

**FOR GROWTH  
A SPRINGBOARD**



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**Our portfolio of heavy oil projects have the potential to take us to commercial production of **80,000** barrels per day. **We're on our way.****



Quantify Resources



De-Risk Opportunities



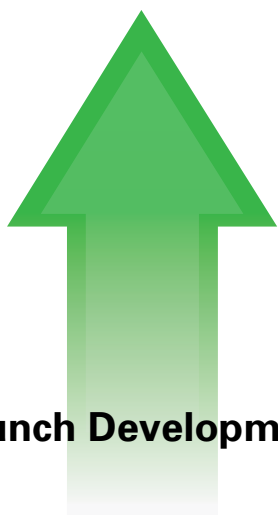
Assemble Technical Team



Initial Financing

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We have commenced the development phase of our business plan. Our production increased 32% in 2010. We exited the year at 8,000 boe/day.



▶ Launch Development

## 2010 Highlights

### FINANCIAL

(\$000s, except where otherwise noted)	2010	2009
Total revenue	142,867	89,637
Funds from operations <sup>(1)</sup>	62,584	29,004
Per common share		
Basic and diluted	0.23	0.12
Net earnings (loss)	(31,272)	(47,315)
Per common share		
Basic and diluted	(0.12)	(0.19)
Capital expenditures	95,829	27,878
Total assets	543,826	468,309
Long-term debt	–	–
Working capital	144,032	57,995
Shareholders' equity	476,885	426,556
Weighted average shares outstanding	269,029,016	243,185,591
Common shares outstanding at period end	283,215,387	261,960,717

### OPERATIONAL

#### Average Daily Production

Oil (bbls/d)	6,375	4,324
Natural gas (mcf/d)	3,455	5,582
Total production (boe/d)	6,951	5,254

#### Sales Prices

Oil – average selling price per bbl (\$)	58.86	51.44
Gas – average selling price per mcf (\$)	4.14	4.10

#### Operating Costs

Operating costs (\$000s)	36,824	29,461
Operating costs per boe (\$)	14.51	15.36

(1) Funds from operations and funds from operations per share are not terms defined by Generally Accepted Accounting Principles. Funds from operations represents cash generated from operating activities before changes in non-cash working capital.

# President's Letter

## A Springboard for Growth

After two years our business plan is hitting full stride. In 2011, we expect to break through 10,000 barrels per day of oil production and we have a plan in place to develop the 25 million barrels of reserves and 739 million barrels of potentially recoverable resources from our three core properties.

**John Festival** President and CEO

## 2010 Milestones

In 2010, BlackPearl passed a number of significant milestones, which set the stage for continued growth:

- We raised \$78 million through two equity financings at \$2.90 per share and \$5.00 per share;
- We released an independent engineering report which estimated 739 million barrels of contingent resource, with a potential peak production rate of 80,000 barrels per day from our three core properties;
- Our Blackrod SAGD pilot project received regulatory approval and pilot start-up is targeted for second quarter 2011;
- Our Mooney phase 1 polymer project received regulatory approval and a reduced royalty from the Government of Alberta, and start-up is planned for second quarter 2011;
- We drilled 30 primary heavy oil wells at Onion Lake, achieving continued top-decile production results;
- We completed over \$40 million of non-core property divestitures;
- We generated funds from operations of \$62.6 million, \$0.23 per share, more than double the level in 2009; and
- We achieved average production of 6,951 boe per day, a 32 percent increase over 2009, and we exited the year producing over 8,000 boe per day.

### Strategy

Our corporate strategy to focus on the growth and development of our three core properties while selling off all non-core properties continues to guide our capital and planning decisions. With the successful issuances of new equity accomplished in 2010, implementing our growth plans will not need further external funding until 2012, when we will decide how we should finance the next phases of development.

### Oil Prices

Oil prices were relatively stable in 2010 with the price of benchmark WTI reaching US\$90 by year-end. The light to heavy oil differential was not as stable, as it reacted to pipeline disruptions by widening significantly in September and October. Ongoing pipeline disruptions and storage issues near year-end 2010 caused additional restrictions and a widening differential. However, going forward, we see strong heavy oil prices due to increasing demand from the developing world and narrow light to heavy differentials due to increased pipeline capacity to the U.S. Gulf Coast. We will continue with our policy of not hedging unless we have some financial imperative such as debt repayment.

### The Road to 80,000 Barrels per Day

We anticipate passing further significant milestones in 2011. We are confident that both our SAGD pilot at Blackrod and our phase 1 polymer project at Mooney will become operational. It will also be the most active year of drilling at Onion Lake in the property's history. These expected advancements in each of our three core properties are important stepping stones. The Blackrod pilot results will be used to complete a 40,000-barrel-per-day commercial application and eventually our first phase of production. At Mooney, our first phase of polymer development will lead directly to additional wells and a polymer flood in the western portion of the oil pool. And finally, once we have completed all the primary drilling at Onion Lake, we plan to transition the property into a SAGD operation on the thickest portion of the central block. These plans form BlackPearl's road towards production of 80,000 barrels per day.

### Health, Safety and Environment

Our programs dealing with the health and safety of our employees and with protecting the environment are an integral part of our management practices. Our objective is to build a culture of safety and environmental protection as we grow the Company. We have continually tried to improve our record for medical incidents, near-misses and oil spills with the same focus we apply to operating costs and production growth.

### Community, Employee and Shareholder Enrichment

As a company, it is our goal to make money for our shareholders by increasing the value of BlackPearl on a per share basis. It is also important for us to enrich the lives of our employees with the experience and training that BlackPearl provides. We also try to enrich the communities within Alberta and Saskatchewan in which we operate and where many of our employees live.

As always, we cannot achieve our goals without the dedication and hard work of our employees, the advice from our Board of Directors, and the patience of our shareholders. We look forward to achieving the goals we have set for ourselves.

On behalf of the Board of Directors,



John Festival  
President and CEO  
February 25, 2011

# Questions and Answers

## A Conversation With Management

**Q** You recently had a contingent resource study prepared on your core properties. The difference between the high case and the low case for your estimate of recoverable resource appears very small. Is this typical? What are the contingencies associated with these estimates?

The difference between the high and low case for our resource estimate is narrower than typical resource estimates in the oil sands. The high case is 821 million barrels of potentially recoverable oil, and the low case is 665 million barrels. This narrow difference is a result of the high degree of geological certainty associated with our three core properties and the fact that each of our properties has a close analogue that has already been on production for an extended period and that has performed very well. The contingencies associated with our resource estimates are regulatory approval, commercial approval by BlackPearl's Board of Directors and additional delineation drilling as required by the provincial regulator.

**Q** What is the definition of a "resource play"? Are the three core properties considered resource plays?

Resource play has been the catch-all term in the oil and natural gas industry in North America for the last few years. Typically a "true" resource play is a large-scale development with consistent geology that carries little or no exploration risk, where the resource is quite evenly distributed over a large area, and in which the main challenges are engineering-related, usually needing technology-based enhancements to make development commercially viable. More and more plays are being described as "resource plays" that don't really have all these characteristics. Our three core properties, however, all fit the full description of a resource play, which is typical of large-scale heavy oil properties.

**Q** Blackrod is your largest project. How do you plan to develop the property?

We are undertaking a pilot to confirm some operating characteristics before we shift into commercial development. We are working on a 40,000-barrel-per-day commercial application for Blackrod, which should be filed with the regulators late this year or early in 2012. Due to financial capacity constraints we are likely to initially start with a first phase of 10,000 barrels per day, but by applying for a commercial licence for 40,000 barrels per day, it gives us a lot of flexibility in timing the development of the project. Ultimately the Blackrod lease could support a capacity of 70,000 barrels per day.

**Q** Everything has gone very well in the last two years. What could derail your long-term plans?

BlackPearl's strategy encompasses three phases. In phase one, we organized the Company's asset portfolio into core and non-core properties. In phase two, we identified and quantified the ultimate resource potential of the core properties. The final phase entails the execution of the development plan, in which we realize the ultimate potential of the properties. This last phase is the lengthiest, most-capital intensive and most difficult because the development of our core properties will require expert coordination of capital, people, equipment and services over multiple years. Execution requires good project management, strong technical ability across a range of skill-sets, and multi-disciplinary communication. Even the best plans can be derailed by weather, equipment problems and people issues.

**Q Will the company be sold? If so, when?**

We have no definitive plans to sell the Company. Our job, as managers, is to execute the business plan and to prudently develop our properties. If a third party were to offer a price that reflected the long-term value of the Company, we would present the offer to our shareholders. In the meantime, we are building value by moving each of our core properties towards full development.

**Q The stock trades in Sweden as well as Canada. Is this because of the Lundin Group ownership in BlackPearl?**

Yes. Currently, BlackPearl has about 30 percent of its shares held in Sweden and they trade on the First North Exchange. The Lundin family has run very successful businesses and has a strong following in Sweden. The Lundins have been very supportive of BlackPearl and what we are doing and have participated in all three of our equity financings since we joined the Company.

**Q When do you anticipate needing more money for further development and how much do you think you will need?**

We will need additional financing sometime in 2012 to fund our next significant growth phase. This will likely be an initial phase of 10,000 barrels of oil per day at Blackrod. This will cost approximately \$350 million and will be partly financed from cash flow, working capital and the sale of non-core properties, but we will also likely need additional external financing. We have not established what form or structure this financing will take, but we have operated the Company quite conservatively from a financial perspective and I think this conservative approach will continue in our next financing.

**Q BlackPearl's shares appear to be very expensive when compared to those of other oil and natural gas companies using traditional metrics such as the price to cash flow ratio. Is this reasonable and sustainable?**

We believe our share price is reasonable and sustainable because underlying our market capitalization is a tremendous number of resource barrels, which represents our long-term value. One cannot use simple financial metrics – especially those based purely on current operations – to properly value a company with the multi-decade potential of BlackPearl. Our share price recognizes some of this long-term potential value. Every quarter we are moving each of our core properties forward towards full development. The resources within BlackPearl constitute a 30-year supply of heavy oil in a safe political environment in an area with established infrastructure and services.

# Operations Review

## Overview

Our operations are concentrated in three core heavy oil areas in western Canada.

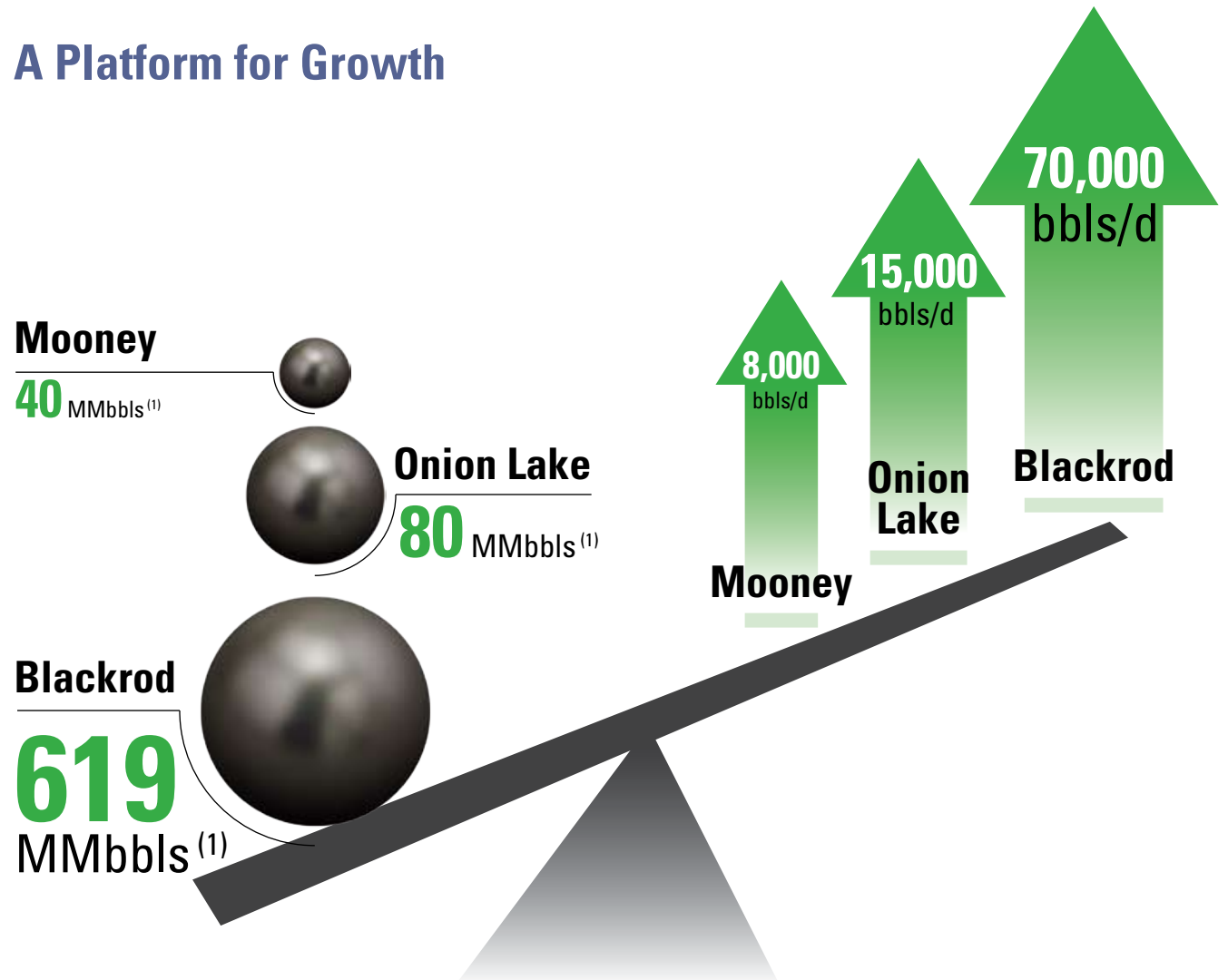
Onion Lake is a conventional heavy oil property located in the Lloydminster area in Saskatchewan. The property also has the potential for thermal development on a portion of the lands. Most of our short-term production growth will occur from conventional development activities at Onion Lake.

Blackrod is a planned SAGD development located in the Athabasca oil sands region in northern Alberta. Blackrod is the largest of our three core properties and will require several years to fully develop.

Mooney is a conventional heavy oil property located in northern Alberta. The field was initially developed using primary production techniques; however, we are initiating a polymer flood in this area to enhance production and overall oil recovery.

In 2010, we spent \$95 million on our properties and in 2011 we expect to spend close to \$150 million.

## A Platform for Growth



<sup>(1)</sup> Dec 31, 2010 Contingent Resources (best estimate)

# 6,951 boe/day

## 2010 Production

BlackPearl increased its oil and gas production 32% in 2010, despite selling properties that were producing about 1,000 boe/day at the time of sale. Our existing properties have the potential to increase production to 80,000 boe/day.

