

BLACKPEARL RESOURCES INC.

Consolidated Balance Sheets			
(unaudited)			
(Cdn\$ in thousands)	March 31, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets			
Cash and cash equivalents	\$ 143,160	\$ 169,596	\$ 56,352
Accounts receivable	15,661	19,551	11,977
Income and other taxes receivable	2,030	2,083	4,817
Prepaid expenses and deposits	683	883	1,167
	<u>161,534</u>	<u>192,113</u>	<u>74,313</u>
Investments	1,839	1,839	1,284
Exploration and evaluation assets (note 4)	87,624	74,606	30,270
Property, plant and equipment (note 5)	313,178	303,852	362,442
	<u>\$ 564,175</u>	<u>\$ 572,410</u>	<u>\$ 468,309</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	\$ 41,028	\$ 48,081	\$ 16,318
Asset retirement obligation (note 7)	20,111	23,794	32,970
	<u>61,139</u>	<u>71,875</u>	<u>49,288</u>
Shareholders' equity			
Share capital (note 8)	858,647	857,812	779,809
Contributed surplus	20,245	19,041	15,444
Deficit	(375,856)	(376,318)	(376,232)
	<u>503,036</u>	<u>500,535</u>	<u>419,021</u>
	<u>\$ 564,175</u>	<u>\$ 572,410</u>	<u>\$ 468,309</u>

Commitments and contingencies (note 9)

See accompanying notes to consolidated financial statements

BLACKPEARL RESOURCES INC.

Consolidated Statements of Income			
(unaudited)			
(Cdn\$ in thousands, except for per share amounts)		Three months ended March 31	
		2011	2010
Revenue			
Oil and gas sales	\$	34,675	\$ 36,429
Royalties		(9,019)	(9,350)
		<u>25,656</u>	<u>27,079</u>
Expenses			
Production		11,122	10,552
Transportation		457	522
General and administrative		2,667	1,758
Depletion and depreciation		13,001	14,118
Accretion of asset retirement obligation		196	305
Stock-based compensation (note 8)		1,466	937
Interest and bank charges		100	10
Foreign currency exchange loss		137	157
		<u>29,146</u>	<u>28,359</u>
Other income (expenses)			
Interest income		458	63
Other income		-	1,152
Gain on disposition of petroleum and natural gas properties (note 5)		3,436	1,161
		<u>3,894</u>	<u>2,376</u>
Income before income taxes		<u>404</u>	<u>1,096</u>
Income taxes			
Current income tax (recovery)		(58)	62
		<u>(58)</u>	<u>62</u>
Net income for the period	\$	<u>462</u>	\$ <u>1,034</u>
Earnings per common share			
Basic	\$	0.00	\$ 0.00
Diluted	\$	0.00	\$ 0.00

See accompanying notes to consolidated financial statements

BLACKPEARL RESOURCES INC.

Consolidated Statements of Changes in Equity
(unaudited)

(Cdn\$ in thousands)

Three months ended March 31, 2011

	<u>Share</u> <u>Capital</u>	<u>Contributed</u> <u>Surplus</u>	<u>Deficit</u>	<u>Total</u> <u>Equity</u>
Balance - January 1, 2011	\$ 857,812	\$ 19,041	\$ (376,318)	\$ 500,535
Net income for the period	-	-	462	462
Stock-based compensation	-	1,466	-	1,466
Shares issued on exercise of stock options	573	-	-	573
Transfer to share capital on exercise of stock options	262	(262)	-	-
Balance - March 31, 2011	<u>\$ 858,647</u>	<u>\$ 20,245</u>	<u>\$ (375,856)</u>	<u>\$ 503,036</u>

Three months ended March 31, 2010

	<u>Share</u> <u>Capital</u>	<u>Contributed</u> <u>Surplus</u>	<u>Deficit</u>	<u>Total</u> <u>Equity</u>
Balance - January 1, 2010	\$ 779,809	\$ 15,444	\$ (376,232)	\$ 419,021
Net income for the period	-	-	1,034	1,034
Stock-based compensation	-	937	-	937
Shares issued on exercise of stock options	190	-	-	190
Transfer to share capital on exercise of stock options	94	(94)	-	-
Balance - March 31, 2010	<u>\$ 780,093</u>	<u>\$ 16,287</u>	<u>\$ (375,198)</u>	<u>\$ 421,182</u>

See accompanying notes to consolidated financial statements

BLACKPEARL RESOURCES INC.

