 2008. The increase in working capital is a result of the issuance, in April, of 52,334,000 common shares for net proceeds of approximately \$43.7 million. These funds are initially being used for working capital purposes, but will ultimately be used to fund our capital expenditure programs.

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

The Company remains dedicated to a capital budget philosophy which is to fund capital budgets based on available cash flow from operations, non-core asset sales, equity financings, and to limit the timing of our capital expenditures to minimize the amount of debt used. Our original capital budget for 2009 was approximately \$8 million. This budget reflected the difficult commodity price environment, as well as the Company's desire to maintain financial flexibility given the limited availability for additional capital. As a result of the Company's recent equity financing, and the recent increase in oil prices, the Company's Board of Directors approved a revised capital budget of approximately \$85 million, to be spent over the next 18 months. This capital will be used to continue development of BlackPearl's core areas of Onion Lake, Mooney and Blackrod, as well as selectively work on new exploration opportunities. This budget will be funded by existing working capital and cash flow from operations.

## **CAPITAL EXPENDITURES**

BlackPearl's capital program is focused on heavy oil opportunities. For the third quarter ended 2009, BlackPearl incurred \$6.2 million in capital expenditures, a significant decrease from the \$39.5 million spent in the third quarter of 2008.

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

## SEGMENTED INFORMATION

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

\$000s	Three Months Ended September 30, 2009			
	Canada	USA	Consolidated	
Total revenues, net of royalties	\$ 17,337	\$ 125	\$ 17,462	
Net loss	(10,981)	(1,032)	(12,013)	
Segment assets	456,438	9,504	465,942	
Capital additions	\$ 5,736	\$ 504	\$ 6,240	

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

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

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

## CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The Company has a number of financial obligations in the ordinary course of business. The following table summarizes the outstanding contractual obligations and commitments of the Company as at September 30, 2009:

\$000s	2009	2010	2011	2012	2013	Thereafter
Long-term debt	-	-	-	-	-	-
Operating leases <sup>(1)</sup>	364	1,457	1,525	1,593	1,593	4,474
Drilling rig commitment <sup>(2)</sup>	-	616	935	1,211	319	-
	364	2,073	2,460	2,804	1,912	4,474

(1) Relates to a lease for office premises, including estimated operating costs.

(2) Relates to a commitment to utilize a drilling rig for a minimum number of days per year.

These obligations are expected to be funded through operating cash flow.

The Company also has ongoing obligations related to the abandonment and reclamation of well sites and facilities which have reached the end of their economic lives. Programs to abandon and reclaim them are undertaken regularly in accordance with applicable legislative requirements.

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The following table outlines the classification, carrying value and fair value of the Company's financial instruments. All of these instruments are used in the normal course of business. The Company has not entered into any derivative financial instruments or any other hedging activities.

\$000s	Classification		<u>As at September 30, 2009</u>		<u>As at December 31, 2008</u>	
			Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	Held for Trading	(i)	\$59,795	\$59,795	\$24,059	\$24,059
Accounts receivable	Loans and receivable	(i)	10,194	10,194	9,536	9,536
Investment in MAV Notes	Held for Trading	(ii)	1,284	1,284	1,288	1,288
Other investments	Available for sale	(iii)	-	-	7,768	7,768
Accounts payable and accrued liabilities	Other Financial liabilities	(iv)	(12,830)	(12,830)	(34,410)	(34,410)

The fair values of financial assets and financial liabilities are calculated on the basis of information available at the balance sheet date using the following methods:

- (i) The fair value of cash and cash equivalents and accounts receivable approximates their carrying amounts due to the short-term nature of the instruments.
- (ii) The fair value of the Company's investment in MAV Notes is determined by a probability-weighted discounted cash flows considering the best available public information regarding market conditions and other factors (maturity dates, interest rates, etc) that a market participant would consider for such investments.
- (iii) Investment in shares of a private company are valued at fair market value based on some comparable transactions involving the issuance of additional shares of the private company.
- (iv) The fair value of accounts payable and accrued liabilities approximates their carrying amounts due to the short-term nature of the instruments.

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

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

The Company has no off-balance sheet arrangements.

#### **OUTSTANDING SHARE DATA**

As at November 10, 2009, the Company had 261,700,717 common shares outstanding, 10,000,320 warrants outstanding and 10,049,333 stock options outstanding under its stock-based compensation.

#### **RELATED PARTY TRANSACTIONS**

Namdo Management Services Ltd. ("Namdo") provided executive and support services to the Company. For the nine months ended September 30, 2009, the Company paid Namdo \$45,000 (2008 - \$135,000). Namdo is a private corporation owned by a former director of the Company.

#### **PROPOSED TRANSACTIONS**

As of the date of this MD&A, the Company does not have any pending transactions.

#### **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements requires management to make estimates and assumptions that affect reported assets and liabilities, disclosure of contingencies and revenues and expenses. Management is also required to adopt accounting policies that require the use of significant

estimates. Actual results could differ materially from those estimates. A comprehensive discussion of the Company's significant accounting policies is contained in the MD&A and audited consolidated financial statements for the year ended December 31, 2008. There have been no significant changes in critical accounting estimates since December 31, 2008.