# 24.8 MMboe

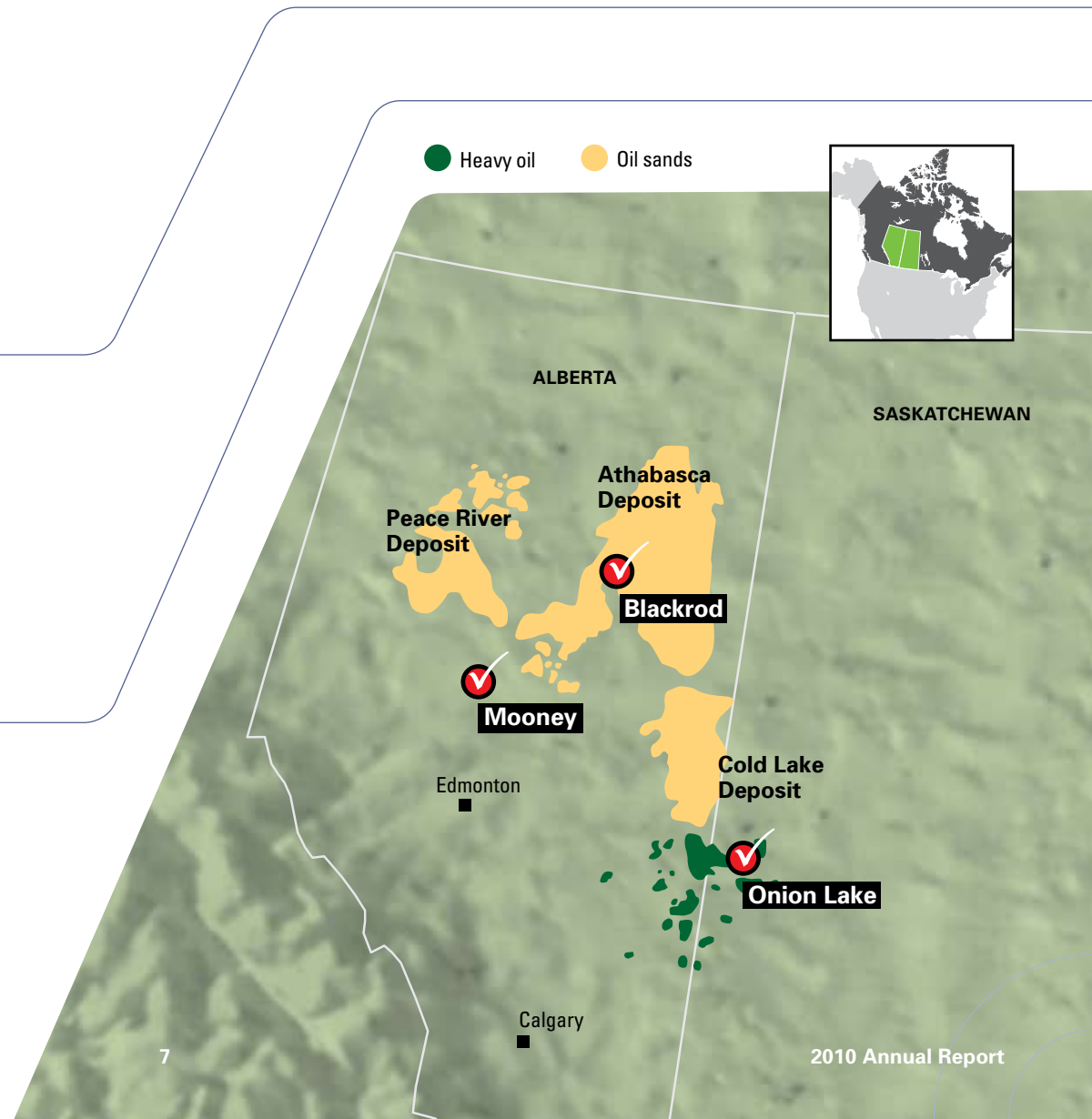
## Proved Plus Probable Reserves

Sproule Unconventional Limited ("Sproule") has attributed 24.8 mmboe 2P reserves as at December 31, 2010, an increase of 5% over 2009. Reserve additions were 7.7 mmboe for the year, offset by 4 mmboe of property dispositions.

# 739 MMboe

## Contingent Resources

The contingent resource assessment prepared by Sproule recognizes the potential from our three core areas. The Blackrod property represents over 80% of this potential.



During 2010, we drilled 30 successful conventional heavy oil wells at Onion Lake. The year-end reserves and contingent resource (best estimate) reports prepared by Sproule identified over 250 potential drilling locations on our lands. We plan to drill over 100 of these in 2011.

In addition to this large conventional drilling inventory, a portion of our lands provides an opportunity to initiate a thermal recovery scheme. This is due to the pay thickness of the reservoir beneath these lands, which ranges from 15–23 metres and is capable of supporting a 10,000 bbls/day SAGD operation.

It is likely that we will continue conventional drilling at Onion Lake over the next three or four years before we tackle the thermal project, but we are assessing whether it is feasible to accelerate the thermal project.

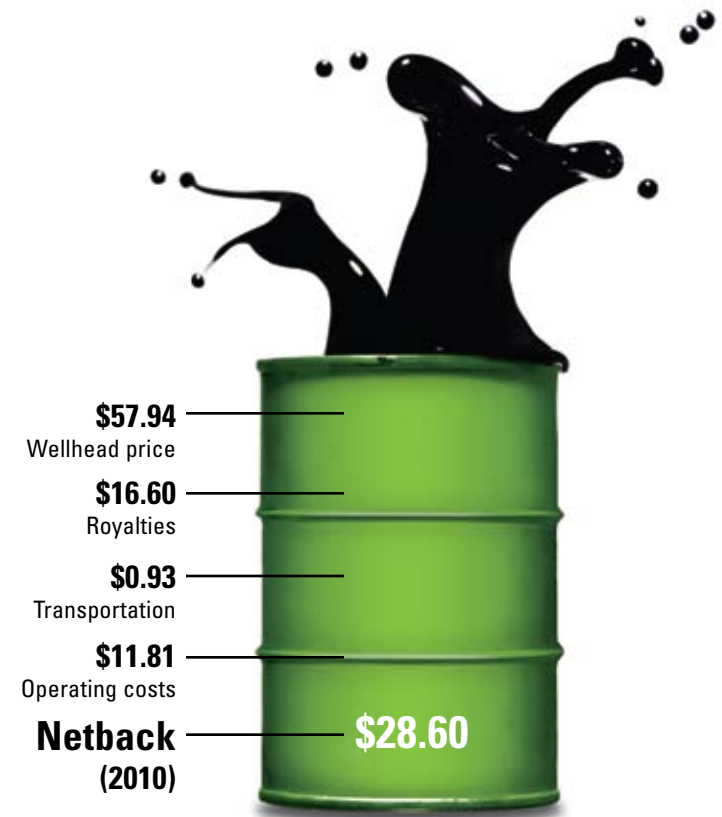
All of the year-end 2P reserves assigned to the Onion Lake area relate to conventional development; however, over 90% of the 2C resources attributed to Onion Lake relate to thermal recovery.

In 2011, we will also evaluate constructing a sales pipeline near the Onion Lake field. The installation of a pipeline would lower operating costs by reducing the distance oil production is trucked.

### Snapshot

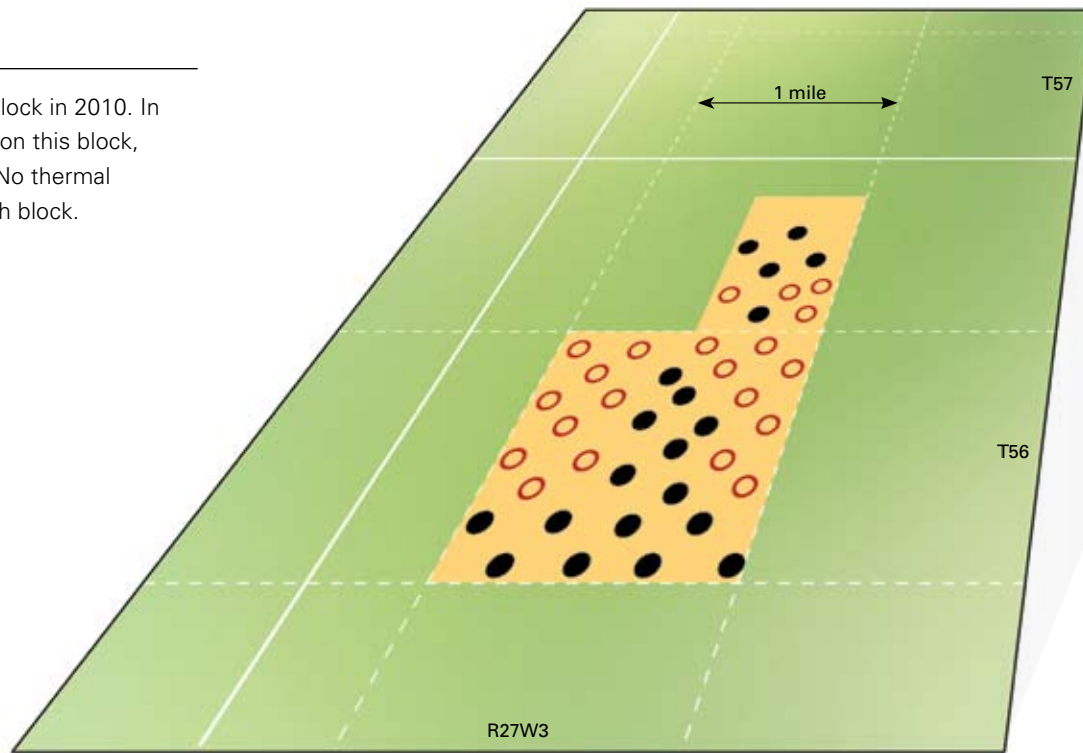
Working interest	87.5%–100%
Land	10,300 net acres
2P reserves	12.6 MMboe
2C resources	80 MMboe
API	11° oil
2010 production	5,040 boe/day
Depth	400–600 metres
Formations	Dina, Cummings

### Onion Lake Economics (\$/boe)



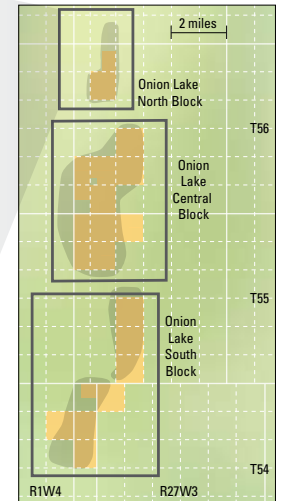
## North Block

Six wells were drilled on the North block in 2010. In 2011, we plan to drill up to 25 wells on this block, targeting the Cummings formation. No thermal development is planned for the North block.



- BlackPearl land
- Producing wells
- Future drilling locations

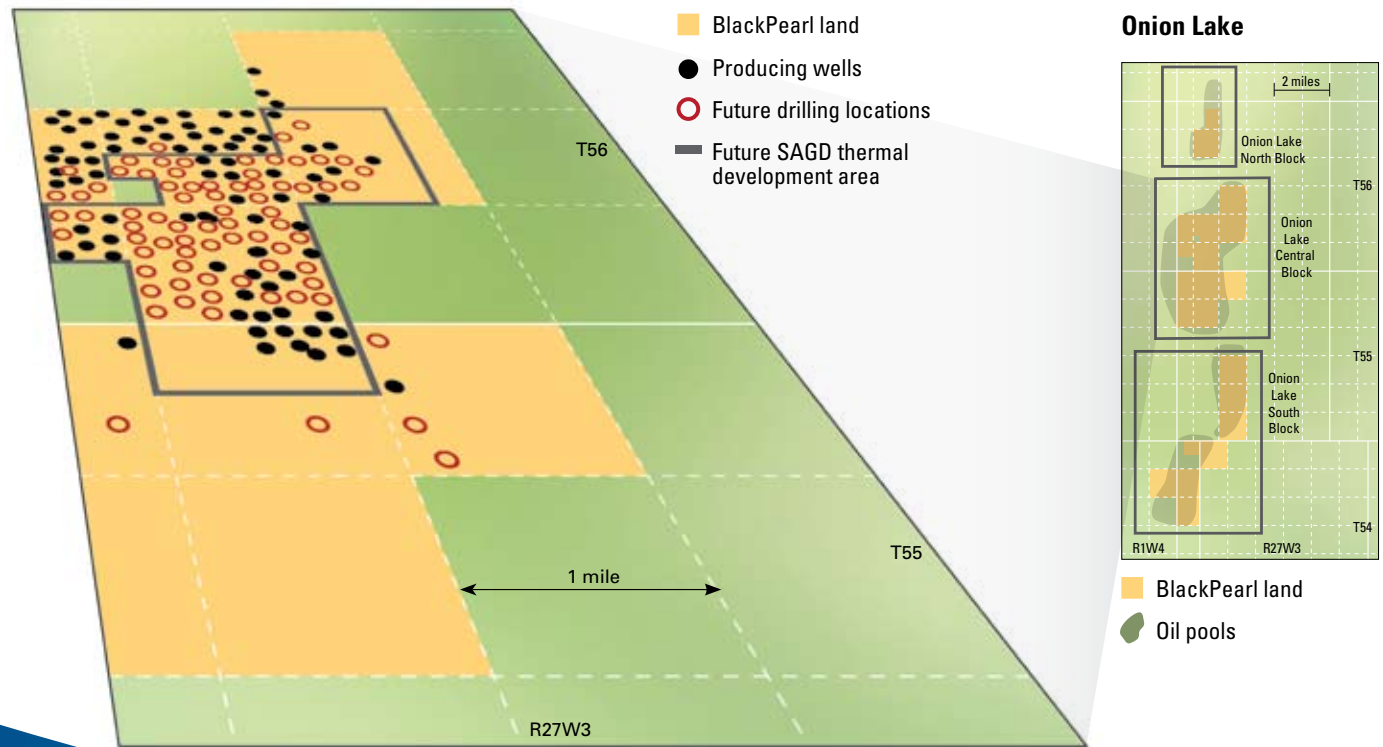
## Onion Lake



- BlackPearl land
- Oil pools

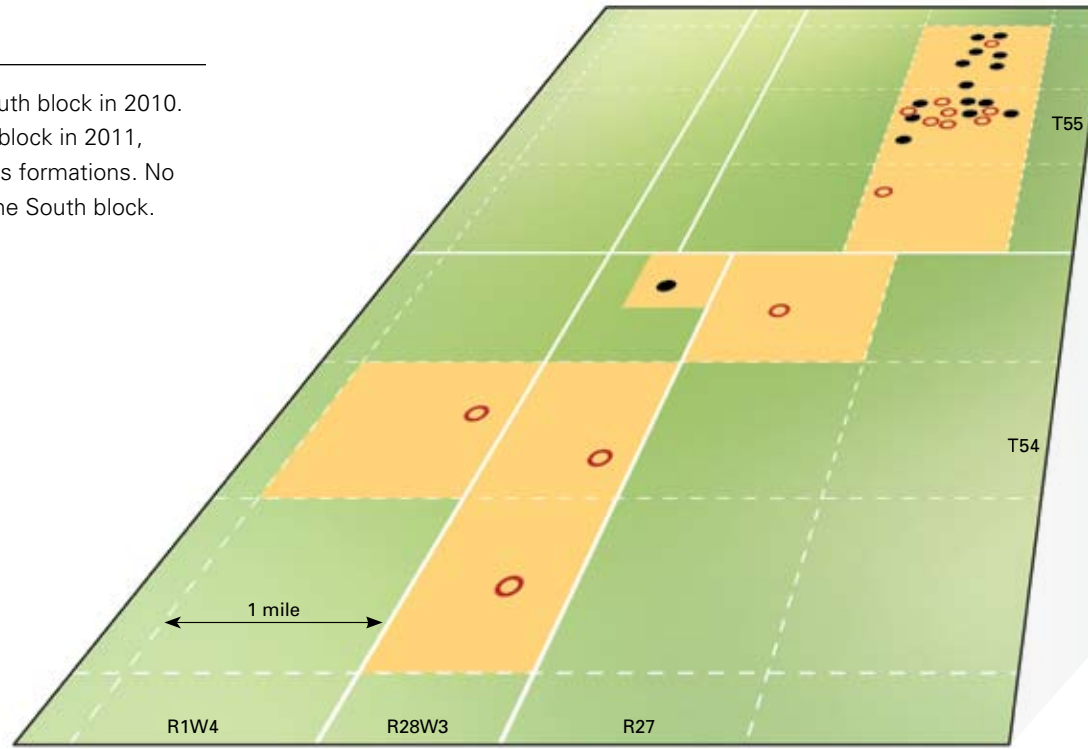
## Central Block

Twenty-four conventional wells were drilled on this block in 2010 and an additional 60–70 wells are planned for 2011. The Dina sand in the Central block is 15–23 metres thick, which should support a 10,000 bbls/day SAGD project for 15+ years. Thermal development will likely occur in three to five years, after conventional development is completed.