Consolidated Statements of Cash Flows		Three months ended March 31	
(unaudited)		2011	2010
(Cdn\$ in thousands)			
Operating activities			
Net income for the period	\$	462	\$ 1,034
Items not involving cash:			
Depletion and depreciation		13,001	14,118
Accretion of asset retirement obligation		196	305
Stock-based compensation		1,466	937
Foreign exchange loss		231	115
Gain on disposal of petroleum and natural gas properties		(3,436)	(1,161)
Abandonment costs incurred		(166)	(361)
		<u>11,754</u>	<u>14,987</u>
Changes in non-cash working capital		(1,758)	5,405
		<u>9,996</u>	<u>20,392</u>
Financing activities			
Proceeds on issue of common shares, net of costs		573	190
		<u>573</u>	<u>190</u>
Investing activities			
Capital expenditures		(39,411)	(34,181)
Proceeds from sale of petroleum and natural gas properties		2,500	5,389
		<u>(36,911)</u>	<u>(28,792)</u>
Effect of exchange rate changes on cash and cash equivalents		(94)	42
		<u>(26,436)</u>	<u>(8,168)</u>
Decrease in cash and cash equivalents		(26,436)	(8,168)
Cash and cash equivalents, beginning of period		169,596	56,352
Cash and cash equivalents, end of period	\$	<u>143,160</u>	\$ <u>48,184</u>

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. GENERAL INFORMATION

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. The Company 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”. BlackPearl is incorporated and located in Canada. The address of its registered office is 700, 444 – 7th Avenue SW, Calgary, Alberta, T2P 0X8.

The policies applied in these condensed interim Consolidated Financial Statements are based on IFRS issued and outstanding as of May 10, 2011, the date they were approved and authorized for issuance by the Board of Directors (“the Board”). Any subsequent changes to IFRS that are given effect in the Company’s annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the Company’s old Canadian GAAP annual financial statements for the year ended December 31, 2010. Note 12 discloses IFRS information for the year ended December 31, 2010 not provided in the 2010 annual financial statements.

2. BASIS OF PRESENTATION AND ADOPTION OF IFRS

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these condensed consolidated financial statements. In these financial statements, the term “ old Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

These condensed consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 (Interim Financial Reporting) and IFRS 1 (First-time Adoption of IFRS). Subject to certain transition elections disclosed in note 12, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated interim financial statements are described below.

Basis of measurement

The consolidated balance sheet has been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value.

Consolidation

The balance sheet of the Company consolidates the accounts of BlackPearl and its subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are those entities (including special purpose entities) which BlackPearl controls by having the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is obtained by BlackPearl and are de-consolidated from the date that control ceases.

Joint operations

A 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.

Significant Accounting Estimates

The preparation of the interim 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 interim consolidated financial statements. These estimates are subject to measurement uncertainty. Actual results could differ from and affect the results reported in these interim consolidated financial statements.

Fair values of oil and gas properties, depletion and depreciation and amounts used in impairment calculations are based on estimates of crude oil and natural gas reserves, oil and gas prices and future costs required to develop those 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.

Petroleum and natural gas properties, exploration and evaluation assets and other corporate assets are aggregated into cash-generating-units (CGUs) based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company's CGUs is subject to management's judgment.

The decision to transfer exploration and evaluation assets to property, plant and equipment is based on management's determination of an area's technical feasibility and commercial viability based on proved and probable reserves.

