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THIRD QUARTER 2010 FINANCIAL AND OPERATING RESULTS

Third quarter highlights include:

- Oil and gas production averaged 6,646 boe/day, a 31% increase over Q3 2009 production volumes;
- Revenues increased 39% to \$33.4 million compared to Q3 in 2009;
- Cash flow from operations increased 73% to \$14.2 million compared with \$8.2 million in Q3 2009; for the 9 months ended September 30, 2010 cash flow from operations increased 301% from 2009;
- Maintained a strong balance sheet with working capital of \$92 million and no debt;
- Received regulatory approval to proceed with development of our projects at Blackrod and Mooney.

John Festival, President of BlackPearl, commenting on Q3 2010 activities indicated that “Q3 was another strong quarter financially for us. However, one of the most important events for us was receiving regulatory approval for our projects at Blackrod and Mooney. These approvals are an important milestone for the Company which will allow us to move to the next stage of development that will include construction of a SAGD pilot at Blackrod and a commercial polymer flood at Mooney. Our near term production and cash flow growth will come from continued development drilling at Onion Lake. We have established our plans for 2011 and it will be a very active year for us. Our capital program should see us exit 2011 producing in excess of 11,000 barrels of oil per day.”

Property Review

Blackrod SAGD Project

BlackPearl owns 100% of the Blackrod property as a result of acquiring, earlier this year, the 20% working interest held by Serrano Energy Ltd. We recently received approvals from the Energy Resources Conservation Board (“ERCB”) and Alberta Environment to construct and operate a single well pair SAGD pilot on the property. Field construction of the steam and water handling facilities will begin shortly and we expect to drill the horizontal well pair and monitoring wells during the fourth quarter. Water source and water disposal wells were drilled earlier this year. We expect to begin steam injection in March 2011 and we anticipate it will take 12 to 18 months of steaming before we will be able to properly evaluate the production performance from the well. The information gathered from the pilot will allow us to build a commercial development plan for Blackrod.

Onion Lake

During the third quarter of 2010 BlackPearl drilled nine development wells at Onion Lake. These wells will be completed and put on production in the fourth quarter. Due to surface access restrictions BlackPearl got a late start on its fall drilling program. As a result, we anticipate we will drill 30 to 35 of our planned 70 well program before year-end. In order to “catch-up” the remaining wells from our fall drilling program will be drilled during the first quarter of 2011. Over the next three to five years we plan to drill over 200 wells and then convert a portion of the Onion Lake field to thermal (SAGD) recovery.

Mooney

At Mooney, we received ERCB approval to proceed with phase one of our commercial polymer flood. Field construction of the chemical and water handling facilities will commence immediately. Twenty two of the existing wells will be shut-in near year-end and converted to polymer injectors. Upgrades to the existing Mooney battery facility to handle the polymer/oil mix will occur in 2011. We expect to begin polymer injection near the end of the first quarter of 2011, and response from the flood is expected to take 6 to 12 months.

BlackPearl has also received Alberta Department of Energy approval for enhanced oil recovery status for a portion of the field, which will initially reduce the royalty burden on Mooney production volumes as a result of the flood. Initial royalty rates are expected to be approximately 10%.

Three additional horizontal wells were drilled at Mooney in the third quarter and will be put on production in the fourth quarter.

Production

Oil and gas production for the three months ended September 30, 2010 was 6,646 boe/day, a 31% increase compared to the same period in 2009. Third quarter production was down 7% from the second quarter due primarily to the sale of properties producing 350 boe per day late in the second quarter and temporarily shutting-in production at some Onion Lake multi-well pad sites to facilitate drilling new wells.

As a result of not being able to complete all of our planned Onion Lake drilling program this fall we expect our year-end production exit rate will be near the lower end of our guidance range, or 8,000 barrels per day. Additional production is expected when we complete the Onion Lake drilling program during the first quarter of 2011.

(boe/day)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Onion Lake	5,157	2,342	4,855	2,192
Mooney	890	1,252	1,004	1,459
Ear Lake	-	428	156	441
Salt Lake	274	375	271	389
Long Coulee/Little Bow	223	369	331	420
Other	102	325	214	336
	6,646	5,091	6,831	5,237

Financial Results

Oil and gas revenues increased 39% in the third quarter 2010 to \$33.4 million compared with \$24.1 million in Q3 2009. The increase is attributable to higher oil production volumes partially offset by slightly lower oil prices. Although WTI oil prices were stronger in Q3 2010 than in 2009 (US\$76.08/bbl vs US\$68.30/bbl) wider heavy oil differentials (US\$15.66/bbl in Q3 2010 compared with US\$11.16/bbl in 2009) and a stronger Canadian dollar compared to the US dollar (1.039 in Q3 2010 compared with 1.097 in Q3 2009) offset the increase in WTI oil prices. The wider heavy oil differentials were due to pipeline disruptions moving heavy crude oil from Alberta to the US. These pipeline disruptions have now been resolved.

Operating costs, transportation expense and royalties were all higher in Q3 2010 than in 2009 due to higher production volumes; however, on a boe basis, Q3 2010 costs were comparable to the same period in 2009.

Cash flow from operations (before working capital adjustments) increased 73% in Q3 to \$14.2 million compared to \$8.2 million for the same period in 2009.

Financial and Operating Highlights

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Daily production / sales volumes ⁽¹⁾				
Oil (bbl/d)	6,166	4,247	6,208	4,263
Natural gas (mcf/d)	2,881	5,065	3,738	5,846
Combined (Boe/d)	6,646	5,091	6,831	5,237
Product pricing (\$)				
Crude oil – per bbl	57.17	58.38	58.51	47.76
Natural gas - per mcf	3.52	3.05	4.26	3.96
Combined - per Boe	54.66	51.94	55.83	43.34
(\$000's, except per share and Boe amounts)				
Revenue				
Oil and gas revenue - gross	33,421	24,065	104,124	61,964
Royalties (\$/Boe)	14.61	14.25	14.56	10.16
Transportation costs (\$/Boe)	1.42	1.58	1.10	1.90
Operating costs (\$/Boe)	13.57	13.32	15.10	15.53
Net income (loss) for the period	(9,042)	(12,013)	(27,371)	(43,418)
Per share, basic and diluted	(0.03)	(0.05)	(0.10)	(0.18)
Cash flow from operating activities, before working capital adjustments	14,218	8,221	43,171	14,328
Capital expenditures	19,926	6,240	57,796	10,319
Working Capital, end of period	92,006	59,875	92,006	59,875
Long term debt	-	-	-	-
Shares outstanding, end of period	272,900,553	261,684,050	272,900,553	261,684,050

(1) Boe amounts are based on a conversion ratio of 6 mcf of gas to 1 barrel of oil. BOEs may be misleading, particularly if used in isolation. A Boe conversion ratio of 6 mcf: 1 barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

2011 Outlook

BlackPearl's Board of Directors have approved a 2011 budget which will see the Company spending between \$130 and \$150 million on its capital expenditure program, the majority of which will be on the Company's three core areas. The program will be funded from working capital and anticipated cash flow. The Company expects this program will result in 2011 year-end production reaching 11,000 to 13,000 barrels of oil per day. This production target is dependent on, among other things, the timing of the response from the implementation of the polymer flood at Mooney.