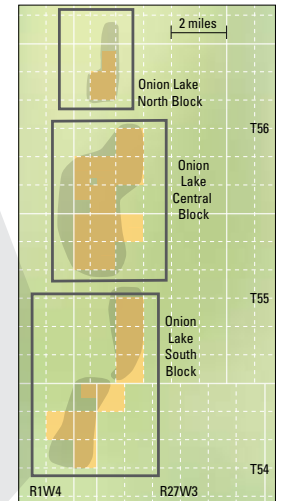
## South Block

No drilling activity occurred on the South block in 2010. We plan to drill up to 15 wells on the block in 2011, targeting both the Dina and Cummings formations. No thermal development is planned for the South block.



- BlackPearl land
- Producing wells
- Future drilling locations

## Onion Lake



- BlackPearl land
- Oil pools

In 2010 we reached a number of milestones with our SAGD project at Blackrod, located in the Athabasca oil sands. These milestones included:

- Acquiring the remaining 20 percent working interest in the project by purchasing our partners' interest for \$21 million. BlackPearl now owns 100 percent of this project;
- Receiving regulatory approval to construct and operate a SAGD pilot on our lands; and
- Completing an independent contingent resource assessment of the property which indicated a best estimate recoverable resource of 619 million barrels of bitumen, with peak production capacity of up to 70,000 bbls/day.

The next steps in the development of this property are to complete construction of the pilot and commence injection of steam. As part of the pilot, in 2010 we completed drilling the SAGD horizontal producer and injection wells, the water source and water disposal wells, as well as several vertical monitoring and observation wells. The steam generation equipment was installed on-site and the 31-kilometre access road was also completed.

During the first quarter of 2011, water handling facilities are being installed. Steam injection is expected to

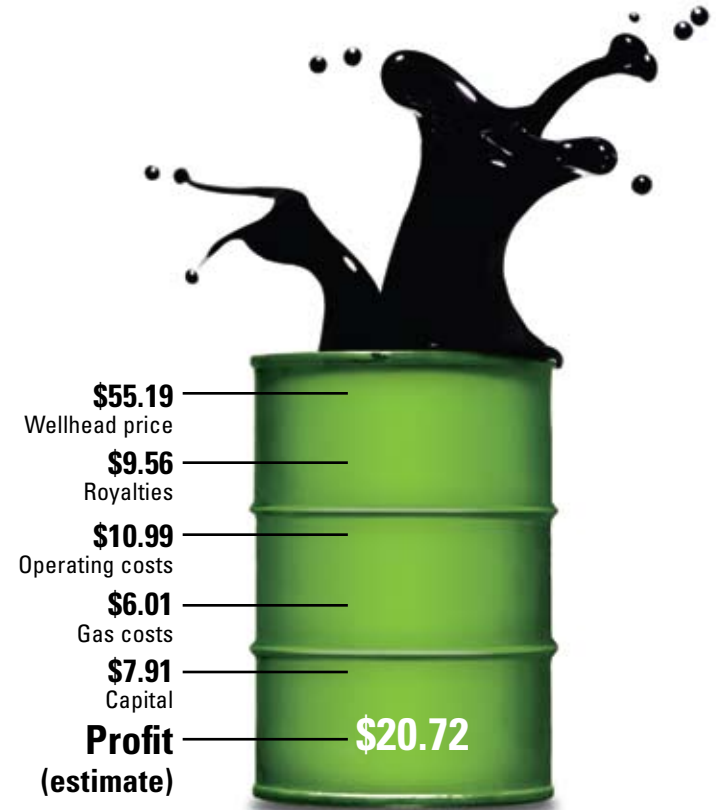
begin during the second quarter with initial results from the pilot expected 6 to 12 months following initial steam injection.

We have also commenced the background work necessary to submit a commercial development application for the property. This work includes collecting environmental baseline data, a 3D seismic program and additional delineation drilling. This application will be to develop a portion of our lands to support bitumen production of up to 40,000 bbls/day. We are planning to file the application in the first quarter of 2012.

### Snapshot

Working interest	100%
Land	34,560 net acres
2P reserves	None assigned
2C resources	619 MMboe
API	9° oil
2010 production	None
Depth	300 metres
Formations	Grand Rapids

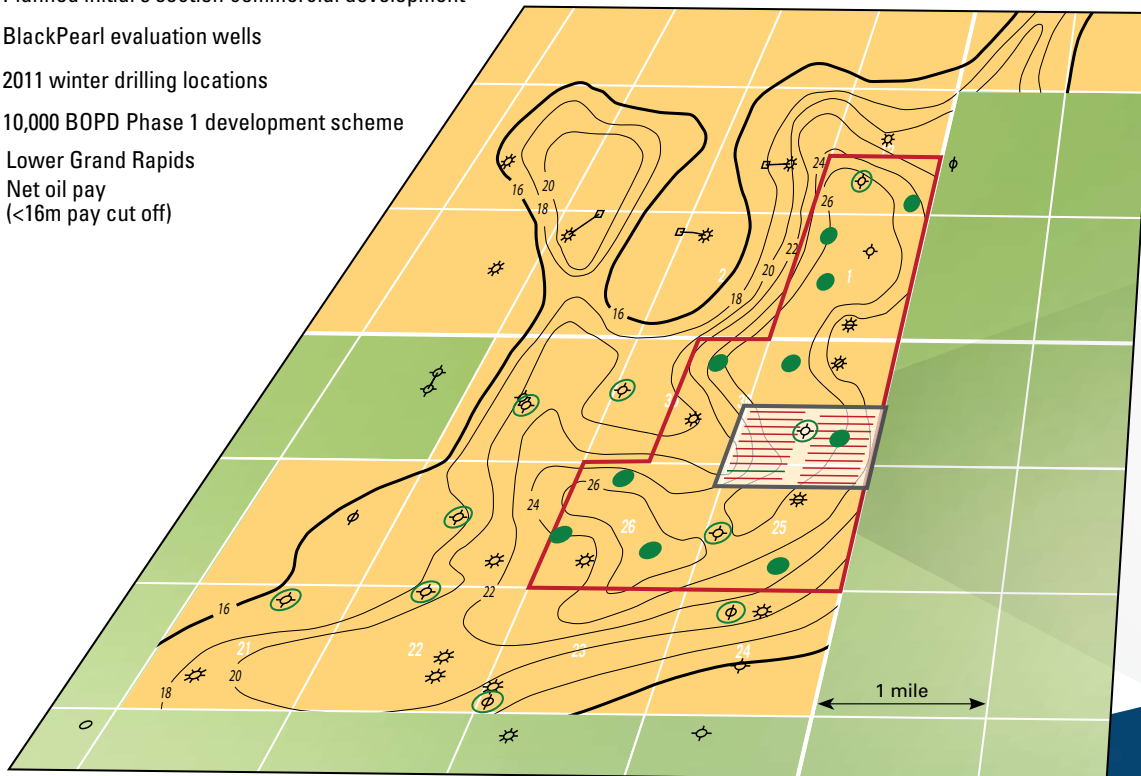
### Blackrod Economics\* (\$/boe)



\* The economic estimates are based on the Sproule resource assessment (best estimate) using 2010 pricing.

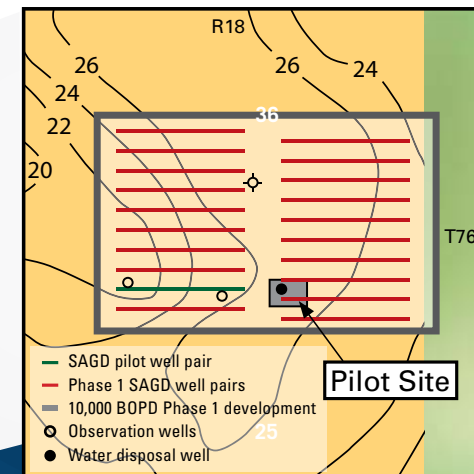
## Blackrod

- BlackPearl land
- Planned initial 5 section commercial development
- BlackPearl evaluation wells
- 2011 winter drilling locations
- 10,000 BOPD Phase 1 development scheme
- Lower Grand Rapids  
Net oil pay  
( $<16m$  pay cut off)



BlackPearl expects to file a commercial development application for the Blackrod project in 2012. Phase 1 of development will likely be for 10,000 bbls/day, with production potential of up to 70,000 bbls/day with future expansion phases.

10,000 BOPD Phase 1 Development Scheme



At Mooney, a key milestone reached in 2010 was receiving regulatory approval to initiate an alkali, surfactant and polymer (ASP) flood on a portion of the field. ASP flooding involves adding a polymer to the water to thicken it and additional alkali and surfactant to mobilize additional reservoir oil. This ASP mix is then injected, re-pressurizing the reservoir and sweeping additional oil to the producing wells. We ran a polymer flood pilot at Mooney for about 18 months and in this short time recovered over 18 percent of the oil-in-place. Primary recovery rates without ASP flooding would typically be 3–5 percent.

We are currently constructing water and ASP handling facilities and expect start-up of the commercial flood during the second quarter of 2011. In phase 1, up to 22 of the existing wells will be shut-in and converted to ASP injectors. Peak production from the first phase of the flood is expected to be 3,000–4,000 bbls/day. This should be reached 12 to 18 months after initiation of polymer injection. Phase 2 of the polymer flood, on the western half of the Mooney field, will be initiated after results are received from phase 1 activities.

The Mooney field lies outside the designated Peace River oil sands region and is therefore not eligible for oil sands royalty treatment. However, the Alberta government has programs encouraging enhanced oil recovery (EOR) developments by reducing royalties on fields with tertiary recovery programs. The Company

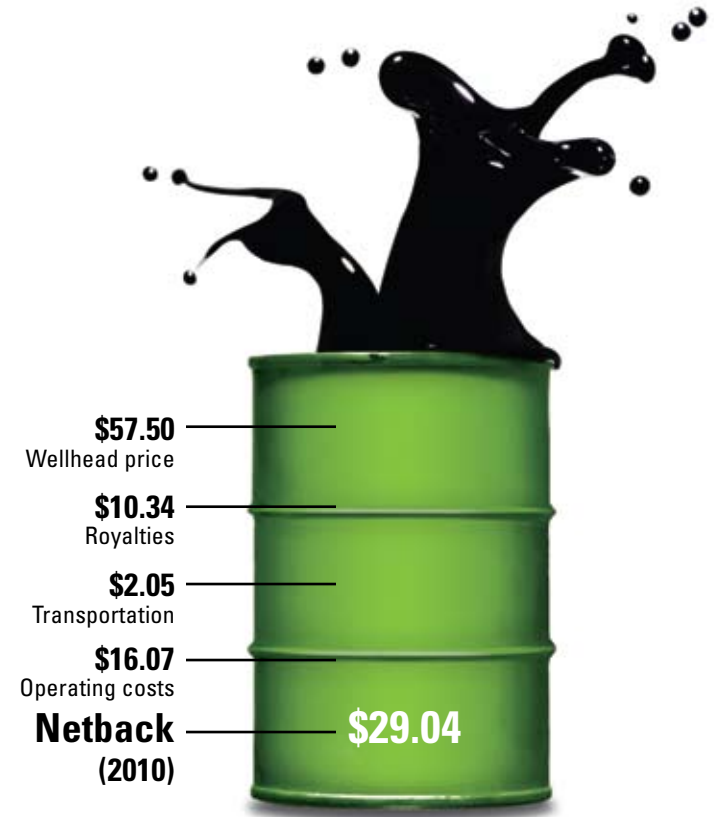
has received EOR royalty status for a portion of the Mooney field and, therefore, initial royalty rates for production from the ASP flood are expected to be about 10 percent.

At December 31, 2010, Sproule attributed proved plus probable reserves of 10.7 million barrels of oil equivalent to the Mooney area. In addition, as at December 31, 2010 Sproule has assigned 40 million barrels of contingent resource (best estimate) to the Mooney lands.

### Snapshot

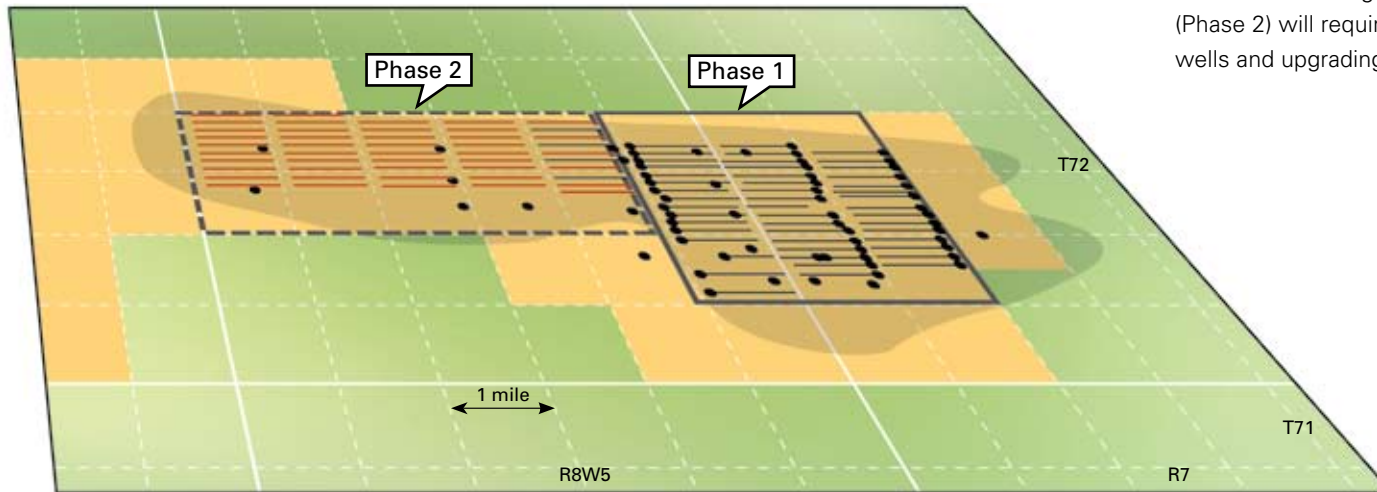
Working interest	100%
Land	47,680 net acres
2P reserves	10.7 MMboe
2C resources	40 MMboe
API	16° oil
2010 production	1,008 boe/day
Depth	900 metres
Formation	Bluesky

### Mooney Economics (\$/boe)



## Mooney

Phase 1 of the ASP flood will require converting up to 22 of the existing wells to injectors, and constructing injection and water handling facilities. Expansion of the ASP flood (Phase 2) will require drilling up to an additional 50 horizontal wells and upgrading the surface facilities.



- BlackPearl land
- Delineation wells
- Existing horizontal wells
- Future horizontal wells
- Bluesky oil pool
- Phase 1 ASP flood area

# Oil and Gas Reserves and Resources

Sproule Unconventional Limited (“Sproule”) prepared an evaluation of our oil and gas reserves as of December 31, 2010. Our proved plus probable reserves (“2P”) increased 5% to 24.8 million barrels of oil equivalent. The increase was achieved despite selling properties during the year with reserves of close to 4 million barrels of oil equivalent attributed to these properties.