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, the risk-free rate 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 estimated fair value of the Company's financial assets and liabilities, are by their nature, subject to measurement uncertainty.

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

Contingencies are resolved only when one or more events transpire. As a result, the assessment of contingencies inherently involves estimating the outcome of future events.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

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: fair value through profit or loss, held-to-maturity, loans and receivables, available-for-sale or financial liabilities at amortized cost. Instruments are classified as current if they are assumed to be settled within one year, otherwise they are classified as non-current.

i) Financial assets and liabilities at fair value through profit or loss

A financial assets and liabilities at fair value through profit or loss are either 'held-for-trading' or have been 'designated at fair value through profit or loss'. In both cases the financial assets and liabilities are measured at fair value with changes in fair value recognized in net income. The Company's investment in MAV notes are classified as held-for-trading.

ii) Held-to-maturity

Held-to-maturity investments are measured at amortized cost at the settlement date using the effective interest method of amortization.

iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, these assets are measured at amortized cost at the settlement date using the effective interest method of amortization. Cash and cash equivalents, accounts receivable and income tax receivable are classified as loans and receivables.

iv) Available-for-sale

Available-for-sale financial assets are instruments that are classified in this category or not classified in any other category. They are measured at fair value at the settlement date, with changes in the fair value recognized in other comprehensive income.

v) Financial liabilities at amortized cost

These financial liabilities are measured at amortized cost at the settlement date using the effective interest method of amortization. Accounts payable and accrued liabilities are classified as financial liabilities at amortized cost.

The Company has no financial instruments that give rise to other comprehensive income. 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. When assessing impairment, the carrying value of financial assets carried at amortized cost is compared to the present value of estimated future cash flows, discounted using the instrument's original effective interest rate.

Exploration and evaluation costs

All costs directly associated with petroleum and natural gas reserves are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. These costs include costs to acquire acreage and exploration rights, geological and geophysical costs, asset retirement costs, exploration and evaluation drilling, sampling and appraisals. Costs incurred prior to acquiring the legal rights to explore an area are charged directly to net earnings as exploration and evaluation expense.

When an area is determined to be technically feasible and commercially viable, the accumulated costs are transferred to property, plant and equipment. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charge to net earnings as exploration and evaluation expense.

Property, plant and equipment

All costs directly associated with the development of petroleum and natural gas reserves are capitalized on an area by area basis. Development costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include proved property acquisitions, development drilling, completion, gathering and infrastructure, asset retirement costs and transfers of exploration and evaluation assets. Borrowing costs incurred during the construction of these assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use.

Costs accumulated within each area are depleted using the unit-of-production method based on proved and probable reserves using estimated future prices and costs. Costs subject to depletion include estimated future costs to be incurred in developing proved and probable reserves.

For property dispositions, a gain or loss is recognized in net earnings. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value can not be reliably measured. Where the exchange is measured at fair value, a gain or loss is recognized in net earnings.

Corporate assets consist primarily of office equipment and leasehold improvements and are stated at cost less accumulated depreciation.

Impairment of non-financial assets

The carrying value of the Company's non-financial assets is reviewed at each reporting date for indicators that the carrying value of an asset or CGU may not be recoverable. These indicators include, but are not limited to, extended decreases in prices or margins for oil and gas commodities or products, a significant downward revision in estimated volumes or an upward revision in future development costs. If indicators of impairment exist, the recoverable amount of the asset or CGU is estimated. If the carrying value of the asset or CGU exceeds the recoverable amount, the asset or CGU is written down with an impairment recognized in net earnings.

Exploration and evaluation costs and development costs are aggregated into CGUs based on their ability to generate largely independent cash flows. The recoverable amount of an asset or CGU is the greater of its fair value less costs to sell and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction.

Fair value less costs to sell may be determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU.