Management's Discussion and Analysis

The following is Management's Discussion and Analysis (MD&A) of the operating and financial results of BlackPearl Resources Inc. for the third quarter 2010. These results are being compared with the three and nine month periods ended September 30, 2009. The MD&A should be read in conjunction with the Company's unaudited consolidated financial statements for the three and nine months ended September 30, 2010, together with the accompanying notes.

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

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

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

This report includes terms commonly used in the oil and gas industry, such as cash flow and cash flow from operations which represent cash flow from operating activities expressed before changes in non-cash working capital, 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. These terms do not have standardized meanings prescribed by GAAP and therefore may not be comparable with the calculations of similar measures for other entities. Consequently, these are referred to as non-GAAP measures.

Additional information relating to the Company, including its Annual Information Form, is available on SEDAR at www.sedar.com.

This MD&A contains forward-looking information and statements. At the end of this MD&A is an advisory on forward-looking information and statements.

The effective date of this MD&A is November 10, 2010.

OVERVIEW

BlackPearl is a Canadian-based oil and gas company whose common shares are traded on the TSX Exchange 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 include:

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

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

As part of BlackPearl's overall business plan, management intends to sell the majority of the Company's non-core assets. In the first nine months of 2010, the Company sold assets producing approximately 700 boe/day. Additional non-core asset sales are planned over the next two or three years. The Company is currently marketing certain conventional heavy oil properties producing approximately 250 barrels of oil per day.

2010 SIGNIFICANT EVENTS

- On January 1, 2010 the Company amalgamated its wholly-owned subsidiary Pearl E&P Canada Ltd., with BlackPearl Resources Inc.
- In the first nine months of 2010 the Company sold various non-core assets for \$19.7 million. The assets sold included natural gas properties in southern Alberta, conventional heavy oil properties in Saskatchewan and undeveloped land in Montana.
- On March 29, 2010 the Company acquired the remaining 20% working interest in the Blackrod area, located in the Athabasca oil sands, from Serrano Energy Ltd. for \$21 million. The acquisition results in BlackPearl having a 100% working interest in the Blackrod area lands. The Company plans to begin constructing a SAGD pilot on the property in November 2010 and construction is expected to be completed in the first quarter of 2011. The pilot will include drilling 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 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 steam assisted gravity drainage ("SAGD") pilot at Blackrod.
- 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 polymer flood.
- Capital expenditures during the first nine months of 2010 were \$57.8 million, with approximately \$30 million spent at Blackrod, \$16 million at Onion Lake and \$10 million at Mooney.

SELECTED QUARTERLY INFORMATION

	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
\$000s, except where noted	2010	2010	2010	2009	2009	2009	2009	2008
Production (boe/d)	6,646	7,163	6,685	5,306	5,091	5,170	5,510	6,198
Revenue (\$/boe)	54.66	52.58	60.55	56.69	51.94	47.07	31.77	36.28
Oil & gas revenue	33,421	34,274	36,429	27,674	24,065	22,143	15,755	20,687
Production costs	8,297	9,306	10,552	7,251	6,172	5,873	10,165	10,299
Net earnings (loss)	(9,042)	(10,276)	(8,053)	(3,897)	(12,013)	(10,889)	(20,516)	(83,686)
Per share, basic and diluted (\$)	(0.03)	(0.04)	(0.03)	(0.01)	(0.05)	(0.05)	(0.10)	(0.44)
Cash flow from operations	14,218	13,926	15,029	14,677	8,221	7,910	(1,804)	3,623
Per share, basic and diluted (\$)	0.05	0.05	0.06	0.06	0.03	0.03	(0.01)	0.02
Total assets	474,297	470,843	463,655	468,309	465,942	477,876	450,836	472,143
Weighted average shares outstanding (000s)	272,859	268,047	262,057	261,731	261,684	240,973	207,555	189,242

RESULTS OF OPERATIONS

\$000s, except where noted

	2010		2009	Nine months ended September 30	
	Q3	Q2	Q3	2010	2009
Net loss	(9,042)	(10,276)	(12,013)	(27,371)	(43,418)
Per share, basic and diluted (\$)	(0.03)	(0.04)	(0.05)	(0.10)	(0.18)

For the three months ended September 30, 2010, the Company incurred a net loss of \$9.0 million or \$0.03 per share compared to a net loss of \$12.0 million or \$0.05 per share for the same period in 2009. The nine month period ended September 30, 2010 yielded losses of \$27.4 million compared to \$43.4 million in 2009. The net loss each year is due principally to high depletion charges. The higher loss for the nine months ended 2009 is a result of lower commodity prices during the first half of 2009.

Commodity Prices

	2010		2009		
	Q3	Q2	Q1	Q4	Q3
Crude Oil Prices					
West Texas Intermediate (WTI) (US\$/bbl)	\$76.08	\$78.03	\$78.71	\$76.19	\$68.30
Western Canadian Select (WCS) (Cdn\$/bbl)	62.91	65.78	72.51	71.53	63.77
Differential – WCS/WTI (Cdn\$/bbl)	15.66	14.43	9.43	8.93	11.16
Differential – WCS/WTI (%)	20.6%	18.0%	11.5%	11.1%	14.9%
Natural Gas Prices					
AECO gas (Cdn\$/GJ)	3.61	3.66	5.06	4.26	2.78
Foreign Exchange (Cdn\$/US\$)	1.039	1.028	1.041	1.056	1.097

Crude oil prices weakened slightly during the third quarter 2010, with the West Texas Intermediate (WTI) reference price averaging US\$76.08 per barrel compared with US\$78.03 per barrel in the second quarter

2010. 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 2010 is approximately US\$88 and the forward strip price for calendar 2011 is approximately US\$90.