The following tables summarize certain information contained in the independent reserves report prepared by Sproule as of December 31, 2010. The report was prepared in accordance with definitions, standards and procedures contained in the Canadian Oil and Gas Evaluation Handbook (“COGE Handbook”) and National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities (“NI 51-101”). Additional reserve information as required under NI 51-101 is included in the Company’s Annual Information Form filed on SEDAR .

## Summary of Oil and Gas Reserves – Forecasted Prices and Costs

(Company interest, before royalties)	Oil & NGL Reserves	Natural Gas Reserves	2010 BOE <sup>(1)</sup>	2009 BOE <sup>(1)</sup>
	(Mbbbls)	(MMcf)	(Mboe)	(Mboe)
Proved developed producing	4,459	1,846	4,767	3,482
Proved developed non-producing	360	13	363	1,080
Proved undeveloped	6,527	310	6,578	7,013
Total proved	11,346	2,169	11,708	11,573
Probable	12,912	1,307	13,130	12,071
Total proved plus probable	24,258	3,476	24,838	23,645

Note: Columns may not add due to rounding

(1) BOEs may be misleading, particularly if used in isolation. In accordance with NI 51-101, a BOE conversion ratio of 6 Mcf: 1barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

## Net Present Value of Reserves – Forecasted Prices and Costs

Net Present Values of <b>Before Tax</b> Future Net Revenue							
Discounted at							
(\$000s)	0%	5%	8%	10%	12%	15%	20%
Proved							
Developed producing	173,864	163,756	158,387	155,058	151,909	147,495	140,858
Developed non-producing	7,812	6,668	6,093	5,747	5,429	4,995	4,371
Undeveloped	157,468	130,379	117,259	109,511	102,439	92,919	79,422
Total proved	339,145	300,803	281,739	270,317	259,778	245,409	224,652
Probable	397,635	278,904	234,469	211,170	191,516	167,172	136,221
Total proved plus probable	736,780	579,707	516,209	481,487	451,293	412,581	360,874

Net Present Values of <b>After Tax</b> Future Net Revenue							
Discounted at							
(\$000s)	0%	5%	8%	10%	12%	15%	20%
Proved							
Developed producing	173,864	163,756	158,387	155,058	151,909	147,495	140,858
Developed non-producing	7,812	6,668	6,093	5,747	5,429	4,995	4,371
Undeveloped	149,518	123,479	110,900	103,481	96,701	87,614	74,728
Total proved	331,194	293,903	275,380	264,286	254,037	240,104	219,958
Probable	306,959	213,017	177,803	159,357	143,887	124,629	100,351
Total proved plus probable	638,152	506,920	453,183	423,643	397,845	364,732	320,308

Note: Columns may not add due to rounding

## Reconciliation of Changes in Reserves

The following table summarizes the changes in the Company's share of oil and natural gas reserves (before royalties) from December 31, 2009 to December 31, 2010.

	Oil & NGLs			Natural Gas			BOE
	Proved (Mbbbls)	Probable (Mbbbls)	Total (Mbbbls)	Proved (MMcft)	Probable (MMcft)	Total (MMcft)	Total (Mboe)
Balance, Dec 31, 2009	10,754	11,795	22,549	4,914	1,659	6,572	23,645
Production	(2,327)	–	(2,327)	(1,261)	–	(1,261)	(2,537)
Extensions	3,242	1,624	4,866	36	10	46	4,874
Technical revisions	1,842	41	1,883	773	407	1,181	2,080
Improved recovery	128	31	159	–	–	–	159
Acquisitions	154	253	407	43	15	58	417
Dispositions	(2,490)	(944)	(3,434)	(2,327)	(782)	(3,110)	(3,952)
Economic factors	42	112	154	(8)	(2)	(10)	152
Balance, Dec. 31, 2010	11,347	12,912	24,257	2,170	1,307	3,477	24,838

Note: Columns may not add due to rounding

The pricing assumptions used in the Sproule evaluation are summarized below.

## Pricing Assumptions – Forecast Prices and Costs

Year	WTI Cushing 40° API (US\$/bbl)	Edmonton Par Price 40° API (CDN\$/bbl)	Western Canadian Select 20.5° API (CDN\$/bbl)	Alberta AECO-C Spot (CDN\$/MMBtu)	Inflation Rate (%/yr)	Exchange Rate (US\$/Cdn\$)
2011	88.40	93.08	80.04	4.04	1.5	.932
2012	89.14	93.85	80.71	4.66	1.5	.932
2013	88.77	93.43	78.48	4.99	1.5	.932
2014	88.88	93.54	76.70	6.58	1.5	.932
2015	90.22	94.95	77.86	6.69	1.5	.932
2016	91.57	96.38	79.03	6.80	1.5	.932
2017	92.94	97.84	80.23	6.91	1.5	.932
2018	94.34	99.32	81.44	7.02	1.5	.932
2019	95.75	100.81	82.67	7.14	1.5	.932
2020	97.19	102.34	83.92	7.26	1.5	.932
Escalation rate of 1.5% thereafter						

On a net present value basis (10% discount, before tax), approximately 64% of the value of reserves were attributable to the Onion Lake area and 31% was attributable to the Mooney area. No reserves were assigned to the Blackrod project.

Definitions:

- (a) “Proved” reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- (b) “Probable” reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.
- (c) “Developed” reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g. when compared to the cost of drilling a well) to put the reserves on production.
- (d) “Developed Producing” reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
- (e) “Developed Non-Producing” reserves are those reserves that either have not been on production, or have previously been on production, but are shut in, and the date of resumption of production is unknown.
- (f) “Undeveloped” reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned.
- (g) The Net Present Value (NPV) is based on Sproule Forecast Pricing and costs. The estimated NPV does not necessarily represent the fair market value of our reserves. There is no assurance that forecast prices and costs assumed in the Sproule evaluations will be attained, and variances could be material.

## Contingent Resources

In addition to the 2P reserve report, Sproule also completed an evaluation of the Company's contingent resources for the Blackrod, Onion Lake and Mooney properties. The following tables summarize certain information contained in the contingent resource evaluations prepared by Sproule as of December 31, 2010. The reports were independently prepared in accordance with definitions, standards and procedures contained in the COGE Handbook.

It should not be assumed that the estimates of recovery, production, and net revenue presented in the tables below represent the fair market value of the Company's contingent resources. The contingencies which currently prevent the classification of these contingent resources as reserves consist of further delineation drilling, regulatory applications, preparation of firm development plans and corporate approvals to proceed with development. Once all regulatory and corporate approvals are received and any other contingencies are removed, the resources may then be reclassified as reserves. Reserves and contingent resources involve different risks associated with achieving commerciality. There is no certainty that it will be commercially viable for the Company to produce any portion of the contingent resources on any of its properties.

Project	Gross <sup>(5)</sup> Heavy Oil/Bitumen  (MMboe)	Net Present Values of Future Net Revenue <b>Before Income Taxes</b> as of December 31, 2010 Contingent Resources <sup>(1)</sup> Discounted at						
		0%	5%	8%	10%	12%	15%	20%
		(\$million)						
<b>Blackrod</b>								
Low estimate <sup>(3)</sup>	552	11,984	4,307	2,495	1,776	1,287	816	404
Best estimate <sup>(2)</sup>	619	14,882	5,041	2,854	2,011	1,447	912	453
High estimate <sup>(4)</sup>	686	18,137	5,800	3,219	2,250	1,611	1,015	509
<b>Onion Lake</b>								
Low estimate <sup>(3)</sup>	71	2,753	1,300	870	675	529	371	206
Best estimate <sup>(2)</sup>	80	3,307	1,551	1,044	817	647	465	276
High estimate <sup>(4)</sup>	87	3,576	1,803	1,253	999	804	591	364
<b>Mooney</b>								
Low estimate <sup>(3)</sup>	42	1,028	511	360	290	236	175	109
Best estimate <sup>(2)</sup>	40	998	474	325	257	205	148	87
High estimate <sup>(4)</sup>	48	1,243	607	425	341	277	206	130

Project	Gross <sup>(5)</sup> Heavy Oil/Bitumen  (MMboe)	Net Present Values of Future Net Revenue <b>After Income Taxes</b> as of December 31, 2010 Contingent Resources <sup>(1)</sup> Discounted at						
		0%	5%	8%	10%	12%	15%	20%
		(\$million)						
<b>Blackrod</b>								
Low estimate <sup>(3)</sup>	552	8,952	3,147	1,791	1,258	897	552	255
Best estimate <sup>(2)</sup>	619	11,132	3,700	2,065	1,438	1,020	627	294
High estimate <sup>(4)</sup>	686	13,573	4,273	2,342	1,621	1,147	707	338
<b>Onion Lake</b>								
Low estimate <sup>(3)</sup>	71	2,009	934	615	470	362	244	121
Best estimate <sup>(2)</sup>	80	2,414	1,117	742	574	449	314	173
High Estimate <sup>(4)</sup>	87	2,610	1,300	893	705	561	402	234
<b>Mooney</b>								
Low Estimate <sup>(3)</sup>	42	771	379	263	210	169	123	73
Best Estimate <sup>(2)</sup>	40	749	352	239	188	148	105	59
High Estimate <sup>(4)</sup>	48	932	452	314	251	202	149	91

Notes:

- (1) **Contingent resources** are defined in the COGE Handbook as those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters or a lack of markets. It is also appropriate to classify as Contingent Resources the estimated discovered recoverable quantities associated with a project in the early evaluation stage.
- (2) **Best estimate** (P50) is a classification of estimated resources described in the COGE Handbook as being considered to be the best estimate of the quantity that will be actually recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. If probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the best estimate.
- (3) **Low estimate** (P90) is a classification of estimated resources described in the COGE Handbook as being considered to be a conservative estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the Low Estimate. If probabilistic methods are used, there should be a 90% probability that the quantities actually recovered will equal or exceed the Low Estimate.
- (4) **High estimate** (P10) is a classification of estimate resources described in the COGE Handbook as being considered to be an optimistic estimate of the quantity that will actually be recovered. It is unlikely that the actual remaining quantities recovered will exceed the High Estimate. If probabilistic methods are used, there should be a 10% probability that the quantities actually recovered will equal or exceed the High Estimate.
- (5) **Gross** means the Company's working interest share in the contingent resources of bitumen and heavy oil before deducting royalties.

## Production History

The following table indicates the Company's average gross daily production from its more significant fields, and in total, in 2010 and 2009:

	2010			2009		
	Oil (bbls/d) <sup>(1)</sup>	Gas (mcf/d)	boe/d	Oil (bbls/d) <sup>(1)</sup>	Gas (mcf/d)	boe/d
Onion Lake	5,036	23	5,038	2,276	128	2,297
Mooney	852	933	1,008	1,178	1,469	1,423
Ear Lake	145	62	155	424	145	448
Salt Lake	218	335	274	262	543	353
Long Coulee/Little Bow	9	1,718	295	9	2,407	410
Other	115	384	180	175	890	323
	6,375	3,455	6,951	4,324	5,582	5,254

(1) Includes natural gas liquids

# Management's Discussion and Analysis

The following is Management's Discussion and Analysis (MD&A) of the operating and financial results of BlackPearl Resources Inc. ("BlackPearl" or "the Company") for the year ended December 31, 2010. These results are being compared with the year ended December 31, 2009. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the 12 months ended December 31, 2010, together with the accompanying notes.

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 to 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 is not intended to represent a value equivalence at the wellhead.

This report includes terms commonly used in the oil and natural gas industry, such as cash flow and cash flow from operations which represent cash flow from operating activities expressed before changes in non-cash working capital, as well as cash flow per share and operating netback. 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 and to service any long-term debt if incurred in the future. These terms do not have standardized meanings prescribed by GAAP and therefore may not be comparable with the calculation of similar measures by 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, 2011.

## Overview

BlackPearl is a Canadian-based oil and natural gas company whose common shares are traded on the Toronto Stock Exchange (TSX) under the symbol "PXX". The Corporation's Swedish Depository Receipts trade on the NASDAQ OMX First North market under the symbol "PXXS". BlackPearl's main focus is heavy oil projects in Western Canada.

BlackPearl's current core properties are:

- Onion Lake, Saskatchewan – heavy oil using primary drilling and thermal SAGD recovery;
- Mooney, Alberta – heavy oil using primary drilling and polymer flooding; and
- Blackrod, Alberta – heavy oil/bitumen from SAGD recovery process.

Through continuous investment by the Company in drilling wells, delineating resources and constructing surface facilities, 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.

Under BlackPearl's business plan, management intends to sell the majority of the Company's non-core assets. In 2010, the Company sold properties producing approximately 1000 boe/day. Additional non-core asset sales are planned over the next two or three years.

### **2010 Significant Events**

- On January 1, 2010, the Company amalgamated its wholly-owned subsidiary Pearl E&P Canada Ltd., with BlackPearl Resources Inc.
- In 2010 BlackPearl completed non-core asset sales for proceeds of \$42.0 million. The assets sold included natural gas properties in southern Alberta and Texas, conventional heavy oil properties in Saskatchewan and undeveloped land in Montana.
- On March 29, 2010, the Company acquired the remaining 20 percent working interest in the Blackrod area, located in the Athabasca oil sands of northeast Alberta, from Serrano Energy Ltd. for \$21.0 million. The acquisition results in BlackPearl having 100 percent working interest in the Blackrod area lands. The Company has begun constructing a steam-assisted gravity drainage (SAGD) pilot-scale project on the property and construction is expected to be completed in the first quarter of 2011. The pilot includes a single horizontal well pair, water source and monitoring wells, and construction of steam generation and water handling facilities.
- On May 11, 2010, the Company issued 10,350,000 common shares at a price of \$2.90 per share, for aggregate gross proceeds of \$30.0 million.
- On October 18, 2010, the Company announced it had received approval from the Energy Resources Conservation Board (ERCB) to proceed with development of the first phase of its polymer flood at Mooney. The ERCB also approved BlackPearl's application for the construction and operation of its SAGD pilot at Blackrod.
- On November 10, 2010, the Company released a summary of the contingent reserve study prepared by Sproule Unconventional Limited on its three core properties, which indicated a best estimate (P50) of 749 million barrels of potentially recoverable heavy oil/bitumen.
- On December 7, 2010, the Company issued 10,000,000 common shares at a price of \$5.00 per share, for aggregate gross proceeds of \$50.0 million.
- The Company has received, from the Alberta Department of Energy, EOR status for a portion of the Mooney field, which will initially reduce the royalty burden on Mooney production volumes generated from the planned polymer flood.
- Capital expenditures during 2010 were \$95.8 million, with approximately \$44 million spent at Blackrod, \$26 million at Onion Lake and \$22 million at Mooney.
- Cash flow from operations, before working capital adjustments increased by 116 percent in 2010 to \$62.6 million.