Reversals of impairments are recognized when there has been a subsequent increase in the recoverable amount. In this event, the carrying amount of the asset or CGU is increased to its revised recoverable amount with an impairment reversal recognized in net earnings. The recoverable amount is limited to the original carrying amount less depletion and depreciation as if no impairment had been recognized for the asset or CGU for prior periods.

Asset retirement obligations

Asset retirement obligations include present obligations where the Company will be required to retire tangible long-lived assets such as producing well sites and facilities. The asset retirement obligation is measured at the present value of the expenditure expected to be incurred using a risk-free discount rate. The associated asset retirement cost is capitalized as part of the cost of the related long-lived asset. Changes in the estimated obligation resulting from revisions to estimated timing, amount of cash flows, or changes in the discount rate are recognized as a change in the asset retirement obligation and the related asset retirement cost.

Increases in asset retirement obligations resulting from the passage of time are recorded as accretion of asset retirement obligation in the consolidated statement of income. Actual expenditures incurred are charged against the accumulated asset retirement obligation as incurred.

Share-based payments

Obligations for issuance of common shares under the Company's stock-based compensation plan are accrued over the vesting period using fair values. Fair values are determined at issuance using the Black-Scholes option-pricing model, taking into account a nominal forfeiture rate, and are recognized as stock-based compensation with a corresponding credit to contributed surplus.

Contingencies

When a contingency is substantiated by confirming events, can be reliably measured and will likely result in an economic outflow, a liability is recognized in the consolidated financial statements as the best estimate required to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the consolidated financial statements.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current. Tax on income in interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.

Revenue

Revenue is recognized when it is probable that the economic benefits will flow to the Company and delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. These criteria are generally met at the time the product is shipped and delivered to the customer and, depending on the delivery conditions, title and risk have passed to the customer and acceptance of the product, when

contractually required, has been obtained. Revenue is measured based on the price specified in the sales contract.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

Earnings per share

Basic earnings per share (“EPS”) is calculated by dividing the net earnings (loss) for the period attributable to equity owners of BlackPearl by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. BlackPearl’s potentially dilutive common shares comprise stock options granted to employees and directors, and warrants.

Accounting standards issued but not yet applied

International Financial Reporting Standard 9, *Financial Instruments* (“IFRS 9”), was issued in November 2009. It addresses classification and measurement of financial assets and financial liabilities and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

4. EXPLORATION & EVALUATION ASSETS

Cost	
At January 1, 2010	\$ 30,270
Expenditures	44,123
Change in asset retirement cost	214
At December 31, 2010	74,606
Expenditures	12,420
Change in asset retirement cost	598
At March 31, 2011	\$ 87,624

The Company’s exploration and evaluation assets consist entirely of costs pertaining to the Blackrod SAGD project in northern Alberta. During the first quarter of 2011 no costs were considered to be impaired, however, the area is not yet determined to be technically feasible or commercially viable.

5. PROPERTY, PLANT AND EQUIPMENT

	Petroleum and natural gas properties	Corporate	Total
Cost			
At January 1, 2010	\$ 620,474	\$ 2,916	\$ 623,390
Capital expenditures	51,454	252	51,706
Change in asset retirement cost	(9,458)	-	(9,458)
Disposals	(88,698)	-	(88,698)
At December 31, 2010	573,772	3,168	576,940
Capital expenditures	25,680	21	25,701
Change in asset retirement cost	(4,311)	-	(4,311)
Disposals	(3,790)	-	(3,790)
At March 31, 2011	\$ 591,351	\$ 3,189	\$ 594,540
Accumulated depletion and depreciation			
At January 1, 2010	\$ 259,903	\$ 1,045	\$ 260,948
Depletion and depreciation	57,092	318	57,410
Disposals	(45,270)	-	(45,270)
At December 31, 2010	271,725	1,363	273,088
Depletion and depreciation	12,908	74	12,982
Disposals	(4,708)	-	(4,708)
At March 31, 2011	\$ 279,925	\$ 1,437	\$ 281,362
Net book value			
January 1, 2010	\$ 360,571	\$ 1,871	\$ 362,442
December 31, 2010	\$ 302,047	\$ 1,805	\$ 303,852
March 31, 2011	\$ 311,426	\$ 1,752	\$ 313,178

During the three months ended March 31, 2011, BlackPearl disposed of a number of petroleum and natural gas properties. The Company received proceeds of \$2.5 million (\$5.4 million – 2010) and recorded a gain on disposition of \$3.4 million (\$1.2 million – 2010) on the March 31, 2011 financial statements.