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 ("Differential"). The Differential averaged 20.6% for the third quarter 2010, compared with 18.0% in Q2 2010 and 11.5% in Q1. The increase in the Differential in the third quarter is partly attributable to the recent pipeline disruptions in the US, which temporarily reduced the ability of producers to ship heavy oil to the US. These issues have generally been resolved and the differential in November is currently less than 20%.

Oil prices in Canada are also impacted by the Canada/U.S. dollar exchange rate since the WTI reference price of oil is in U.S. dollars. During Q3 2010, the Canadian dollar weakened against the U.S. dollar, averaging 1.039 compared with 1.028 for the Q2 2010. The weakening of the Canadian dollar partially offsets the decreased WTI benchmark pricing experienced during the third quarter 2010.

In the third quarter of 2010, natural gas prices decreased 1% compared to Q2 2010 and increased 30% compared to Q3 2009. The AECO-C gas price averaged \$3.61 per GJ in the third quarter 2010 compared to \$3.66 per GJ in Q2 2010.

Oil and Gas Production, Pricing and Revenue

	2010		2009	Nine months ended September 30	
	Q3	Q2	Q3	2010	2009
Daily production / sales volumes ⁽¹⁾					
Oil (bbls/d)	6,166	6,515	4,247	6,208	4,263
Natural gas (mcf/d)	<u>2,881</u>	<u>3,890</u>	<u>5,065</u>	<u>3,738</u>	<u>5,846</u>
Combined (boe/d)	6,646	7,163	5,091	6,831	5,237
Product pricing					
Oil (\$/bbl)	57.17	55.03	58.38	58.51	47.76
Natural gas (\$/mcf)	<u>3.52</u>	<u>3.97</u>	<u>3.05</u>	<u>4.26</u>	<u>3.96</u>
Combined (\$/boe)	54.66	52.58	51.94	55.83	43.34
Revenue (\$000s)					
Oil and gas revenue – gross	33,421	34,274	24,065	104,124	61,964
Royalties	<u>(8,931)</u>	<u>(8,868)</u>	<u>(6,603)</u>	<u>(27,149)</u>	<u>(14,531)</u>
Oil and gas revenue – net	24,490	25,406	17,462	76,975	47,433

(1) Gas production converted at 6:1 (for boe figures)

Oil and gas revenues increased 39% in the third quarter 2010 to \$33.4 million compared with \$24.1 million in Q3 2009. The increase is attributable to:

- a 31% increase in production (on a boe basis); and a
- a 5% increase in product prices

Overall, average production increased to 6,646 boe/d for the quarter ended September 30, 2010 compared with 5,091 boe/d in the same period in 2009. For the nine months ended September 30, 2010, production

increased 30% to 6,831 boe/d from 5,237 boe/d in 2009. The increase in 2010 production is primarily attributable to drilling 28 wells at Onion Lake last fall and an additional 17 wells in the first nine months of this year.

boe/d	2010		2009	Nine months ended September 30	
	Q3	Q2	Q3	2010	2009
Onion Lake	5,157	5,098	2,342	4,855	2,192
Mooney	890	980	1,252	1,004	1,459
Ear Lake	-	316	428	156	441
Salt Lake	274	253	375	271	389
Long Coulee/Little Bow	223	368	369	331	420
Other	102	148	325	214	336
	6,646	7,163	5,091	6,831	5,237

On a boe basis, 93% of the Company's oil and gas production in the third quarter 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 78% of total production in Q3 2010 and will contribute a higher proportion for the remainder of the year as it will account for most of BlackPearl's near-term drilling activity.

Production levels in the third quarter of 2010 were down 7% from the second quarter due primarily to the sale of producing properties late in the second quarter and temporarily shutting in production at some Onion Lake multi-well pad sites to facilitate drilling new wells.. New production from additional development drilling activity at Onion Lake in the fourth quarter of 2010 and first quarter of 2011 should more than offset the production lost as a result of these asset dispositions.

The Company did not enter into any hedging arrangements in Q3 2010, and, at the present time, does not anticipate hedging any of its production for the remainder of the year.

Royalties

\$000s, except where noted	2010		2009	Nine months ended September 30	
	Q3	Q2	Q3	2010	2009
Royalties	8,931	8,868	6,603	27,149	14,531
As a percentage of revenue	27%	26%	27%	26%	23%

Royalties increased 35% from \$6.6 million in Q3 2009 to \$8.9 million in the same period during 2010. The increases reflect higher revenues and production during the first nine months of 2010. Royalties in Q3 2010 were consistent with those of Q2 as the slight decrease in production was offset by a slight increase in commodity prices. Generally, royalty rates in western Canada are sensitive to prevailing commodity prices. As a result, royalties, as a percentage of revenues, were higher in the nine months ended 2010 compared to 2009, primarily due to higher crude oil prices.

Production Costs

\$000s, except where noted	2010		2009	Nine months ended September 30	
	Q3	Q2	Q3	2010	2009
Production costs	8,297	9,306	6,172	28,154	22,210
Per boe (\$)	13.57	14.31	13.32	15.10	15.53

Production expenses, on an absolute basis, have increased for the three and nine months ended September 30, 2010 compared to the prior year period primarily due to increased production volumes. However, on a boe basis costs have decreased slightly from Q2. 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 significantly increased 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.

Transportation Costs

\$000s, except where noted	2010		2009	Nine months ended September 30	
	Q3	Q2	Q3	2010	2009
Transportation costs	867	654	731	2,044	2,721
Per boe (\$)	1.42	1.00	1.58	1.10	1.90

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

	2010		2009	Nine months ended September 30	
	Q3	Q2	Q3	2010	2009
Revenues	\$54.66	\$52.58	\$51.94	\$55.83	\$43.34
Royalties	(14.61)	(13.60)	(14.25)	(14.56)	(10.16)
Transportation costs	(1.42)	(1.00)	(1.58)	(1.10)	(1.90)
Production costs	(13.57)	(14.31)	(13.32)	(15.10)	(15.53)
Netback per boe	\$25.06	\$23.67	\$22.79	\$25.07	\$15.75

The Q3 2010 netback of \$25.06 per boe is a 10% increase from the \$22.79 per boe reported in Q3 2009, as well as the Q2 2010 netback of \$23.67 per boe. The nine month 2010 netback of \$25.07 is considerably higher than the 2009 netback of \$15.75. The increase in netbacks is primarily attributable to the overall recovery in crude oil prices in 2010.