### Annual Financial Information

(\$000s, except where noted)	2010	2009	2008
Total revenues	142,867	89,637	183,536
Loss from continuing operations and net loss	(31,272)	(47,315)	(78,862)
Per share – basic and diluted (\$)	(0.12)	(0.19)	(0.42)
Cash flow from operations <sup>(1)</sup>	62,584	29,004	72,120
Per share – basic and diluted (\$)	0.23	0.12	0.38
Capital expenditures	95,829	27,878	107,367
Total assets (end of period)	543,826	468,309	472,143
Common shares outstanding (000s) (end of period)	283,215	261,961	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 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 in 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)	2010				2009			
	Dec. 31	Sept. 30	June 30	March 31	Dec. 31	Sept. 30	June 30	March 31
Production (boe/d)	7,307	6,646	7,163	6,685	5,306	5,091	5,170	5,510
Revenue (\$/boe)	57.63	54.66	52.58	60.55	56.69	51.94	47.07	31.77
Oil and natural gas revenue	38,743	33,421	34,274	36,429	27,674	24,065	22,143	15,755
Production costs	8,670	8,297	9,306	10,552	7,251	6,172	5,873	10,165
Net loss	(3,901)	(9,042)	(10,276)	(8,053)	(3,897)	(12,013)	(10,889)	(20,516)
Per share, basic and diluted (\$)	(0.01)	(0.03)	(0.04)	(0.03)	(0.01)	(0.05)	(0.05)	(0.10)
Additions to oil and natural gas properties	38,033	19,926	5,687	32,183	17,559	57,796	37,870	3,147
Cash flow from operations	19,413	14,218	13,926	15,029	14,677	8,221	7,910	(1,804)
Per share, basic and diluted (\$)	0.07	0.05	0.05	0.06	0.06	0.03	0.03	(0.01)
Total assets (end of period)	543,826	474,297	470,843	463,655	468,309	465,942	477,876	450,836
Weighted average shares outstanding (000s)	273,025	272,859	268,047	262,057	261,731	261,684	240,973	207,555

Fluctuations in quarterly revenues and net earnings over the last eight quarters are due primarily to the volatility in oil and natural gas prices and changes in sales volumes due to production growth through successful drilling activity, principally in the Onion Lake area. Reduced sales volumes in the middle two quarters of 2009 reflect limited new drilling activity due to lower oil prices, which resulted in declining production from existing wells. Prices improved later in the year and the Company's capital expenditure program was expanded as cash flows improved. The continued improvement in heavy oil prices lead to a significant increase in BlackPearl's capital program throughout 2010.

## Business Environment

### Commodity Prices

	2010	2009
<b>Average Crude Oil Prices</b>		
West Texas Intermediate (WTI) (US\$/bbl)	<b>\$ 79.48</b>	\$ 61.80
Western Canadian Select (WCS) (Cdn\$/bbl)	<b>67.27</b>	58.69
Differential – WCS/WTI (Cdn\$/bbl)	<b>14.59</b>	11.89
Differential – WCS/WTI (%)	<b>18%</b>	17%
<b>Average Natural Gas Prices</b>		
AECO gas (Cdn\$/GJ)	<b>4.08</b>	3.75
Foreign Exchange (Cdn\$/US\$)	<b>1.030</b>	1.142

Crude oil prices strengthened during 2010, with the West Texas Intermediate (WTI) reference price averaging US\$79.48 per barrel compared with US\$61.80 per barrel in 2009. Demand for crude oil is generally tied to global economic growth, but is also influenced by factors such as political instability, market uncertainty, weather conditions and government regulations. The WTI forward strip price for the remainder of 2011 is currently approximately US\$100.

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 heavy oil. 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 differential can be volatile due to supply and demand, refinery margins, seasonal fluctuations and transportation issues. The differential averaged 18 percent in 2010, which was generally consistent with 2009 although it fluctuated during the year, particularly in the fall due to several heavy oil pipeline disruptions.

Oil prices in Canada are also affected by the Canada/U.S. dollar exchange rate since the WTI reference price of oil is in U.S. dollars. During 2010, the Canadian dollar strengthened against the U.S. dollar, averaging Cdn\$1.030 to US\$1 compared with Cdn\$1.142 to US\$1 in 2009. The strengthening of the Canadian dollar partially offsets the increased WTI benchmark pricing experienced during 2010.

In 2010, natural gas prices increased by 9 percent from 2009. The AECO-C gas price averaged \$4.08 per gigajoule (GJ) in 2010 compared to \$3.75 per GJ 2009. As a result of asset dispositions during 2010, BlackPearl's natural gas production currently represents less than 10 percent of total production and therefore changes in natural gas prices have less impact on the Company's current operations.

Oil and Natural Gas Production, Pricing and Revenue

	2010	2009
Daily production / sales volumes <sup>(1)</sup>		
Oil (bbls/d)	6,375	4,324
Natural gas (mcf/d)	3,455	5,582
Combined (boe/d)	6,951	5,254
Product pricing		
Oil (\$/bbl)	58.86	51.44
Natural gas (\$/mcf)	4.14	4.10
Combined (\$/boe)	56.31	46.74
Revenue (\$000s)		
Oil and natural gas revenue – gross	142,867	89,637
Royalties	(36,798)	(21,262)
Oil and natural gas revenue – net	106,069	68,375

<sup>(1)</sup> Natural gas production converted at 6:1 (for boe figures)

Oil and natural gas revenues increased by 59 percent in 2010 to \$142.9 million from \$89.6 million in 2009. The increase is attributable to:

- A 32 percent increase in production (on a boe basis); and
- A 20 percent increase in product prices.

Overall, average production increased to 6,951 boe per day for the year ended December 31, 2010 from 5,254 boe per day in 2009. The increase in 2010 production is primarily attributable to drilling 30 wells at Onion Lake during the year.

Production by Area (boe/d)	2010	2009
Onion Lake	5,039	2,297
Mooney	1,008	1,423
Ear Lake	155	448
Salt Lake	274	353
Long Coulee/Little Bow	295	410
Other	180	323
	<b>6,951</b>	<b>5,254</b>

On a boe basis, 92 percent of the Company's oil and natural gas production in 2010 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 72 percent of total production in 2010 and is anticipated to contribute a higher proportion for 2011 as it will account for most of BlackPearl's near-term drilling activity.

The Company did not enter into any hedging arrangements in 2010 and, at the present time, does not anticipate hedging any of its production in 2011.

#### Royalties

	2010	2009
Royalties (\$000s)	36,798	21,262
As a percentage of revenue	26%	24%

Royalties increased by 73 percent from \$21.3 million in 2009 to \$36.8 million in 2010. The increase reflects higher revenues and production during the year. Generally, royalty rates in western Canada are sensitive to prevailing commodity prices and individual well production rates. Royalties, as a percentage of revenues, were higher in 2010 than in 2009, primarily due to higher crude oil prices. Royalty rates at Onion Lake were 28 percent in 2010 and are unlikely to change significantly in 2011. Royalty rates at Mooney were 18 percent in 2010. As a result of receiving EOR status for the polymer flood at Mooney, the royalty rate should initially drop to approximately 10 percent when polymer injection commences later in the first half of 2011.

#### Production Costs

	2010	2009
Production costs (\$000s)	36,824	29,461
Per boe (\$)	14.51	15.36

Production expenses increased on an absolute basis in 2010 over the prior year primarily due to increased production volumes. On a per-unit-of-production basis, however, costs have decreased slightly from 2009. The Company expects production costs will continue in the range of \$13 – \$17 per boe. New heavy oil wells tend to have higher initial expenses due to high sand production, increased fuel costs until wells are tied into the fuel gas system, and increased emulsion trucking and treating costs. These initial costs will be reduced after several months of production from the new wells. In addition, when the polymer flood at Mooney is initiated operating costs will be higher due to the additional cost of chemicals for injection.

Transportation Costs

	2010	2009
Transportation costs (\$000s)	2,734	3,466
Per boe (\$)	1.08	1.81

Transportation costs are incurred to move marketable crude oil and natural gas to their selling points. Changes in transportation costs, on a boe basis, are generally related to moving crude oil to different sales points to capture better marketing opportunities, or as a result of production being shipped as emulsion rather than clean marketable oil. Costs related to trucking emulsion are classified as production expenses rather than transportation costs.

Operating Netback

(\$/boe)	2010	2009
Revenues	\$ 56.31	\$ 46.74
Royalties	14.50	11.09
Transportation costs	1.08	1.81
Production costs	14.51	15.36
Netback per boe	\$ 26.22	\$ 18.48

The 2010 netback of \$26.22 per boe is a 42 percent increase from the \$18.48 per boe reported in 2009. The increase in the netback is primarily attributable to the overall recovery in crude oil prices in 2010, as lower transportation and production costs per boe were offset by higher royalties.

General and Administrative Expenses (G&A)

(\$000s, except per boe)	2010	2009
Gross G&A expense	8,528	8,359
Operator recoveries	(1,740)	(1,446)
	6,788	6,913
Per boe (\$)	2.68	3.60

G&A in absolute terms was flat from year to year while declining by more than 25 percent per unit of production, signaling greater cost-efficiency as BlackPearl grows. Costs are expected to increase in 2011 as a result of increased activity; however, as production volumes are expected also to increase in 2011, G&A per boe should continue to decline.

#### Stock-Based Compensation

	<b>2010</b>	<b>2009</b>
Stock-based compensation (\$000s)	<b>3,995</b>	1,461
Per boe (\$)	<b>1.57</b>	0.76

Stock-based compensation costs are non-cash charges which reflect the estimated value of stock options granted. 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 over the period from the grant date to the vesting date of the option. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes options pricing model. The increase in stock-based compensation expense in 2010 reflects additional options granted as well as a higher option value assigned to each grant of options. In 2010, the Company issued 2,786,500 options at an average exercise price of \$4.74 per share. In addition, 904,670 options were exercised and 366,165 were forfeited.

#### Depletion, Depreciation and Accretion (DD&A)

	<b>2010</b>	<b>2009</b>
Depletion, depreciation and accretion (\$000s)	<b>91,026</b>	81,100
Per boe (\$)	<b>35.88</b>	42.29

DD&A expense increased by 12 percent to \$91.0 million or \$35.88 per boe for the year ended 2010 from \$81.1 million or \$42.29 per boe for 2009. The increase in depletion is a result of increased production in 2010; however, the lower depletion rate per boe is a result of an increase in proved reserves in 2010.

#### Interest Income

	<b>2010</b>	<b>2009</b>
Interest income (\$000s)	<b>895</b>	321
Per boe (\$)	<b>0.35</b>	0.17

Interest income consists of interest earned on excess cash held by the Company. Interest income has increased as a result of a higher cash balance held by the Company in 2010.

Other Income

(\$000s, except where noted)	2010	2009
Other income	3,132	–

Other income consists mainly of net cash received as part of a drilling incentive program offered by the Alberta government to encourage drilling activity within the province. These drilling credits received were acquired from third parties that did not have sufficient production to utilize the credits. The drilling credit program expires on March 31, 2011 and the Company does not plan to purchase any additional drilling credits.

Income Taxes

(\$000s)	2010	2009
Current income and other taxes	187	(2,351)
Future income tax (recovery)	–	(5,634)
	187	(7,985)

BlackPearl pays Saskatchewan resource surcharge based on a portion of its production revenues in the province, which is included in current income tax expense. BlackPearl does not have current income tax payable and does not expect to pay current income taxes in 2011 as the Company has sufficient resource pools to shelter expected income. The Company has the following estimated tax pools as at December 31, 2010:

(\$000s, except left-hand column)	Rate %	2010	2009
Canadian exploration expenses	100	\$ 14,459	\$ 9,581
Canadian development expenses	30	130,634	119,686
Canadian oil and gas property expenses	10	18,964	15,128
Undepreciated capital costs	10-30	124,237	173,977
Non-capital losses (various expiry dates)	100	164,625	92,173
Share issuance costs	5 years	6,015	10,419
		\$ 458,934	\$ 420,964

## Results Of Operations

(\$000s, except where noted)	2010	2009
Net loss (\$000s)	(31,272)	(47,315)
Per share, basic and diluted (\$)	(0.12)	(0.19)

For the year ended December 31, 2010, the Company incurred a net loss of \$31.3 million or \$0.12 per share compared to a net loss of \$47.3 million or \$0.19 per share in 2009. The net loss in 2010 is principally a result of high depletion costs. The higher loss in 2009 is a result of not only higher depletion costs, but lower commodity prices during the first half of 2009.

## Liquidity and Capital Resources

At December 31, 2010, BlackPearl had working capital of \$144.0 million compared to \$58.0 million at December 31, 2009. The increase is a result of common share issuances totaling \$77.7 million, the disposition of non-core properties for net proceeds of \$42.0 million and operating cash flows of \$62.6 million, partially offset by \$95.8 million in capital expenditures.

During 2010, the Company completed two equity offerings. The first occurred in May, when the Company issued 10,350,000 common shares at \$2.90 per share, and the second offering occurred in December when the Company issued 10,000,000 million common shares at \$5.00 per share. The additional capital was raised to ensure the Company had the funds available to expand the Company's capital spending program on its three core properties.

In addition to its working capital, BlackPearl also has an undrawn \$25 million credit facility. The amount available under the credit facility is based on the value of oil and natural gas reserves. In May 2010, the credit facility was renewed on substantially the same terms as in the previous year. The next review of the Company's credit facility is scheduled to be completed by May 31, 2011. The only financial covenant in the 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 4.5:1 at December 31, 2010 and was in compliance with these covenants throughout 2010.

The Company expects capital spending during 2011 to be approximately \$145 million. This will be financed from working capital and operating cash flows. The Company does not expect to utilize its credit facility to fund this program other than to issue letters of credit periodically to secure delivery of goods and services. The Company can adjust its capital program if required to maintain its financial flexibility.

On a longer-term basis, the December 31, 2010 oil and natural gas reserves evaluation and contingent resource study, prepared by Sproule Unconventional Limited, indicates that the Company will require significant capital investment to fully develop the Company's existing properties. The Company will likely require additional external financing to fund this capital investment; however, the Company has not determined the amount or structure of this financing. This requirement for additional funding will likely occur when the Company initiates commercial development of one of its thermal projects at Blackrod or Onion Lake.

### Capital Expenditures

BlackPearl's capital program is focused on heavy oil opportunities. During 2010, capital spending was significantly higher than in 2009, totalling \$95.8 million, an increase from the \$27.9 million spent in 2009. The increase was primarily a result of acquiring the remaining 20 percent of the Blackrod SAGD project for \$21.0 million and drilling 30 heavy oil wells at Onion Lake during the year. During 2010 the Company completed the sale of certain oil and natural gas properties for proceeds of \$42.0 million. The assets sold were mainly natural gas properties in southern Alberta and heavy oil properties in Saskatchewan.

(\$000s)	2010	2009
Land	5,168	3,692
Seismic	2,906	168
Drilling and completion	39,712	18,849
Equipment	26,791	5,169
Other	252	–
<b>Total</b>	<b>74,829</b>	<b>27,878</b>
Property acquisitions	21,000	–
<b>Total capital expenditures</b>	<b>95,829</b>	<b>27,878</b>
Property dispositions	(41,969)	(250)
<b>Net capital expenditures</b>	<b>53,860</b>	<b>27,628</b>

### 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, 2010:

(\$000s)	2011	2012	2013	2014	2015	Thereafter
Long-term debt	–	–	–	–	–	–
Operating leases <sup>(1)</sup>	1,166	1,234	1,234	1,626	1,626	1,320
Drilling rig commitment <sup>(2)</sup>	–	876	319	–	–	–
Electrical service agreement <sup>(3)</sup>	3,012	2,969	–	–	–	–
	<b>4,178</b>	<b>5,079</b>	<b>1,553</b>	<b>1,626</b>	<b>1,626</b>	<b>1,320</b>

<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 a maximum additional \$21.3 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.

<sup>(3)</sup> Relates to a commitment for the installation of electrical services at the Mooney ASP facility.

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 Risk Management**

The financial instruments on the Company's balance sheet include cash, accounts receivable, investments in MAV notes and accounts payable. The Company manages its risk through its policies and processes, but generally has not used derivative financial instruments to manage these risks.

The carrying value of cash, accounts receivable and accounts payable approximates their fair value due to the short-term nature of these instruments. The fair value of the investment in MAV notes has been 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.

#### **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 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 exposed to risk of 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 expenditure program.

#### **Foreign Currency Exchange Risk**

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and the U.S. dollar will affect the Company's operating and financial results. As at December 31, 2010, the Company held US\$3,997,000 in cash and short-term deposits and other net working capital items of US\$1,460,000.

As at December 31, 2010, if the Cdn\$-US\$ exchange rates had been \$0.10 lower with all other variables held constant, after tax earnings for the period would have been approximately \$546,000 higher, due to a 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.