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 March 31, 2011, 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 March 31, 2011, there were no advances outstanding under this facility, however, there is a \$3 million letter of credit outstanding against the 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 total undiscounted amount of the estimated cash flows required to settle the liability is approximately \$22.7 million (\$27.3 million – December 31, 2010; \$38.3 million – January 1, 2010) 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 risk-free rate of 3.75% (3.75% – January 1, 2010) and an inflation factor of 2%. 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:

	Three months ended March 31, 2011	Year ended December 31, 2010
Asset retirement obligation, beginning of period	\$ 23,794	\$ 32,970
New liabilities recognized	1,418	1,515
Reduction in liabilities due to asset dispositions	(5,131)	(10,759)
Remediation costs incurred	(166)	(905)
Liabilities settled	-	(35)
Accretion	196	1,008
Asset retirement obligation, end of period	\$ 20,111	\$ 23,794

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 January 1, 2010	261,960,717	\$779,809
Shares issued from treasury	20,350,000	80,015
Shares issued on exercise of stock options	904,670	800
Transferred from contributed surplus on exercise of stock options	-	400
Share issuance costs	-	(3,211)
Balance as at December 31, 2010	283,215,387	857,812
Shares issued on exercise of stock options	164,100	573
Transferred from contributed surplus on exercise of stock options	-	262
Balance as at March 31, 2011	283,379,487	\$858,647

(c) Warrants Outstanding

The Company has 10,000,320 warrants outstanding as a result of the acquisition of BlackCore Resources Inc. in 2009. 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”) 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 10% 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 March 31, 2011:

	Number of Options	Weighted Average Exercise Price (\$)
Outstanding at January 1, 2010	13,454,333	1.60
Granted	2,786,500	4.74
Exercised	(904,670)	0.89
Forfeited	(366,165)	2.95
Outstanding at December 31, 2010	14,969,998	2.20
Exercised	(164,100)	3.44
Outstanding at March 31, 2011	14,805,898	2.18

Options outstanding and exercisable as at March 31, 2011 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	6,495,166	0.73	2.79	4,792,835	0.72	2.80
1.51 – 3.00	5,046,232	2.26	3.26	2,262,912	2.29	2.82
3.01 – 4.50	219,000	3.27	2.56	144,000	3.38	1.60
4.51 – 5.15	3,045,500	5.09	3.80	664,000	5.10	0.78
	14,805,898	2.18	3.15	7,863,747	1.59	2.62

(e) Stock Based Compensation

Stock-based compensation of \$1,466,000 has been recorded in the consolidated statements of income for the three months ended March 31, 2011 (2010 – \$937,000). The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option pricing model. No options were granted during the three months ended March 31, 2011 and there were no forfeitures.

9. COMMITMENTS AND CONTINGENCIES

	2011	2012	2013	2014	2015	Thereafter
Operating leases ⁽¹⁾	\$ 891	\$ 1,234	\$ 1,234	\$ 1,626	\$ 1,626	\$ 1,320
Drilling rig commitment ⁽²⁾	-	1,145	319	-	-	-
Electrical service agreement ⁽³⁾	3,012	2,969	-	-	-	-
	\$ 3,903	\$ 5,348	\$ 1,553	\$ 1,626	\$ 1,626	\$ 1,320

(1) The Company has six years remaining on an operating lease for office space as at March 31, 2011. 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 \$20.5 million (including an estimate for operating costs) over the next six years.