General and Administrative Expenses (G&A)

	2010			2009	
	Q3	Q2	Q3	Nine months ended September 30	
\$000s, except where noted				2010	2009
Gross G&A expense	1,816	1,846	1,931	5,825	7,659
Operator recoveries	(400)	(345)	(320)	(1,149)	(1,006)
	1,416	1,501	1,611	4,676	6,653
Per boe (\$)	2.32	2.30	3.48	2.51	4.65

The Company has fully implemented its cost reduction initiatives which resulted in general and administrative costs decreasing to \$4.7 million for the nine months ended September 30, 2010, \$2 million less than the comparable period last year. Cost savings are primarily in areas such as outside consulting fees, travel costs and office expenses, as well as reduced staff levels from the prior year. Net general and administrative costs are expected to be about \$7 million for 2010. As production volumes are expected to increase in 2011, general and administrative costs on a boe basis should continue to decline.

Stock-Based Compensation

	2010			2009	
	Q3	Q2	Q3	Nine months ended September 30	
\$000s, except where noted				2010	2009
Stock-based compensation	944	864	105	2,745	633
Per boe (\$)	1.54	1.33	0.23	1.47	0.44

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. In the third quarter 2010, the Company issued 75,000 options at an average exercise price of \$3.06 per share. In addition, 55,167 options were exercised and 72,000 were forfeited.

Depletion, Depreciation and Accretion (DD&A)

	2010			2009	
	Q3	Q2	Q3	Nine months ended September 30	
\$000s, except where noted				2010	2009
Depletion, depreciation and accretion	22,301	23,635	20,179	68,282	61,911
Per boe (\$)	36.47	36.26	43.55	36.61	43.30

DD&A expense increased 11% to \$22.3 million or \$36.47 per boe for the third quarter 2010 compared to \$20.2 million or \$43.55 per boe for the same quarter in 2009. The lower depletion rate per boe in 2010 is a result of an increase in proved reserves as detailed in the Company's 2009 reserve report.

Interest Expense

	2010		2009	Nine months ended September 30	
	Q3	Q2	Q3	2010	2009
\$000s, except where noted					
Interest income	(246)	(121)	(50)	(430)	(226)
Interest expense	47	10	155	68	318
Net interest expense (income)	(199)	(111)	105	(362)	92
Per boe (\$)	(0.32)	(0.17)	0.33	(0.19)	0.22

Interest expense consists mainly of standby fees on the Company's undrawn credit facility. Any interest earned on excess cash held by the Company is netted against interest expense. Net interest income for the three and nine months ended September 30, 2010 has increased as a result of a higher cash balance held by the Company in 2010.

Other Income

	2010		2009	Nine months ended September 30	
	Q3	Q2	Q3	2010	2009
\$000s, except where noted					
Other income	291	-	-	1,443	-

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 a third party that did not have sufficient production to utilize the credits. The Company has entered into agreements to acquire additional third party drilling credits. BlackPearl will generate an additional \$1.2 million in revenues if the Company is able to fully utilize these credits by March 31, 2011.

Income Taxes

	2010		2009	Nine months ended September 30	
	Q3	Q2	Q3	2010	2009
\$000s, except where noted					
Current income and other taxes	23	53	423	138	953
Future income tax (recovery)	-	-	(376)	-	(5,634)
	23	53	47	138	(4,681)

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 2010 as the Company has sufficient resource pools to shelter expected income.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2010, BlackPearl had a working capital surplus of \$92.0 million compared to a surplus of \$58.0 million at December 31, 2009. The increase is a result of common share issuances totaling \$29.1 million, the disposition of non-core properties for net proceeds of \$19.7 million and operating cash flows of \$43.1 million, which was partially offset by \$57.8 million in capital expenditures.

In addition to its working capital position, BlackPearl also has an undrawn \$25 million credit facility. The amount available under the credit facility is based on the value of oil and gas reserves. The credit facility was recently renewed on substantially the same terms as 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 6.0:1 at September 30, 2010 and was in compliance with these covenants throughout the first nine months of 2010.

The Company expects capital spending during the fourth quarter of 2010 to be approximately \$45 million. This will be financed from working capital. The Company does not expect to utilize its credit facility to fund this program. The Company can adjust its capital program if required to maintain its financial flexibility.

CAPITAL EXPENDITURES

BlackPearl's capital program is focused on heavy oil opportunities. During the nine months ended September 30, 2010, capital spending was significantly higher than 2009. The increase was primarily a result of acquiring the remaining 20% of the Blackrod SAGD project for \$21 million and drilling 17 heavy oil wells at Onion Lake during the first nine months. During Q3 2010, the Company's capital program totalled \$19.9 million, an increase from the \$6.0 million spent in the third quarter 2009. During the third quarter of 2010 the Company completed the sale of certain oil and gas properties for proceeds of \$0.4 million. Total dispositions of non-core assets totaled \$19.7 million during the first nine months of 2010. The assets sold were mainly natural gas properties in southern Alberta and heavy oil properties in Saskatchewan.

\$000s	2010		2009	Nine months ended September 30	
	Q3	Q2	Q3	2010	2009
Land	1,858	320	815	2,455	1,388
Seismic	176	80	109	306	109
Drilling and completion	13,435	2,634	4,194	22,692	5,711
Equipment	4,447	2,474	1,122	11,108	3,098
Other	10	179	-	235	-
Total	19,926	5,687	6,240	36,796	10,306
Property acquisitions	-	-	-	21,000	13
Total capital expenditures	19,926	5,687	6,240	57,796	10,319
Property dispositions	(416)	(13,849)	(250)	(19,654)	(250)
Net capital expenditures	19,510	(8,162)	5,990	38,142	10,069

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The Company has a number of financial obligations in the ordinary course of business. The following table summarizes the outstanding contractual obligations and commitments of the Company as at September 30, 2010:

\$000s	2010	2011	2012	2013	2014	Thereafter
Long-term debt	-	-	-	-	-	-
Operating leases ⁽¹⁾	273	1,166	1,234	1,234	1,626	2,946
Drilling rig commitment ⁽²⁾	-	276	1,211	319	-	-
	273	1,442	2,445	1,553	1,626	2,946

- (1) 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 \$17 million (including an estimate for operating costs) over the next seven years.
- (2) Relates to a commitment to utilize a drilling rig from a specific company for a minimum number of days per year.