### **Credit Risk**

Credit risk is the risk that a third party fails to meet its contractual obligations in a way that could result in the Company incurring a loss. The Company's credit risk is primarily related to its holdings of cash, accounts receivable and investment in MAV notes.

As at December 31, 2010, the Company held \$169.6 million in cash at various major financial institutions throughout Canada and the United States. At December 31, 2010, three Canadian financial institutions held approximately 99 percent of BlackPearl'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.

The Company's accounts receivable are primarily with oil and natural gas marketers and joint venture partners. Receivables from oil and natural 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 counterparty and entering into relationships with larger purchasers with established credit history.

The Company typically does not obtain collateral or security from its joint venture partners or oil and natural gas marketers. The carrying amounts of accounts receivable represent the maximum credit exposure.

The Company is not the operator of certain oil and natural 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.

### **Interest Rate Risk**

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate due to changes in interest rates. The Company is exposed to interest rate risk primarily related to its cash and the revolving credit facility, which remained undrawn throughout 2010 and is undrawn at this time.

Cash is held in highly liquid, short-term investments and therefore the risk to changes in interest rates is low. At December 31, 2010, if interest rates had been 1 percentage point (100 basis points) higher, with all other variables held constant, after tax earnings for the period would have been approximately \$881,000 higher.

At December 31, 2010, the Company had not drawn on its credit facility and therefore the interest rate risk at that time was NIL.

### **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, 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. Liquidity risk is currently low due to BlackPearl's large cash position. As at December 31, 2010, the Company had working capital of \$144.0 million and an undrawn \$25.0 million credit facility. The Company believes it has sufficient funding from these sources to meet its foreseeable obligations.

For more detailed information, see note 11 to the consolidated financial statements.

### **Off-Balance-Sheet Arrangements**

The Company has no off-balance-sheet arrangements.

### **Related-Party Transactions**

There were no related-party transactions during 2010.

### **Outstanding Share Data**

As at February 25, 2011, the Company had 283,262,387 common shares outstanding, 10,000,320 vested warrants outstanding and 14,922,998 stock options outstanding under its stock-based compensation.

### **Proposed Transactions**

As of February 25, 2011, the Company does not have any significant 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 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 judgments 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 judgments about future events, many of which are beyond management's control. In addition, recognition of reserves is central to much of the accounting for an oil and natural gas company, as described below.

The following areas contain significant estimates made by management:

- (i) **Oil and natural gas reserves** – Estimating reserves is a subjective process. It requires significant judgments using geological, engineering and economic data. The important assumptions made in preparing an estimate of oil and gas reserves include expected reservoir performance, future rates of production, oil and natural 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 natural gas reserves are evaluated by Sproule Unconventional Limited, an independent reserves evaluator.

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

- (ii) **DD&A expense** – BlackPearl uses the full cost method of accounting for exploration and development activities whereby all costs associated with these activities, whether successful or not, are capitalized. 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. At December 31, 2010, \$76.0 million was excluded from the calculation of DD&A expense for the year. These costs primarily relate to the Blackrod property, where no reserves have been recognized as at December 31, 2010. These properties are reviewed quarterly to determine if proved reserves should be assigned, at which point they would be included in the depletion calculation.

- (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 natural 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, 2010, 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 percent. This calculation resulted in the pre-tax discounted cash flows exceeding the carrying value of the oil and natural gas properties by approximately \$355.7 million and, therefore, no impairment was recorded.

As at December 31, 2010 the Company recorded a \$0.7 million writedown of its U.S. oil and natural gas assets, as this amount represents their estimated 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 used for the purpose of estimating asset retirement obligation:

	2010	2009
Undiscounted abandonment costs (\$000s)	\$ 27,482	\$ 38,290
Credit-adjusted risk-free rate	6.5%	6.5%
Inflation rate	2%	2%
Average years to reclamation	12	13

- (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 and a change in these estimates would impact the valuation of the option and could result in a different amount for stock-based compensation expense.
- (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, natural gas prices and diluent;
- Operational risk of finding and producing reserves economically;
- Uncertainties associated with estimating the quantity of reserves and resources;
- 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 from aboriginal claims;

- 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;
- Environmental and safety risks related to its oil and gas properties;
- Competition for, among other things, capital, undeveloped land, skilled labour and equipment;
- Reliance on third parties for pipeline and other infrastructure;
- 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
- Uncertainties of the SAGD bitumen and ASP flood recovery processes.

Further information regarding these risks may be found under "Risk Factors" in the Company's 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 could result in the imposition of fines and penalties, some of which could be material. Senior management continually assesses new and existing regulatory requirements and environmental risks and determines the impact these risks might have on the Company, as well as the appropriate actions necessary to manage those risks. These assessments and the resulting policy decisions are discussed quarterly with the Board of Directors which evaluates the performance and effectiveness of the Company's environmental policies and programs.

The Company's environmental responsibilities includes removing property, plant and equipment as well as reclaiming land and property to its original state, subsequent to the completion of oil and natural gas extraction activities. This requirement results in an ARO that provides current recognition of estimated expenditures that will be incurred in the future. The Company's ARO is discussed in further detail under "Critical Accounting Estimates" above, as well as in the notes to the Company's audited Consolidated Financial Statements.

In 2010, the Company received all required environmental and regulatory approvals for the Blackrod SAGD pilot, the polymer flood at Mooney and the 2011 Onion Lake drilling program.

## International Financial Reporting Standards

In 2011, International Financial Reporting Standards (IFRS) will replace Canadian GAAP for publicly accountable enterprises. BlackPearl is required to adopt IFRS for the interim and annual periods beginning on January 1, 2011, including comparative information pertaining to 2010.

The Company remains on-schedule in the transition from current Canadian GAAP to IFRS. The Company has completed a high-level review of the major differences between current Canadian GAAP and IFRS, has established accounting policies and has completed a preliminary opening balance sheet as at January 1, 2010 under IFRS. Below is a summary of the estimated impact of IFRS adjustments on the Company's 2010 opening consolidated balance sheet:

(\$millions)	Canadian GAAP	IFRS Adjustments	IFRS
Total assets	468	–	468
ARO	25	8	33
Deficit	(368)	(8)	(376)

BlackPearl has also drafted preliminary results under IFRS for the year ended 2010. Any differences from Canadian GAAP are related to the accounting recognition of expenditures. We do not expect any changes in cash flows as a result of adopting IFRS. Below is a summary of the estimated impact of the significant IFRS adjustments to 2010 net earnings:

(\$millions)	Canadian GAAP	IFRS Adjustments	IFRS
Depletion and depreciation	90	(30-35)	55-60
Accretion	1	–	1
Loss on asset dispositions	–	0-2	0-2

The draft comparative opening balance sheet at January 1, 2010, as well as the estimated figures stated above, are based on available information and our expectations as of the date of this MD&A. They are also subject to further review by management and the Board of Directors and are subject to change.

The estimated changes listed above are a result of the following significant accounting policy differences between Canadian GAAP and IFRS:

**Property, Plant & Equipment (PP&E)**

- Pre-exploration costs (costs incurred prior to obtaining the legal right to explore) are to be expensed in the period incurred.
- Exploration and evaluation costs (E&E) will initially be capitalized as E&E assets. Once the associated project becomes technically and commercially viable, these costs will be transferred to PP&E. On the other hand, should the project be determined unviable, the related costs will be expensed in the period the determination is made. At January 1, 2010, \$30.3 million in E&E costs will be moved out of PP&E and shown separately on the Company's balance sheet.
- PP&E costs will be depreciated on a unit-of-production basis at the area asset level (unit of account). The Company has determined its asset areas for purposes of performing these depletion calculations and has decided to use proved plus probable (2P) reserves as the basis to calculate depletion.
- Impairment of PP&E is to be assessed at the cash generating unit level. This is the lowest level at which cash inflows can be identified. The Company has determined it will initially have five cash generating units. Impairment losses can be reversed if the recoverable amount increases in the future. The Company does not anticipate an impairment at January 1, 2010.
- Asset dispositions will be recorded at the unit of account level and will result in a gain or loss being recorded in the statement of operations. Any gains or losses on the partial disposition of any unit of account will be determined by applying the proceeds from the disposition against a portion of the unit's net book value, which will be calculated based on 2P reserves. The Company disposed of a number of non-core properties in 2010. Although no gain or loss was recorded under Canadian GAAP, it is anticipated that a loss of \$0-2 million will be realized under IFRS for the year ended December 31, 2010.
- IFRS 1 – *First Time Adoption of IFRS* allows Canadian oil and natural gas companies that used 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. BlackPearl has decided to utilize this exemption and to allocate its full cost pool using the net present value of its 2P reserves.

## **ARO**

BlackPearl will discount its ARO using the current risk-free rate, as opposed to the credit-adjusted risk-free rate, which was required under Canadian GAAP. Upon adoption of IFRS, the transition amendment IFRS 1 allows for any change in the ARO liability resulting from adoption to be recorded to retained earnings. At January 1, 2010, this change will result in an estimated increase in the asset retirement obligation of approximately \$7.5 million with the offsetting reduction to retained earnings. In subsequent periods, the impact of changes in assumptions on the ARO liability will be adjusted to PP&E.

## **Income Taxes**

Canadian GAAP and IFRS follow the liability method of accounting for income taxes, where tax assets and liabilities are recognized on temporary differences. However, there are certain exceptions to the treatment of temporary differences under IFRS that may result in an adjustment to the Company's future tax liability under IFRS. In addition, the Company's future tax liability will be affected by the tax effects of any changes noted in the above areas. The Company is still assessing the specific impacts of these differences on its financial statements.

## **Business Combinations**

IFRS 1 provides an exemption with respect to business combinations. Any business combinations and joint ventures entered into prior to January 1, 2010 are not required to be restated using IFRS principles. The Company has elected to utilize this exemption.

During the fourth quarter, the Company continued to make modifications to its computer and accounting software in preparation for IFRS, as well as any internal control changes that may result.

## **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 of the effectiveness of the Company's disclosure controls and procedures as at December 31, 2010. 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 other members of 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, a system of 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 its 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 change in the Company's internal control over financial reporting was identified during such period that has materially affected, or is 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 2010 Activities**

(\$000s, except where noted)

	2010		2009
	Q4	Q3	Q4
Production (boe/d)	7,307	6,646	5,306
Average wellhead price	57.63	54.66	56.69
Revenues	38,743	33,421	27,673
Net loss	(3,901)	(9,042)	(3,897)
Cash flow from operations, before working capital adjustments	19,413	14,218	14,679
Additions to oil and natural gas properties (at year-end)	38,033	19,926	17,559

Production revenues were \$38.7 million in the fourth quarter of 2010 compared to \$27.7 million in the same quarter 2009, due to a significant increase in production and a small increase in wellhead prices. BlackPearl sold an average of 7,307 boe per day during the fourth quarter of 2010, an increase of 38 percent over the same quarter of 2009. The increased sales volumes are attributable to continued development at Onion Lake.

Crude oil prices increased by 12 percent in the fourth quarter of 2010 from the same quarter of 2009, with WTI oil averaging US\$85.10 per barrel. The increase in commodity prices is generally attributable to an increase in world crude oil demand as markets started to recover from the recent worldwide economic downturn, which originally caused a lower demand for commodities. Heavy oil prices, however, remained generally consistent with the fourth quarter of 2009 due to wider heavy oil differentials. The Western Canada Select to WTI price differential averaged US\$18.19 per bbl in the fourth quarter of 2010 compared to US\$12.30 per bbl in the fourth quarter of 2009. The wider differential was mainly attributable to pipeline disruptions in the U.S. which temporarily affected shipments of heavy oil. The general increase in oil prices offset by a wider differential resulted in an increase in BlackPearl's average wellhead price from \$56.69 in the fourth quarter of 2009 to \$57.63 in the fourth quarter of 2010.

Royalty rates were comparable quarter over quarter at 25 percent and 24 percent respectively. Operating and transportation costs increased in the fourth quarter of 2010 due to increased sales volumes, while declining on a per-unit-of-production basis. G&A increased in the fourth quarter of 2010 due to higher staff levels and consulting fees related to the preparation of the contingent resource study in 2010. In addition, administrative costs in 2009 included a large (\$1.3 million) recovery adjustment for provision for bad debts, which reduced fourth quarter 2009 costs. On a per-unit-of-production basis, G&A declined substantially quarter over quarter.

Cash flow from operations and net loss in the fourth quarter of 2010 were \$19.4 million and \$3.9 million, respectively, compared to \$14.7 million and \$3.9 million, respectively in the fourth quarter of 2009. The increased cash flow was due to the increase in production and heavy oil prices.

Capital expenditures in the fourth quarter of 2010 were \$38.0 million, 117 percent higher than in the fourth quarter of 2009 and 91 percent higher than in the third quarter of 2010. The increase is a result of the drilling of 19 wells during the fourth quarter of 2010, as well as continued construction of the polymer flood facilities at Mooney and the steam generation and water handling facilities for the Blackrod SAGD pilot project.

## Outlook

BlackPearl's Board of Directors approved the Company's corporate budget for 2011. Key budgetary items and operating goals include:

### 2011 Guidance

<b>Production (boe/d)</b>	
Annual average	9,200 – 9,700
Exit	11,000 – 13,000
Cash flow from operations (\$millions)	65 – 70
Capital expenditures (\$millions)	130 – 150
Year-end debt	–
Year-end working capital (\$millions)	60 – 70
<b>Pricing Assumptions (annual average)</b>	
Crude oil – WTI	US\$80
Light/heavy differential	US\$16
Cdn\$/US\$ exchange	1.00

BlackPearl expects to exit 2011 with production of 11,000 – 13,000 barrels of oil equivalent per day. The relatively wide range in the exit rate target is due to the variability in the timing of initial response from the polymer flood at Mooney, which is expected to take 6-12 months.

In 2011, BlackPearl is planning a \$130-\$150 million capital expenditure program. The major components of this program are:

- Onion Lake – \$60 million to drill between 100-120 wells;
- Blackrod – \$22 million to complete construction of and commission the SAGD pilot; and
- Mooney – \$43 million to complete construction of and commission the polymer flood.

This activity will be completely funded from existing working capital (\$144 million at December 31, 2010) and forecast cash flow of \$65-\$70 million. No additional financing will be required in 2011; however, in the event that commodity prices drop and cash flows do not reach anticipated levels, the Company will lower its capital spending by reducing the number of wells drilled at Onion Lake to ensure it can remain debt-free.

### 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 2011 performance:

	Cash Flow	Net Earnings
	(\$000s)	
<b>Price change</b>		
US\$5 per barrel change in the price of WTI oil	10,894	10,894
US\$2 per barrel change in the light/heavy differential	4,357	4,357
<b>Exchange rate</b>		
\$.05 change in US/CDN rate	6,972	6,972
<b>Production rate</b>		
500 barrel per day change	4,045	151

In summary, 2011 will be even more active than 2010. BlackPearl's strong working capital, in conjunction with favourable commodity prices, strongly position the Company for continued development of its core properties and further production growth in 2011.

### Forward-Looking Statements

This report contains certain forward-looking statements and forward-looking information (collectively referred to as "**forward-looking statements**") within the meaning of applicable Canadian securities laws. All statements other than statements of historical fact are forward-looking statements. Forward-looking information typically contains statements with words such as "anticipate", "believe", "plan", "continuous", "estimate", "expect", "may", "will", "project", "should", or similar words suggesting future outcomes. In particular, this report contains forward-looking statements pertaining to the following:

- Business plans and strategies;
- Capital expenditure and drilling programs;
- Methods and ability to finance capital expenditure programs;
- Anticipated oil and gas production levels;
- Future oil and gas prices and their impact on BlackPearl;
- Future costs including operating and administrative costs and royalty rates;
- Future cash flows and net earnings;
- Future asset dispositions;
- Estimated tax pools;
- Corporate guidance for 2011; and
- The estimated quantity of resources from the contingent resource study and the ultimate recoverability of resources.