(2) 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.

- (3) The Company entered into an agreement whereby an electrical service connection will be installed at a facility over the next two years.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments as at March 31, 2011 include cash and cash equivalents, accounts receivable and income tax receivable, certain investments and accounts payable and accrued liabilities. 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 financial assets and financial liabilities that are recorded at fair value 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 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: fair value is based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
 - b. Level 2: fair value is based on 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: fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The investment in 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. 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 5% 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 March 31, 2011, 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 March 31, 2011, the Company has not entered into any fixed rate contracts. As at March 31, 2011, the Company held US\$3,088,000 in cash and short-term deposits and other net working capital items of US\$1,587,000.

As at March 31, 2011, if exchange rates to convert from US dollars to Canadian dollars had been \$0.10 lower with all other variables held constant, after tax earnings for the period would have been approximately \$468,000 higher (\$392,000 – 2010). 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 2011, the Company has not experienced any collection issues with its marketers. At March 31, 2011, over 92 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 March 31, 2011, 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 March 31, 2011, the Company held \$143.1 million in cash at various major financial institutions throughout Canada and the USA, as well as \$1.8 million in investments. At March 31, 2011, 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 March 31, 2011, if interest rates had been 1 percent higher with all other variables held constant, after tax earnings for the period would have been approximately \$387,000 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 balance sheet with minimal use of long-term debt. As at March 31, 2011, the Company had an undrawn \$25 million credit facility, and working capital of \$120.5 million (\$46.3 million – 2010). 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	\$41,028	-	-

(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 March 31, 2011 and is in compliance with these covenants.

11. SUPPLEMENTARY INFORMATION

(a) The following table summarizes the cash interest and taxes paid for the period ended:

	Three months ended March 31	
	2011	2010
Cash interest paid	\$ 100	\$ 10
Cash taxes paid	\$ 7	\$ 46

(b) The following table summarizes the common shares used in calculating net earnings per common share:

	Three months ended March 31	
	2011	2010
Weighted average common shares outstanding		
Basic	283,271,554	262,057,136
Diluted	301,798,702	274,739,272

12. TRANSITION TO IFRS

The effect of the Company's transition to IFRS, described in note 2, is summarized in this note as follows:

- (i) Transition elections
- (ii) Reconciliation of equity and comprehensive income as previously reported under old Canadian GAAP to IFRS
- (iii) Explanatory notes
- (iv) Adjustments to the statement of cash flows

(i) Transition elections

The Company has applied the following transition exceptions and exemptions to full retrospective application of IFRS:

- Deemed cost of property, plant and equipment – Under old Canadian GAAP, the Company followed full cost accounting for its oil and gas activities. IFRS 1 allows companies that followed full cost accounting to measure its oil and gas assets at the same value as measured under old Canadian GAAP. BlackPearl has elected to utilize this exemption. As part of the exemption, the total value of the oil and gas assets are to be allocated to the various units-of-account that make up each of the Company's costcentres. The Company has allocated the property, plant and equipment amount recognized under old Canadian GAAP as at January 1, 2010 to the assets at the CGU level using reserve values calculated using the discounted net cash flows. There is no change in the overall net book value of our property, plant and equipment and no IFRS impairment at January 1, 2010. Subsequent to the allocation being performed, each CGU was assessed for impairment at January 1, 2010 and the Company determined that no write-down was required.
- Changes in asset retirement obligations – Under old Canadian GAAP, asset retirement obligations were estimated and discounted using a credit-adjusted risk-free rate. Common practice under IFRS, however, is to discount the estimated liability at the risk-free rate. Upon adoption of IFRS, companies are required to determine what the change would be in each asset retirement obligation each reporting period since the liability was incurred and make corresponding adjustments to depletion at the transition date. However, IFRS 1 allows companies that followed full cost accounting to measure asset retirement obligations at the date of transition to IFRS and recognize any difference between that amount, and the amount previously recognized under old Canadian GAAP, directly into retained earnings. The Company has utilized this exemption.
- Business combinations – Upon transition to IFRS, a company must adjust its accounting for business combinations carried out prior to transition to comply with IFRS. IFRS 1 provides an exemption which allows companies to carry forward their old Canadian GAAP accounting for business combinations prior to the transition date. The Company has utilized this exemption.
- Share-based payments – Upon transition to IFRS, a company must adjust its accounting for grants of shares, options or other equity instruments, made prior to transition, in order to comply with the standards under IFRS. IFRS 1 provides an exemption that allows first-time adopters to not apply standards for share-based payments under IFRS for equity instruments that were granted prior to November 7, 2002 and to equity instruments that were granted after November 7, 2002 that have vested prior to transition to IFRS. The Company has elected to utilize this exemption. It should be noted that, for unvested stock options at the date of transition, the assumptions used to estimate the value of these options has not changed from the assumptions used under old Canadian GAAP and, as a result, no adjustment is required upon transition to IFRS.