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

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

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

	Classification	September 30, 2010		December 31, 2009	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	Held-for-trading (i)	\$102,061	\$102,061	\$56,352	\$56,352
Accounts receivable	Loans and receivables (i)	10,107	10,107	11,977	11,977
Investment in MAV Notes	Held-for-trading (ii)	1,284	1,284	1,284	1,284
Accounts payable and accrued liabilities	Other financial liabilities (iii)	(23,615)	(23,615)	(16,318)	(16,318)

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

- (i) The fair value of cash and cash equivalents and accounts receivable approximates their carrying amounts due to the short-term nature of the instruments.
- (ii) Effective December 31, 2009, the Company adopted the amendments to Section 3862 "Financial Instruments – Disclosures". These amendments require the Company to present information about financial instruments measured at fair value 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 level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. At September 30, 2010, the only instrument held by the Company that is subject to valuation through the hierarchy is the Company's investment in MAV notes, which have been assessed as being level 3. 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.

- (iii) The fair value of accounts payable and accrued liabilities approximates their carrying amounts due to the short-term nature of the instruments.

The risks associated with these financial instruments include commodity price risk, foreign currency exchange risk, credit risk, interest rate risk and liquidity risk which are more fully discussed in note 9 of the Interim Financial Statements.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

There were no related party transactions during the first nine months of 2010.

OUTSTANDING SHARE DATA

As at November 10, 2010, the Company had 272,935,386 common shares outstanding, 10,000,320 vested warrants outstanding and 12,868,499 stock options outstanding under its stock-based compensation.

PROPOSED TRANSACTIONS

As of the date of this MD&A, 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 Company's significant accounting policies and critical estimates is contained in the MD&A and audited consolidated financial

statements for the year ended December 31, 2009. There have been no significant changes in critical accounting estimates since December 31, 2009.

RISKS AND UNCERTAINTIES

Please refer to the Company's 2009 MD&A and the 2009 Annual Information Form for a discussion of the risks and uncertainties associated with the Company's activities. There have been no significant changes in these risks and uncertainties during the first nine months of 2010.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

The Company continues to remain 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. We have also drafted preliminary results under IFRS for each of the first three quarters of 2010. As a result of undertaking these activities, the following areas have been identified to be significantly affected by the changeover to IFRS:

Property, Plant & Equipment

- 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.
- 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 reserves (2P) as the basis to calculate depletion. As a result, the Company anticipates a significant decrease in depletion from what is currently being recorded under Canadian GAAP.
- 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 have five cash generating units. Impairment losses can be reversed if the recoverable amount increases in the future. The Company has not yet determined whether or not it will incur 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 proved + probable reserves.

- IFRS 1 – First Time Adoption of IFRS allows Canadian oil and 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 proved + probable reserves.

Asset Retirement Obligations

BlackPearl will discount its asset retirement obligation using the current risk-free rate, as opposed to the credit-adjusted risk-free rate, which was required under Canadian GAAP. This change will result in a significant increase in the asset retirement obligation shown on the Company's Balance Sheet. 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. In subsequent periods, the impact of changes in assumptions on the ARO liability will be adjusted to PP&E.

Income Taxes

Both 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 impacted 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.

During the third 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.

The draft comparative opening balance sheet at January 1, 2010 is subject to further review by management and the Board of Directors and is subject to change. At this time, specific impacts on the Company's financial statements cannot be quantified.

CONTROL CERTIFICATION

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Management reported on its disclosure controls and procedures and the design of its internal controls over financial reporting in the year end 2009 MD&A. There has been no material change to the Company's disclosure controls or procedures or to the design of internal controls over financial reporting since that time.

OUTLOOK

The Company previously provided guidance on its 2010 results in its Q2 report to shareholders.

The principal changes in this current update from the Q2 guidance to shareholders include:

- Lower capital expenditures as a result of reduced drilling activity. Due to restricted surface access at Onion Lake, the Company was not able to start its fall drilling program as soon as it intended. We have commenced drilling but we expect to only get 30-35 of our planned 70 wells drilled at Onion Lake. In order to “catch-up”, we will drill the remaining wells from our fall drilling program during the first quarter of 2011.
- Our Q2 guidance for production was to exit 2010 at between 8,000-9,000 boe per day. Due to the reduced drilling activity discussed above, we believe the lower end of the range, or 8,000 boe/day, is most likely.

The reduced activity only delays our original drilling plans by about 3 months and these delays are not related to well or operational performance.

2010 Guidance	Original 2010 Guidance	Q1 2010 Update	Q2 2010 Update	Q3 2010 Update
Production (boe/d)				
Annual average*	6,400	6,500	6,800 – 7,300	6,800 – 7,100
Exit*	7,000 - 7,500	8,000 - 8,500	8,000 – 9,000	8,000
Cashflow from operations (\$mm)	40 - 50	50 - 55	53 – 57	53 – 57
Capital budget (\$mm)	86	125	120 – 130	100 – 110
Year-end debt	-	-	-	-
Year-end working capital (\$mm)	26	30 - 35	30 – 35	55 – 60
Pricing Assumptions (Averages for the year)				
Crude oil - WTI	US\$72	US\$79	US\$77	US\$78
Light/heavy differential	US\$10	US\$10	US\$12	US\$14
Cdn/US\$ exchange	0.95	0.99	0.99	0.98

*net of dispositions

BlackPearl has also commissioned Sproule and Associates, independent reservoir engineers, to undertake a contingent resource assessment of the Company’s three core properties. Specifically, Sproule will evaluate the Company’s Blackrod, Onion Lake and Mooney properties. The intent of the resource study is to help assess the potential of the Company’s major oil assets. A summary of the results of the resource study will be released on November 10, 2010.

BlackPearl’s Board of Directors has also recently approved the Company’s corporate budget for 2011. A summary of some of the key items in the budget are as follows:

2011 Guidance

Production (boe/d)	
Annual average	9,200 – 9,700
Exit	11,000 – 13,000
Cashflow from operations (\$mm)	65 – 70
Capital budget (\$mm)	130 – 150
Year-end debt	-
Year-end working capital (\$mm)	0 – 5
Pricing Assumptions (Averages for the year)	
Crude oil - WTI	US\$80
Light/heavy differential	US\$16
Cdn/US\$ exchange	1.00

The major components of BlackPearl's 2011 capital expenditure program include:

- Drilling between 100-120 wells at Onion Lake
- Complete construction and commission the SAGD pilot at Blackrod
- Complete construction and commission the polymer flood at Mooney.