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.

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 be realized. Actual results will differ, and the difference may be material and adverse to the Corporation and its shareholders.

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 2011 are located in "Outlook" above. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

By their very nature, forward-looking statements involve inherent risks and uncertainties (both general and specific) and risks that the goals or figures contained in forward-looking statements will not be achieved. These factors include, but are not limited to, risks associated with fluctuations in market prices for crude oil, natural gas and diluent, general economic, market and business conditions, substantial capital requirements, uncertainties inherent in estimating quantities of reserves and resources, extent of, and cost of compliance with, government laws and regulations and the effect of changes in such laws and regulations from time to time, the need to obtain regulatory approvals on projects before development commences, environmental risks and hazards and the cost of compliance with environmental regulations, aboriginal claims, inherent risks and hazards with operations such as fire, explosion, blowouts, mechanical or pipe failure, cratering, oil spills, vandalism and other dangerous conditions, potential cost overruns, variations in foreign exchange rates, diluent supply shortages, competition for capital, equipment, new leases, pipeline capacity and skilled personnel, uncertainties inherent in the SAGD bitumen and Alkali Surfactant Polymer recovery processes, credit risks associated with counterparties, the failure of the Company or the holder of licenses, leases and permits to meet requirements of such licenses, leases and permits, reliance on third parties for pipelines and other infrastructure, changes in royalty regimes, failure to accurately estimate abandonment and reclamation costs, inaccurate estimates and assumptions by management, effectiveness of internal controls, the potential lack of available drilling equipment and other restrictions, failure to obtain or keep key personnel, title deficiencies with the Company's assets, geo-political risks, risks that the Company does not have adequate insurance coverage, risk of litigation and risks arising from future acquisition activities. Further information regarding these risk factors may be found under "Risk Factors" in the Annual Information Form. Readers are cautioned that these factors and risks are difficult to predict and that the assumptions used in the preparation of such information, although considered reasonably accurate at the time of preparation, may prove to be incorrect. Accordingly, readers are cautioned that the actual results achieved will vary from the information provided herein and the variations could be material. Readers are also cautioned that the foregoing list of factors is not exhaustive. Consequently, there is no representation by the Corporation 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 Corporation 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.

## Management's Report

The accompanying Consolidated Financial Statements of Blackpearl resources Inc. and related financial information presented in this annual report are the responsibility of Management and have been approved by the Board of Directors. The Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles. The Consolidated Financial Statements and related financial information reflect amounts which must, of necessity, be based upon informed estimates and judgments of Management with appropriate consideration to materiality. All financial information contained in the annual report is consistent, where appropriate, with that contained in the Consolidated Financial Statements.

The Company has developed and maintains systems of internal controls, policies and procedures in order to provide reasonable assurance as to the reliability of the financial records and the safeguard of assets.

PricewaterhouseCoopers LLP, independent external auditors appointed by the shareholders of the Company, review Blackpearl Resources Inc.'s systems of internal controls and conduct their work to the extent they deem appropriate. They have examined the Consolidated Financial Statements and they have expressed an opinion on the statements. Their report is included in the Consolidated Financial Statements.

The Board of Directors has established an Audit Committee. The Audit Committee reviews with Management and the external auditors any significant financial reporting issues, the financial statements, and any other matters of relevance to the parties. The Audit Committee meets quarterly to review and approve the interim financial statements prior to their release, as well as annually to review the Company's annual financial statements and Management's discussion and analysis, and to recommend their approval to the Board of Directors. The external auditors have unrestricted access to the Company, the Audit Committee and the Board of Directors.



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

February 25, 2011



**Donald W. Cook**  
Chief Financial Officer

# Auditors' Report

**February 25, 2011**

**To the Shareholders of Blackpearl Resources Inc.**

We have audited the accompanying consolidated financial statements of BlackPearl Resources Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations, comprehensive loss and deficit, and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

**Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained from our audit is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of BlackPearl Resources Inc and its subsidiaries as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*  
Chartered Accountants  
Calgary, Alberta

# Consolidated Balance Sheets

As at December 31 (Cdn\$ in thousands)	2010	2009
<b>ASSETS</b>		
Current assets		
Cash	\$ 169,596	\$ 56,352
Accounts receivable	19,551	11,977
Income and other taxes receivable	2,083	4,817
Prepaid expenses and deposits	883	1,167
	<b>192,113</b>	<b>74,313</b>
Investments (note 4)	1,839	1,284
Petroleum and natural gas properties (note 5)	349,874	392,712
	<b>\$ 543,826</b>	<b>\$ 468,309</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 48,081	\$ 16,318
Asset retirement obligation (note 7)	18,860	25,435
	<b>66,941</b>	<b>41,753</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 8)	857,813	779,809
Contributed surplus (note 8)	19,041	15,444
Deficit	(399,969)	(368,697)
	<b>476,885</b>	<b>426,556</b>
	<b>\$ 543,826</b>	<b>\$ 468,309</b>

Commitments and contingencies (note 10)  
See accompanying notes to consolidated financial statements

Signed on behalf of the Board:



**Keith C. Hill**  
Chairman and Director



**Brian D. Edgar**  
Director

# Consolidated Statement of Operations, Comprehensive Loss and Deficit

Year ended December 31	2010	2009
(Cdn\$ in thousands, except for per share amounts)		
<b>Revenue</b>		
Oil and gas sales	\$ 142,867	\$ 89,637
Royalties	(36,798)	(21,262)
	106,069	68,375
Other income	3,132	–
Interest income	895	321
	110,096	68,696
<b>Expenses</b>		
Production	36,824	29,461
Transportation	2,734	3,466
General and administrative	6,788	6,913
Depletion, depreciation and accretion	91,026	81,100
Stock-based compensation (note 8)	3,995	1,461
Interest and bank charges	74	277
Foreign currency exchange loss	295	762
Revaluation of investments (note 4)	(555)	556
	141,181	123,996
Loss before income taxes	(31,085)	(55,300)
<b>Income taxes (note 9)</b>		
Current income tax (recovery)	187	(2,351)
Future income tax (recovery)	–	(5,634)
	187	(7,985)
<b>Comprehensive loss for the year</b>	<b>(31,272)</b>	<b>(47,315)</b>
<b>Deficit, beginning of year</b>	<b>(368,697)</b>	<b>(321,382)</b>
<b>Deficit, end of year</b>	<b>\$ (399,969)</b>	<b>\$ (368,697)</b>
Basic and diluted loss per share	\$ (0.12)	\$ (0.19)
Weighted average number of common shares used in computing loss per share:		
basic and diluted <sup>(1)</sup>	269,029,016	243,185,591

See accompanying notes to consolidated financial statements

<sup>(1)</sup> 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.

## Consolidated Statements of Cash Flow

Year ended December 31	2010	2009
(Cdn\$ in thousands)		
<b>Operating activities</b>		
Net loss	\$ (31,272)	\$ (47,315)
Items not involving cash:		
Depletion, depreciation and accretion	91,026	81,100
Stock-based compensation	3,995	1,461
Future income tax (recovery)	–	(5,634)
Foreign exchange loss	295	762
Provision for bad debts (reduction)	–	(1,322)
Revaluation of investments	(555)	556
Abandonment costs	(905)	(604)
	<b>62,584</b>	<b>29,004</b>
Changes in non-cash working capital balances related to operations	<b>(3,750)</b>	<b>(29,593)</b>
	<b>58,834</b>	<b>(589)</b>
<b>Financing activities</b>		
Proceeds on issue of common shares, net of costs	77,604	43,838
	<b>77,604</b>	<b>43,838</b>
<b>Investing activities</b>		
Additions to petroleum and natural gas properties	(95,829)	(27,878)
Proceeds from sale of petroleum and natural gas properties	41,969	250
Proceeds from sale of investment	–	4
Cash received on acquisition of BlackCore Resources Inc.	–	5,589
Changes in non-cash working capital from investing	30,666	11,079
	<b>(23,194)</b>	<b>(10,956)</b>
<b>Net increase in cash</b>	<b>113,244</b>	<b>32,293</b>
<b>Cash, beginning of year</b>	<b>56,352</b>	<b>24,059</b>
<b>Cash, end of year</b>	<b>\$ 169,596</b>	<b>\$ 56,352</b>
Supplementary Information		
Cash interest paid	\$ 32	\$ 87
Cash taxes paid	\$ 172	\$ 1,004

See accompanying notes to consolidated financial statements

# Notes to the Consolidated Financial Statements

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

## 1. Nature of Operations

BlackPearl Resources Inc. (collectively with its subsidiaries, the “Company” or “BlackPearl”) is engaged in the business of oil and gas exploration, development and production in North America. BlackPearl is listed and traded on the TSX Exchange under the trading symbol “PXX”. The Company’s Swedish Depository Receipts trade on the NASDAQ OMX First North market under the symbol “PXXS”.

## 2. Summary of Significant Accounting Policies

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP). The significant accounting policies used in these consolidated financial statements are as follows:

### (a) Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

### (b) Cash and cash equivalents

Cash and cash equivalents include short-term highly liquid interest-bearing investments with maturities of three months or less from the date of acquisition.

### (c) Measurement Uncertainty

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingencies. Such estimates primarily relate to unsettled transactions and events as of the date of the consolidated financial statements. These estimates are subject to measurement uncertainty. Actual results could differ from and affect the results reported in these consolidated financial statements.

Purchase price allocations, depletion, depreciation and amortization, and amounts used in impairment calculations are based on estimates of crude oil and natural gas reserves. By nature, estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact of differences between actual and estimated amounts on the consolidated financial statements of future periods could be material.

The calculation of asset retirement obligations includes estimates of the future costs to settle the asset retirement obligation, the timing of the cash flows to settle the obligation, and the future inflation rates. The impact of differences between actual and estimated costs, timing and inflation on the consolidated financial statements of future periods may be material.

The calculation of income taxes requires judgement in applying tax laws and regulations, estimating the timing of the reversals of temporary differences, and estimating the realizability of future tax assets. These estimates impact current and future income tax assets and liabilities, and current and future income tax expense (recovery).

The calculation of stock-based compensation requires estimates relating to volatility, forfeiture rates and market prices surrounding the issuance of stock options. These estimates impact stock-based compensation expense and contributed surplus.

**(d) Foreign Currency Translation**

The Company's reporting and functional currency is Canadian dollars.

The Company's U.S. operations are considered integrated. Accordingly, the Company uses the temporal method of accounting for the foreign currency transactions of its U.S. subsidiaries. Under the temporal method, monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the historical exchange rates. Revenues and expenses are translated at the average rate for the period, except for charges related to non-monetary assets which are translated at the historical rate for the assets to which the charge relates, and material items where a specific date can be identified for the transaction which is translated at the rate on that specific date. Exchange gains or losses are included in the determination of net income.

**(e) Joint Operations**

A substantial portion of the Company's activities are conducted jointly with others through joint ventures. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

**(f) Petroleum and Natural Gas Properties**

The Company follows the full cost method of accounting for its petroleum and natural gas properties whereby all costs relating to the exploration for and development of oil and gas reserves are capitalized in country-by-country cost centres and charged against income as set out below. Capitalized costs include lease acquisition costs, geological and geophysical expenditures, costs of drilling exploration and development wells, gathering and production facilities and other development expenditures. Gains and losses are not recognized upon disposition of petroleum and natural gas properties unless such a disposition would alter the rate of depletion by 20 percent or more.

**Depreciation, Depletion and Amortization**

Capitalized costs, along with estimated future costs to develop proved reserves, are depleted on a unit-of-production basis using estimated proved oil and gas reserves before royalties, as determined by independent engineers. Natural gas reserves and production are converted to equivalent barrels of oil based upon the relevant energy content (6:1). Costs of acquiring and evaluating unproved properties are excluded from costs subject to depletion until it is determined whether proved reserves are attributable to the properties or impairment occurs. Unproved properties are evaluated for impairment on at least an annual basis. If an unproved property is considered to be impaired, the amount of the impairment is added to costs subject to depletion.

Office furniture and equipment is depreciated on the declining balance basis at rates ranging from 10 to 30 percent per year.

#### Ceiling Test

The net amount at which petroleum and natural gas properties are carried is subject to a cost recovery test (the “ceiling test”). The ceiling test is an impairment test whereby the carrying amount of petroleum and natural gas properties, excluding the cost of unproved properties, is compared to the undiscounted cash flows from proved reserves using future forecast prices, adjusted for the Company’s contract prices and quality differentials. If the carrying value exceeds the undiscounted cash flows, an impairment loss would be recorded against income. The impairment is measured as the amount by which the carrying amount of petroleum and natural gas properties exceeds the discounted cash flows from proved and probable reserves. The Company’s risk-free interest rate is used to arrive at the net present value of future cash flows.

#### **(g) Revenue Recognition**

Revenue from the sale of petroleum and natural gas is recorded when title passes to an external party.

#### **(h) Investments**

Long-term investments include interest-bearing investments with maturities longer than one year. Long-term investments whereby the Company has significant influence are accounted for using the equity method. All other long-term investments are designated as held-for-trading and available-for-sale and are carried at fair value (see note 11(a) for classification).

#### **(i) Stock-based Compensation**

Stock options granted are accounted for using the fair value method. Fair values are determined, at the grant date, using the Black-Scholes option-pricing model. The compensation expense associated with these options is charged to earnings over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the consideration paid to the Company, along with amounts previously credited to contributed surplus, is credited to common shares. Forfeitures are accounted for as they occur and result in a reduction in compensation expense.

#### **(j) Asset Retirement Obligation**

The fair values of the estimated asset retirement obligations are recorded as a liability when incurred and the associated cost is capitalized as part of the cost of the related asset. Over time, the liability is accreted for the change in its present value and the initial capitalized costs are depleted on a unit-of-production basis over the life of the reserves. The associated accretion is charged to earnings in the period. Actual expenditures incurred are charged against the accumulated obligation. Revisions to the estimated timing of cash flows or the original estimated undiscounted cost would also result in an increase or decrease to the obligation and related asset.

### **(k) Earnings per Share**

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated based upon the treasury stock method which assumes that any proceeds from the exercise of in-the-money stock options or warrants would be used to purchase the Company's common shares at the average market price during the year (or period if applicable). Diluted earnings per share do not include any anti-dilutive conversions, nor is diluted earnings per share presented where the total effect would be anti-dilutive.

### **(l) Income Taxes**

The Company follows the liability method of accounting for income taxes. Under this method, future income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future tax liabilities and assets are measured using enacted or substantially enacted tax rates. The effect on future tax liabilities and assets of a change in tax rates is recognized in income in the period that the change occurs.

### **(m) Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities are recognized on the consolidated balance sheet at the time the Company becomes a party to the contractual provisions. Upon initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods is dependent on the classification of the financial instrument. These instruments will be classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities.

Financial assets and liabilities held-for-trading instruments are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of tax. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

The Company has no financial instruments that give rise to other comprehensive income. Cash and cash equivalents are designated as held-for-trading. Accounts receivable are designated as loans and receivables. The Company's investment in MAV notes are designated as held-for-trading and accounts payable and accrued liabilities are designated as other financial liabilities.

The Company will assess at each reporting period whether there is any objective evidence that a financial asset, other than those classified as held-for-trading, is impaired.

### 3. Recent Accounting Pronouncements (IFRS)

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 has developed a plan for the conversion. Additional information regarding the Company's IFRS conversion can be found in the accompanying MD&A.