(ii) Reconciliation of equity and comprehensive income as previously reported under old Canadian GAAP to IFRS

	Note (iii)	At December 31 2010	At March 31 2010	At January 1 2010
Equity under old Canadian GAAP		476,884	419,630	426,556
Change in depletion	(a)	31,866	7,820	-
Change in accretion	(b)	363	106	-
Gain (Loss) on disposition of petroleum and natural gas properties	(c)	(1,043)	1,161	-
Asset retirement obligation revaluation	(d)	(7,535)	(7,535)	(7,535)
Equity under IFRS		500,535	421,182	419,021

	Note (iii)	Year ended December 31, 2010	Three months ended March 31, 2010
Comprehensive loss under old Canadian GAAP		(31,272)	(8,053)
Change in depletion	(a)	31,866	7,820
Change in accretion	(b)	363	106
Gain (loss) on petroleum and natural gas properties	(c)	(1,043)	1,161
Comprehensive income (loss) under IFRS		(86)	1,034

(iii) Explanatory notes

- (a) Under IFRS, depletion of petroleum and natural gas properties is calculated at a unit-of-account level using proved and probable reserves as the basis, as opposed to using only proved reserves as was required practice under old Canadian GAAP. This has resulted in significantly lower depletion under IFRS than under old Canadian GAAP.
- (b) Under IFRS, the assumptions used in calculating asset retirement obligations are to be analyzed at each balance sheet date and updated to reflect current market conditions when appropriate. Due to the change recorded on January 1, 2010 (as explained in (d) below), the amount of accretion recorded under IFRS is lower than that recorded under old Canadian GAAP. In addition, the Company has chosen to show accretion separately on its financial statements as opposed to including with depletion and depreciation, as was common practice under old Canadian GAAP.
- (c) During 2010, the Company disposed of a number of non-core petroleum and natural gas properties. Under old Canadian GAAP, the proceeds of these dispositions were credited to the Company's full-cost asset pool and no gain or loss was recorded unless the disposition had an effect of 20% or more on the Company's depletion rate. Under IFRS, a gain or loss is calculated on properties or assets disposed of by the Company.
- (d) At January 1, 2010, the assumptions used to calculate the asset retirement obligation were altered to reflect current market conditions, as required under IFRS. The change resulted in an increase to the liability of \$7.5 million. As discussed in (i) above, BlackPearl is utilizing the exemption under IFRS 1 which permits any adjustment resulting from a change in assumptions upon adoption can be recorded directly to retained earnings.

(iv) Adjustments to the statement of cash flows

The transition from old Canadian GAAP to IFRS had no significant impact on cash flows generated by the Company except that, under IFRS, cash flows relating to interest are classified as either operating, investing or financing in a consistent manner each period. Given that the Company currently has no long-term debt and all interest earned is on cash and cash equivalents, all interest is classified as operating. Under old Canadian GAAP, cash flows relating to interest payments were also classified as operating.