We expect to exit 2011 at a production level of between 11,000 and 13,000 barrels of oil 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.

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;
- 2010 and 2011 corporate guidance;

- Contingent resource study;

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 in fact 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 the remainder of 2010 and 2011 are located in the "Outlook" section of this MD&A. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

By their very nature, forward-looking statements involve inherent risks and uncertainties (both general and specific) and risks that forward-looking statements will not be achieved. These factors include, but are not limited to, risks associated with oil and gas exploration, financial risks, substantial capital requirements, bank financing, government regulation, environmental matters, prices, markets and marketing, dependence on key personnel, availability of drilling equipment and access, uninsurable risks, management of growth, expiration of licenses and leases, reserves estimates, seasonality, competition, conflicts of interest, issuance of debt, title to properties, variations in exchange rates and hedging and uncertainty in global financial markets. Further information regarding these risk factors may be found under the heading "Risk Factors" in the Annual Information Form. 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 may 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.

BLACKPEARL RESOURCES INC.

Consolidated Balance Sheets		
(Cdn\$ in thousands) (unaudited)	September 30 2010	December 31 2009
Assets		
Current assets		
Cash	\$ 102,061	\$ 56,352
Accounts receivable	10,107	11,977
Income and other taxes receivable	2,190	4,817
Prepaid expenses and deposits	1,263	1,167
	<u>115,621</u>	<u>74,313</u>
Investments (note 3)	1,284	1,284
Petroleum and natural gas properties (note 4)	357,392	392,712
	<u>\$ 474,297</u>	<u>\$ 468,309</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 23,615	\$ 16,318
Asset retirement obligation (note 6)	19,660	25,435
	<u>43,275</u>	<u>41,753</u>
Shareholders' equity		
Share capital (note 7)	809,151	779,809
Contributed surplus (note 7)	17,939	15,444
Deficit	(396,068)	(368,697)
	<u>431,022</u>	<u>426,556</u>
	<u>\$ 474,297</u>	<u>\$ 468,309</u>
Commitments and contingencies (note 8)		
<i>See accompanying notes to consolidated financial statements</i>		

BLACKPEARL RESOURCES INC.

Consolidated Statement of Operations, Comprehensive Loss and Deficit				
(unaudited)				
(Cdn\$ in thousands, except for per share amounts)				
	Three months ended		Nine months ended	
	September 30		September 30	
	2010	2009	2010	2009
Revenue				
Oil and gas revenue	\$ 33,421	\$ 24,065	\$ 104,124	\$ 61,964
Royalties	(8,931)	(6,603)	(27,149)	(14,531)
	<u>24,490</u>	<u>17,462</u>	<u>76,975</u>	<u>47,433</u>
Other income	291	-	1,443	-
	<u>24,781</u>	<u>17,462</u>	<u>78,418</u>	<u>47,433</u>
Expenses				
Production	8,297	6,172	28,154	22,210
Transportation	867	731	2,044	2,721
General and administrative	1,416	1,611	4,676	6,653
Depletion, depreciation and accretion	22,301	20,179	68,282	61,911
Stock-based compensation	944	105	2,745	633
Interest (income)	(199)	105	(362)	92
Foreign currency exchange loss	174	525	112	756
Write-down of investments	-	-	-	556
	<u>33,800</u>	<u>29,428</u>	<u>105,651</u>	<u>95,532</u>
Loss before income taxes	<u>(9,019)</u>	<u>(11,966)</u>	<u>(27,233)</u>	<u>(48,099)</u>
Income taxes				
Current income tax	23	423	138	953
Future income tax (recovery)	-	(376)	-	(5,634)
	<u>23</u>	<u>47</u>	<u>138</u>	<u>(4,681)</u>
Comprehensive loss for the period	(9,042)	(12,013)	(27,371)	(43,418)
Deficit, beginning of period	(387,026)	(352,787)	(368,697)	(321,382)
Deficit, end of period	\$ (396,068)	\$ (364,800)	\$ (396,068)	\$ (364,800)
Basic and diluted loss per share	\$ (0.03)	\$ (0.05)	\$ (0.10)	\$ (0.18)
Weighted average number of common shares used in computing loss per share:				
basic and diluted ⁽¹⁾	272,858,853	261,684,050	267,694,050	236,935,695

See accompanying notes to consolidated financial statements

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

BLACKPEARL RESOURCES INC.

Consolidated Statements of Cash Flows

(unaudited)

(Cdn\$ in thousands)

	Three months ended		Nine months ended	
	September 30		September 30	
	2010	2009	2010	2009
Operating activities				
Net loss	\$ (9,042)	\$ (12,013)	\$ (27,371)	\$ (43,418)
Items not involving cash:				
Depletion, depreciation and accretion	22,301	20,179	68,282	61,911
Stock-based compensation	944	105	2,745	633
Future income tax (recovery)	-	(376)	-	(5,634)
Foreign exchange loss	174	525	112	756
Writedown of investments	-	-	-	556
Abandonment costs	(159)	(199)	(597)	(476)
	<u>14,218</u>	<u>8,221</u>	<u>43,171</u>	<u>14,328</u>
Changes in non-cash working capital balances related to operations	1,349	4,474	(4,850)	(32,858)
	<u>15,567</u>	<u>12,695</u>	<u>38,321</u>	<u>(18,530)</u>
Financing activities				
Proceeds on issue of common shares, net of costs	34	(23)	29,091	43,629
	<u>34</u>	<u>(23)</u>	<u>29,091</u>	<u>43,629</u>
Investing activities				
Additions to petroleum and natural gas properties	(19,926)	(6,240)	(57,796)	(10,319)
Proceeds from sale of petroleum and natural gas properties	416	250	19,654	250
Proceeds from sale of investment	-	4	-	4
Cash received on acquisition of BlackCore Resources Inc.	-	-	-	5,589
Changes in non-cash working capital from investing	12,075	(2,454)	16,439	15,113
	<u>(7,435)</u>	<u>(8,440)</u>	<u>(21,703)</u>	<u>10,637</u>
Net increase in cash	8,166	4,232	45,709	35,736
Cash, beginning of period	93,895	55,563	56,352	24,059
Cash, end of period	\$ 102,061	\$ 59,795	\$ 102,061	\$ 59,795
Supplementary Information				
Cash interest paid	\$ -	\$ 489	\$ 28	\$ 513
Cash taxes paid	\$ 23	\$ 351	\$ 122	\$ 715

See accompanying notes to consolidated financial statements

BLACKPEARL RESOURCES INC.
Notes to the Consolidated Financial Statements
(tabular amounts in thousands of Cdn\$, except as noted)
(unaudited)

1. NATURE OF OPERATIONS

BlackPearl Resources Inc. (collectively with its subsidiaries, the “Company” or “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”. The Company is engaged in the business of oil and gas exploration, development and production in North America.

These unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”), and follow the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended December 31, 2009. Certain disclosures, which are normally required to be included in the notes to the annual consolidated financial statements have been condensed or omitted. The interim consolidated financial statements should be read in conjunction with the audited annual financial statements for the year ended December 31, 2009.

2. FUTURE ACCOUNTING POLICIES

Beginning with the three month period ending March 31, 2011, the Company will be required to report its financial results in accordance with International Financial Reporting Standards (“IFRS”). BlackPearl has developed a changeover plan to complete the transition to IFRS. This plan includes the preparation of the required comparative information for 2010. The Company is continuing to assess the potential impact of adopting IFRS on its Interim Consolidated Financial Statements.

3. INVESTMENTS

	September 30, 2010	December 31, 2009
MAV Notes (formerly Asset-backed commercial paper)	\$1,284	\$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 September 30, 2010, the Company estimated the fair value of the notes at \$1,284,000 (December 31, 2009 - \$1,284,000).

4. PETROLEUM AND NATURAL GAS PROPERTIES

September 30, 2010			
	Cost	Accumulated depreciation and depletion	Net book value
Petroleum and natural gas properties	\$682,846	(\$327,318)	\$355,528
Office equipment	3,151	(1,287)	1,864
	\$685,997	(\$328,605)	\$357,392

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

The depletion and ceiling test calculations have excluded the cost of unproved properties of \$63.9 million (December 31, 2009 – \$33.6 million) and included future development costs of \$45.3 million (December 31, 2009 – \$63.6 million).

The Company performed ceiling test calculations at September 30, 2010 to assess whether the carrying value of the petroleum and natural gas properties were recoverable. A write-down in the amount of \$NIL (December 31, 2009 - \$2.9 million) of the US assets has been included in depletion, depreciation and accretion in the Company's nine months ended September 30, 2010 financial statements.

During the first nine months of 2010, the Company sold a number of non-core properties for net proceeds of \$19.7 million. The proceeds were credited to the full cost pool.

5. 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 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 September 30, 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 September 30, 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.

6. 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 total undiscounted amount of the estimated cash flows required to settle the asset retirement obligation is approximately \$29.2 million which will be incurred over the next 27 years with the majority of costs incurred between 2011 and 2024.

The fair value of the asset retirement obligation was calculated using a credit adjusted risk-free rate of 6.5 percent and an inflation factor of 2 percent. Settlement of the obligation is expected to be funded from general corporate funds at the time of retirement.

Changes to the asset retirement obligation were as follows:

	Nine months ended September 30, 2010	Year ended December 31, 2009
Asset retirement obligation at beginning of period	\$ 25,435	\$ 20,064
Liabilities acquired through acquisitions, net of dispositions	(6,906)	2,939
Liabilities incurred during the period	675	1,516
Actual remediation costs	(597)	(604)
Accretion	1,053	1,520
Asset retirement obligation at end of period	\$ 19,660	\$ 25,435

7. 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, 2009	261,960,717	\$779,809
Shares issued from treasury	10,350,000	30,015
Shares issued upon exercise of stock options	589,836	760
Share issuance costs	-	(1,433)
Balance as at September 30, 2010	272,900,553	\$809,151

(c) Warrants Outstanding:

	Number of warrants	Weighted average exercise price per share
Outstanding at December 31, 2009 and September 30, 2010	10,000,320	\$ 0.60

(i) Each outstanding warrant allows the holder to acquire, on or before January 13, 2013, one BlackPearl share for a price of \$0.60.

(d) Stock Options Outstanding

The Company has a stock option plan (the “Plan”) available to directors, officers, employees and certain consultants of the Company and its subsidiaries. Under the Plan, the number of common shares to be reserved and authorized for issuance pursuant to options granted under the Plan cannot exceed ten percent of the total number of issued and outstanding shares in the Company. The term and the vesting period of any options granted are determined at the discretion of the board of directors. The maximum term for options granted is ten years. The exercise price of the option cannot be less than the five-day volume weighted average trading price of the common shares immediately preceding the day the option is granted.

The following summarizes stock options outstanding as at September 30, 2010:

	Number of Options	Weighted Average Exercise Price (\$)
Outstanding at December 31, 2009	13,454,333	1.60
Granted	405,000	2.72
Exercised	(589,836)	0.87
Forfeited	(366,165)	2.95
Outstanding at September 30, 2010	12,903,332	1.63

Options outstanding and exercisable as at September 30, 2010 are summarized below:

Options Outstanding				Options Exercisable		
Range of Exercise Prices (\$)	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	6,796,999	0.72	3.29	2,963,174	0.73	3.33
1.51 – 3.00	5,130,333	2.26	4.75	807,999	2.30	2.40
3.01 – 4.50	219,000	3.26	3.06	96,000	3.38	2.09
4.51 – 5.15	757,000	5.10	1.28	757,000	5.10	1.28
	12,903,332	1.63	3.35	4,624,173	1.76	2.81

(e) Stock Based Compensation

Stock-based compensation of \$2,745,000, net of recoveries of \$67,000, has been recorded in the Consolidated Statements of Operations and Deficit for the nine-month period ended September 30, 2010 (2009 – expense of \$633,000). The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option pricing model. The weighted average fair value of options granted during 2010 and the assumptions used in their determination are noted below:

	September 30, 2010
Weighted average fair value of stock options granted (per option)	\$1.67
Expected life of stock options (years)	3.00
Volatility (weighted average)	84%
Risk-free rate of return (weighted average)	1.54%
Expected dividend yield	0%