### 4. Investments

	December 31, 2010	December 31, 2009
MAV Notes at beginning of year	\$ 1,284	\$ 1,284
Fair value adjustment	555	–
MAV Notes at end of year	\$ 1,839	\$ 1,284

The Company acquired an interest in third party asset-backed commercial paper (ABCP) 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. The ABCP was restructured and the Company received Master Asset Vehicle Notes (MAV Notes) with a face value of \$5 million. As at December 31, 2010, the Company estimated the fair value of the notes at \$1,839,000 (December 31, 2009 – \$1,284,000).

### 5. Petroleum and Natural Gas Properties

	December 31, 2010		
	Cost	Accumulated depreciation and depletion	Net book value
Petroleum and natural gas properties	\$ 696,937	\$ 348,868	\$ 348,069
Office equipment	3,169	1,364	1,805
	\$ 700,106	\$ 350,232	\$ 349,874

	December 31, 2009		
	Cost	Accumulated depreciation and depletion	Net book value
Petroleum and natural gas properties	\$ 650,744	\$ 259,903	\$ 390,841
Office equipment	2,916	1,045	1,871
	\$ 653,660	\$ 260,948	\$ 392,712

During 2010, the Company sold a number of non-core properties for net proceeds of \$42.0 million. The proceeds were recorded as a reduction in petroleum and natural gas properties.

The depletion and ceiling test calculations have excluded the cost of unproved properties of \$76.0 million (December 31, 2009 – \$33.6 million) and included future development costs of \$104.5 million (December 31, 2009 – \$63.6 million). The majority of the Company's unproved properties relate to the Blackrod area and the construction of the SAGD pilot. This project is currently in the pre-production stage and is not generating any revenues. The Company does not capitalize any interest or general and administrative expenses.

The Company performed ceiling test calculations at December 31, 2010 to assess whether the carrying value of the petroleum and natural gas properties were recoverable. A write-down of \$0.7 million (December 31, 2009 – \$2.9 million) in the carrying value of the U.S. assets has been included in depletion, depreciation and accretion in the consolidated financial statements. The following represent the prices that were used in the December 31, 2010 ceiling test:

Average Price Forecast <sup>(1)</sup>				
Year	WTI Cushing 40° API (US\$/bbl)	Hardisty Lloydblend 20.5° API (CDN\$/bbl)	Alberta AECO-C Spot (CDN\$/MMBtu)	Exchange rate (US\$/Cdn\$)
2011	88.40	80.04	4.04	0.93
2012	89.14	80.71	4.66	0.93
2013	88.77	78.48	4.99	0.93
2014	88.88	76.70	6.58	0.93
2015	90.22	77.86	6.69	0.93
2016	91.57	79.03	6.80	0.93
2017	92.94	80.23	6.91	0.93
2018	94.34	81.44	7.02	0.93
2019	95.75	82.67	7.14	0.93
2020	97.19	83.92	7.26	0.93
Escalation rate of 1.5% thereafter <sup>(2)</sup>				

<sup>(1)</sup> The benchmark prices listed above are adjusted for quality differentials, heat content, distance to market and other factors in performing the ceiling test.

<sup>(2)</sup> Percentage change represents the change in each year after 2020 to the end of the reserve life.

## 6. Credit Facility

The Company has a credit facility with a Canadian financial institution 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 amount not to exceed the total credit facility. The facility bears interest, at the Company's option at either the institution's 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 December 31, 2010, a prime rate based drawdown would be at the institution'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 December 31, 2010, 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, 2011.

## 7. Asset Retirement Obligation

The Company's asset retirement obligation results from ownership interest in oil and gas assets, including well sites, gathering systems, batteries and processing facilities. The Company's total estimated undiscounted costs required to settle the asset retirement obligation is approximately \$27.5 million (December 31, 2009 – \$38.3 million) which will be incurred over the next 27 years, with the majority of costs incurred between 2011 and 2024. Settlement of the obligation is expected to be funded from general corporate funds at the time of retirement. As at December 31, 2010, no funds have been set aside to settle these obligations.

The asset retirement obligation was discounted using a credit-adjusted risk-free rate of 6.5 percent and an inflation rate of 2 percent.

Changes to the asset retirement obligation were as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
<b>Asset retirement obligation at beginning of year</b>	<b>\$ 25,435</b>	<b>\$ 20,064</b>
Liabilities acquired through acquisitions, net of dispositions	<b>(8,206)</b>	2,939
Liabilities incurred during the year	<b>1,165</b>	1,516
Actual remediation costs	<b>(905)</b>	(604)
Accretion	<b>1,371</b>	1,520
<b>Asset retirement obligation at end of year</b>	<b>\$ 18,860</b>	<b>\$ 25,435</b>

## 8. 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	189,241,716	\$ 723,122
Shares issued for BlackCore acquisition	17,600,000	10,560
Shares issued for property acquisitions	2,500,000	1,500
Shares issued from treasury	52,334,000	46,046
Shares issued upon exercise of stock options	285,001	214
Transferred from contributed surplus on exercise of stock options	–	112
Share issuance costs	–	(1,745)
Balance as at December 31, 2009	261,960,717	\$ 779,809
<b>Shares issued from treasury</b>	<b>20,350,000</b>	<b>80,015</b>
<b>Shares issued upon exercise of stock options</b>	<b>904,670</b>	<b>800</b>
<b>Transferred from contributed surplus on exercise of stock options</b>	<b>–</b>	<b>400</b>
<b>Share issuance costs</b>	<b>–</b>	<b>(3,211)</b>
<b>Balance as at December 31, 2010</b>	<b>283,215,387</b>	<b>\$ 857,813</b>

### (c) Warrants Outstanding

The Company has 10,000,320 warrants outstanding as a result of the acquisition of BlackCore Resources Inc in 2009 (note 12). Each warrant allows the holder to acquire, on or before January 13, 2013, one common share of the Company at \$0.60.

### (d) Stock Options Outstanding

The Company has a stock option plan (the "Plan") whereby options to purchase common shares may be granted 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 on the TSX Exchange immediately preceding the day the option is granted.

The following summarizes stock options outstanding as at December 31, 2010 and December 31, 2009:

	Number of Options	Weighted Average Exercise Price (\$)
Outstanding at December 31, 2008	11,138,436	2.16
Granted	6,325,500	1.59
Exercised	(285,001)	0.75
Forfeited	(3,724,602)	3.32
Outstanding at December 31, 2009	13,454,333	1.60
<b>Granted</b>	<b>2,786,500</b>	<b>4.74</b>
<b>Exercised</b>	<b>(904,670)</b>	<b>0.89</b>
<b>Forfeited</b>	<b>(366,165)</b>	<b>2.95</b>
<b>Outstanding at December 31, 2010</b>	<b>14,969,998</b>	<b>2.20</b>

Options outstanding and exercisable as at December 31, 2010 are summarized below:

Range of Exercise Prices (\$)	Options Outstanding			Options Exercisable		
	Number of Options	Weighted Average Exercise Price (\$)	Weighted Average Remaining Life (Years)	Number of Options	Weighted Average Exercise Price (\$)	Weighted Average Remaining Life (Years)
0.40 – 1.50	6,541,166	0.73	3.04	4,215,343	0.73	3.03
1.51 – 3.00	5,071,332	2.26	3.50	2,208,011	2.28	3.03
3.01 – 4.50	219,000	3.27	2.81	144,000	3.38	1.84
4.51 – 5.15	3,138,500	5.09	3.95	757,000	5.10	1.03
	14,969,998	2.20	3.38	7,324,354	1.70	2.80

**(e) Stock-Based Compensation**

Stock-based compensation of \$3,995,000 net of recoveries of \$67,000, has been recorded in the Consolidated Statements of Operations and Deficit for the year ended December 31, 2010 (2009 – \$1,461,000). 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 and the assumptions used in their determination are noted below:

	December 31, 2010	December 31, 2009
Weighted average fair value of stock options granted (per option)	\$ 2.60	\$ 0.85
Expected life of stock options (years)	3.00	2.58
Volatility (weighted average)	85%	88%
Risk-free rate of return (weighted average)	1.82%	1.43%
Expected dividend yield	0%	0%

**(f) Contributed Surplus Continuity**

The following table summarizes changes in contributed surplus during the period:

	December 31, 2010	December 31, 2009
Balance, beginning of year	\$ 15,444	\$ 11,895
Stock-based compensation	4,062	2,751
Recovery of expense on forfeited stock options	(67)	(1,290)
Warrants issued on BlackCore acquisition	–	2,200
Transferred to share capital on exercise of stock options	(398)	(112)
Balance, end of year	\$ 19,041	\$ 15,444

## 9. Income Taxes

### (a) Future income tax expense:

The provision for income taxes reflects an effective income tax rate which differs from Federal and Provincial statutory tax rates. The main differences are as follows:

	December 31, 2010	December 31, 2009
Loss before income taxes	\$ (31,085)	\$ (55,300)
Corporate income tax rate	29.28%	30.46%
Computed income tax recovery	\$ (9,102)	\$ (16,843)
Increase (decrease) resulting from:		
Change in valuation allowance	2,099	9,002
Non-deductible stock-based compensation expense	1,170	445
Foreign exchange	3,518	(785)
Change in enacted tax rates	823	1,768
Capital tax and Saskatchewan Resource Surcharge	165	(2,352)
Other	1,514	780
Income tax expense (recovery)	\$ 187	\$ (7,985)

(b) The components of the future income tax asset and liability are as follows:

	December 31, 2010	December 31, 2009
<b>Future Income Tax Assets:</b>		
Non-capital losses	\$ 54,624	\$ 32,759
Share issue costs	1,597	2,785
Asset retirement obligation	5,026	6,829
Other	956	1,152
Valuation allowance	(40,985)	(38,034)
	21,218	5,491
<b>Future Income Tax Liabilities:</b>		
Property, plant and equipment	(21,218)	(5,491)
Net future tax asset (liability)	\$ 0	\$ 0

The Company has \$194.9 million of non-capital losses with various expiry dates between 2011 to 2030.

Where unfavourable evidence exists, which in BlackPearl's case is primarily historical net losses, additional considerations and evidence for recognition of future tax assets is required. Management has evaluated the applicable factors necessary in making this determination and has concluded that the positive evidence in consideration of the estimated future cash flows based on reserve reports from the Company's independent engineers, does not sufficiently outweigh negative factors, such as the net loss in current and prior years. As a result, BlackPearl has determined that the Company does not meet the "more likely than not" criteria required for recognition of future tax assets and has therefore recognized a cumulative valuation allowance of \$41.0 million against the Company's future tax assets.

## 10. Commitments 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, 2010:

(\$000s)	2011	2012	2013	2014	2015	Thereafter
Long-term debt	–	–	–	–	–	–
Operating leases <sup>(a)</sup>	1,166	1,234	1,234	1,626	1,626	1,320
Drilling rig commitment <sup>(b)</sup>	–	876	319	–	–	–
Electrical service agreement <sup>(c)</sup>	3,012	2,969	–	–	–	–
	<b>4,178</b>	<b>5,079</b>	<b>1,553</b>	<b>1,626</b>	<b>1,626</b>	<b>1,320</b>

- (a) The Company has six years remaining on an operating lease for office space as at December 31, 2010. 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 a maximum additional \$21.3 million (including an estimate for operating costs) over the next six years.
- (b) The Company has contracted drilling rig services over the next three 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. The payments included herein assumes no drilling days used.
- (c) The Company has entered into an agreement whereby an electrical service connection will be physically installed at a facility over the next two years. In the event that the project is not completed at BlackPearl's request, the Company would be obligated to pay the service provider the full amount of the contract.

## 11. 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 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 carrying value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities, approximates their fair value amounts due to the short-term nature of the instruments.
- (ii) The fair value of the investment in MAV notes have been measured in accordance with a three level hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:
  - a. Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
  - b. Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices); and
  - c. Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The MAV notes have been valued using Level 3 of the hierarchy. The fair value of the investment 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.

### (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 affect supply and demand, which are generally beyond the Company's control. Changes in crude oil prices may significantly affect the Company's results of operations, cash 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 the effect of changing net earnings for the year ended 2010 by approximately \$1,876,000. 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. Natural gas currently represents less than 10% of the Company's total production and, as a result, any fluctuation in natural gas prices would have a nominal effect on current activities. As at December 31, 2010, the Company did 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 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, 2010, the Company has not entered into any fixed rate contracts. As at December 31, 2010, the Company held US\$3,997,000 in cash and short-term deposits and other net working capital items of US\$1,460,000.

As at December 31, 2010, 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 \$546,000 higher, due to a 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 delivery. 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 2010, the Company has not experienced any collection issues with its marketers. At December 31, 2010, over 96 percent 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 December 31, 2010, accounts receivable includes an allowance for doubtful accounts of \$815,000 from joint interest partners.

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 December 31, 2010, the Company held \$169.6 million in cash at various major financial institutions throughout Canada and the USA, as well as \$1.8 million in investments. At December 31, 2010, three Canadian financial institutions held approximately 99 percent of our 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.

**(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. As at December 31, 2010, if interest rates had been 1 percent higher with all other variables held constant, after tax earnings for the period would have been approximately \$881,000 higher.

**(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, 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, 2010, the Company had an undrawn \$25 million credit facility, and working capital of \$144.0 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:

	<6 Months	6 months – 1 Year	1 – 2 Years
Accounts payable and accrued liabilities	\$ 48,081	–	–

**(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 additional 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. In order to maintain or adjust its capital structure, the Company may from time to time issue additional common shares. 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 \$80 million of additional equity during 2010 (See note 8(b)). These funds will be used to fund exploration and development programs over the next 12 – 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 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 4.5:1 at December 31, 2010 and is in compliance with these covenants.

## 12. 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 share purchase warrants to acquire one BlackPearl share for a price of \$0.60.

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

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

## 13. Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted in 2010.

# Corporate Information

## DIRECTORS AND OFFICERS

**Brian D. Edgar**  
Director <sup>(1)(2)(3)(4)</sup>  
Vancouver, British Columbia

**Keith C. Hill, B.Sc., M.Sc., MBA**  
Chairman and Director <sup>(4)</sup>  
Vancouver, British Columbia

**Victor Luhowy, B.Sc. Eng, P.Eng, MBA**  
Director <sup>(1)(2)(3)(4)</sup>  
Calgary, Alberta

**John Craig, BA, LLB**  
Lead Director <sup>(1)(2)(3)</sup>  
Toronto, Ontario

**John L. Festival, B.Eng.**  
Director  
President and CEO  
Calgary, Alberta

**Donald W. Cook, CA, CFA**  
Chief Financial Officer

**Christopher W. Hogue, CET**  
Vice President, Operations

**Edward Sobel, B.Sc.**  
Vice President, Exploration

**Diane Phillips, BA, MBA**  
Corporate Secretary

- <sup>(1)</sup> Audit Committee
- <sup>(2)</sup> Compensation Committee
- <sup>(3)</sup> Corporate Governance Committee
- <sup>(4)</sup> Reserves Committee

## Annual General Meeting

The Annual General Meeting will be held at 3:00 p.m. MDT on Wednesday, May 11, 2011 in the Viking Room of the Calgary Petroleum Club at 319 – 5th Avenue S.W., Calgary, Alberta.

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## AUDITORS

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Calgary, Alberta

## ENGINEERING CONSULTANTS

Sproule Associates Limited  
Calgary, Alberta

## BANKERS

ATB Financial  
Calgary, Alberta

## LEGAL COUNSEL

Bennet Jones LLP  
Calgary, Alberta

## CERTIFIED ADVISOR ON FIRST NORTH

E. Öhman J:or Fondkommission AB

## TRANSFER AGENT

Computershare Trust Company of Canada  
Calgary, Alberta and Toronto, Ontario

## STOCK EXCHANGE LISTINGS

TSX Exchange – PXX  
First North, Sweden – PXXS



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