## **NEW ACCOUNTING STANDARDS ADOPTED**

January 1, 2009, the Company adopted the new CICA Handbook Sections 3064 "Goodwill and Intangible Assets"; 1582 "Business Combinations"; 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests". The adoption of these standards has had no material impact on the Company's net income or cash flows. Additional information on the implementation of these new standards can be found in Note 2 to the Company's second quarter unaudited Consolidated Financial Statements.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

### *International Financial Reporting Standards*

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, the Accounting Standards Board confirmed in February, 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for interim and annual reporting purposes. The required changeover date is for fiscal years beginning on or after January 1, 2011.

The Company has commenced the process to transition from current Canadian GAAP to IFRS. There are three phases in the process: diagnostic, detailed assessment and design and implementation. The Company has completed a high level review of the major differences between current Canadian GAAP and IFRS and has commenced the detailed assessment and design phase of the project. The Company's internal staff has been appointed the task of performing the actual conversion, while the Company's external auditors have been engaged to act as advisors. A comprehensive analysis of the impact of the IFRS differences, identified in the initial diagnostic assessment, is currently being performed and documented. In addition, an initial evaluation of IFRS transition exemptions and an analysis of financial systems will be performed.

During the implementation phase, the Company will execute the required changes to business processes, financial systems, accounting policies, disclosure controls and internal controls over financial reporting. At this time, the impact on financial statements is not reasonably determinable.

## **CONTROL CERTIFICATION**

### *Disclosure Controls and Procedures and Internal Controls over Financial Reporting*

Management reported on its disclosure controls and procedures and the design of its internal controls over financial reporting in the year end 2008 MD&A. There has been no material change to the Company's disclosure controls or procedures or to the design of internal controls over financial reporting since that time. It should be noted that the Chief Executive Officer and

Chief Financial Officer believe the internal controls, including compensating controls to overcome the lack of certain segregation of duties and the utilization of outside advice to assist with complex taxation, accounting and reporting issues to overcome limited in-house expertise on these matters, are designed appropriately given the nature and size of the Company's operations. Because of their inherent limitations, internal controls over financial reporting may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute assurance that objectives of the control systems are met.

## **OUTLOOK**

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

A number of these projects, such as the polymer flood at Mooney, and the pilot SAGD project at Blackrod require extensive regulatory approval and will not have an immediate impact on production. However, advancement of these projects is critical for the long term growth of the Company. In addition, we plan to drill primary heavy oil wells at Onion Lake which will allow us to offset natural production declines from existing wells and maintain production in the range of 5,000 barrels per day. At current prices and, production of 5,000 barrels per day, we anticipate generating \$35-40 million in annual cash flows from operations which will be used to fund our continuing capital program.

## **FORWARD-LOOKING STATEMENTS**

This report contains certain forward-looking statements and forward looking information within the meaning of applicable Canadian securities legislation (collectively referred to as "forward-looking statements"). All statements other than statements of historic fact are forward-looking statements. Forward-looking statements are typically identified by such words as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "potential", "targeting", "intend", "could", "might", "should", "believe" or similar words suggesting future events or future performance. In addition, statements relating to "reserves" or "resources" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and resources described exist in the quantities predicted or estimated and can be profitably produced in the future. In particular, this document contains forward-looking statements pertaining to, and which rely on assumptions such as to, without limitation, the following:

- Future crude oil and natural gas prices;
- The timing and amount of future oil and gas production;
- Expected operating costs, general and administrative and other costs;

- Impact of new government legislation regarding royalties;
- Use of funds from BlackPearl's recent share issuance;
- Future earnings and cash flow from operations;
- Future drilling plans and capital expenditure programs;
- The Company's business plans and strategies;
- Supply and demand for oil and natural gas;
- The Company's ability to add reserves through acquisitions, exploration and development; and
- The impact of federal and provincial governmental regulation.

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

- Operational risk of finding and producing reserves economically;
- Uncertainties associated with estimating the quantity of reserves;
- Changes in global economic conditions; particularly in Canada and the US;
- Competition for, among other things, capital, undeveloped land, skilled labor and equipment;
- Risk of fluctuating oil and natural gas prices;
- Risk of changes to interest rates;
- Risk of fluctuating foreign currency exchange rates;
- Credit or counterparty risk with respect to non-performance by counterparties to financial instruments;
- Marketing reserves at acceptable prices;
- Cost of capital risk associated with securing the needed capital to carry out the Company's operations;
- Uncertainty associated with obtaining drilling licenses and other regulatory consents and approvals;
- Production risks associated with sour hydrocarbons;
- Risk of changes in governmental policies, especially related to royalty legislation, income tax laws, incentive programs, operating practices and environmental protection, social instability or other political, economic or diplomatic developments in its operations;
- Environmental and safety risks related to its oil and gas properties; and
- Ability, expertise, judgment and financial capability of joint interest partners.

Many of the previously mentioned risks are beyond the Company's control, and it is impossible to ensure that any exploration drilling program or piloting program will ultimately result in commercial operations. The Company does not currently utilize derivative instruments to hedge its commodity price, foreign currency exchange or interest rate risks.

BlackPearl strives to minimize and manage these risks in a number of ways, including:

- Employing qualified professional and technical staff;
- Maintaining a healthy balance sheet that minimizes the use of debt;

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

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

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