(f) Contributed Surplus Continuity

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

	September 30, 2010	December 31, 2009
Balance, beginning of the period	\$ 15,444	\$ 11,895
Stock-based compensation	2,812	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	(250)	(112)
Balance, end of period	\$ 17,939	\$ 15,444

8. COMMITMENTS AND CONTINGENCIES

- (a) The Company has six years remaining on an operating lease for office space as at September 30, 2010. The payments (net of sublease proceeds) due under this lease agreement (including an estimate for operating costs) are as follows:

	2010	2011	2012	2013	2014	Subsequent to 2014
Office rent	\$273	\$1,166	\$1,234	\$1,234	\$1,626	\$2,946

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 \$17 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. As at September 30, 2010, the payments that would be due under the agreement (assuming no drilling days used) are as follows:

	2010	2011	2012	2013	2014	Subsequent to 2014
Drilling Contract	\$NIL	\$276	\$1,211	\$319	-	NIL

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed to financial and market risk in a range of financial instruments including cash, accounts receivable, certain investments and accounts payable. The Company manages its risk through its policies and processes, but the Company generally has not used derivative financial instruments to manage these risks.

(a) Fair value of financial instruments

The following tables set out the Company's classification, carrying amount and fair values of its financial assets and liabilities as at September 30, 2010 and December 31, 2009:

	Classification	September 30, 2010		December 31, 2009	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	Held-for-trading (i)	\$102,061	\$102,061	\$56,352	\$56,352
Accounts receivable	Loans and receivables (i)	10,107	10,107	11,977	11,977
Investment in MAV Notes	Held-for-trading (ii)	1,284	1,284	1,284	1,284
Accounts payable and accrued liabilities	Other financial liabilities (iii)	(23,615)	(23,615)	(16,318)	(16,318)

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

- (i) The fair value of cash and cash equivalents and accounts receivable approximates their carrying amounts due to the short-term nature of the instruments.
- (ii) Effective December 31, 2009, the Company adopted the amendments to Section 3862 "Financial Instruments – Disclosures". These amendments require the Company to present information about financial instruments measured at fair value 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 level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. At September 30, 2010, the only instrument held by the Company that is subject to valuation through the hierarchy is the Company's investment in MAV notes, which have been assessed as being level 3. 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.
- (iii) The fair value of accounts payable and accrued liabilities approximates their carrying amounts due to the short-term nature of the instruments.

(b) Commodity price risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in the price of oil and natural gas. Commodity prices are impacted by world economic events that affect supply and demand, which are generally beyond the Company's control. Changes in crude oil and natural gas prices may significantly affect the Company's results of operations, costs generated from operating activities, capital spending and the Company's ability to meet its obligations. The majority of the Company's production is sold under short-term contracts, consequently BlackPearl is at risk to near term price movements. A \$1.00 change in oil prices at the wellhead would have the effect of changing net earnings for the nine-month period 2010 by approximately \$1,378,000. 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. As at September 30, 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 US dollars; (ii) certain expenditure commitments, deposits, accounts receivable, and accounts payable which are denominated in US dollars; and (iii) its operations in the United States. The Company manages this risk by monitoring foreign exchange rates and evaluating their effects on using Canadian or US vendors as well as timing of transactions. As at September 30, 2010, the Company has not entered into any fixed rate contracts. As at September 30, 2010, the Company held US\$2,853,000 in cash and short-term deposits and other net working capital items of US\$2,369,000.

As at September 30, 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 \$310,000 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 production. The Company attempts to mitigate this risk by assessing the financial strength of its counterpart and entering into relationships with larger purchasers with established credit history. During 2010, the Company has not experienced any collection issues with its marketers. At September 30, 2010, over 91% of total accounts receivables are for revenue accruals. Receivables from joint venture partners arise when the Company conducts joint operations on behalf of its partners and invoices them for their share of costs. To mitigate the risk of non-payment from joint venture partners the Company can require partners to pay certain costs in advance as well as the Company has the ability to withhold production from partners in the event of non-payment. As at September 30, 2010, accounts receivable includes an allowance for doubtful accounts of \$815,000 from joint interest partners. These amounts primarily relate to joint venture receivables inherited from other companies that were acquired by BlackPearl over the last three years.

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

The Company is not the operator of certain oil and gas properties in which it has an ownership interest. The Company is dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. In addition, the Corporation's activities may be impacted by the ability, expertise, judgment and financial capability of the operators.

As at September 30, 2010, the Company held \$102.1 million in cash at various major financial institutions throughout Canada and the USA, as well as \$1.3 million in investments. At September 30, 2010, three Canadian financial institutions held approximately 99% 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.

(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 September 30, 2010, the Company had an undrawn \$25 million credit facility, and a positive working capital position of \$92.0 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	\$23,615	-	-

(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. As a result of the economic global downturn access to capital markets may be limited. In addition, the Company's credit facilities are based on its petroleum and natural gas reserves whose values are impacted by, among other things, global commodity prices. The Company will adjust its capital spending if access to external capital sources is unavailable. In order to manage the balance in the Company's capital structure, some of the financial tests that BlackPearl considers are debt-to-equity ratios, debt-to-cash-flow from operating activities and interest coverage tests. To facilitate the management and control of these ratios, the Company prepares annual operating and capital budgets. These budgets are generally updated quarterly, or more frequently if circumstances change. In order to improve its financial flexibility, the Company raised \$30 million of additional equity during the first nine months of 2010 (See note 7(b)). These funds will be used to expand 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 bank credit facility compared to current liabilities. The Company had a working capital ratio of 6.0:1 at September 30, 2010 and is in compliance with these covenants.

10. COMPARATIVE FIGURES

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

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Director
Vancouver, British Columbia

John L. Festival
Director, President and Chief Executive Officer

Keith C. Hill
Chairman, Director
West Vancouver, British Columbia

Victor Luhowy
Director
Priddis, Alberta

OFFICERS

John Festival
President & Chief Executive Officer
Calgary, Alberta

Don Cook
Chief Financial Officer
Calgary, Alberta

Chris Hogue
Vice President, Operations
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First North (OMX Nordic Exchange)
Trading Symbol: PXXS

COMPANY REGISTRATION NUMBER
409596-1

CERTIFIED ADVISOR ON FIRST NORTH
E. Öhman J:or Fondkommission AB.

The report for the period ending
December 31, 2010 will be published
on or before February 28, 2011