BLACKPEARL RESOURCES INC.

Management's Discussion and Analysis

The following is Management's Discussion and Analysis (MD&A) of the operating and financial results of BlackPearl Resources Inc. ("BlackPearl" or "the Company") for the first quarter 2011. These results are being compared with the three month period ended March 31, 2010. The MD&A should be read in conjunction with the Company's unaudited consolidated financial statements for the three months ended March 31, 2011, together with the accompanying notes.

All dollar amounts are referenced in thousands of Canadian dollars, except where otherwise noted. The consolidated financial statements, formerly prepared under Canadian GAAP, have been prepared in accordance with International Financial Reporting Standards (IFRS), as is required for Canadian public entities with year ends beginning on or after January 1, 2011.

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

This report includes terms commonly used in the oil and natural gas industry, such as cash flow and cash flow from operations which represent cash flow from operating activities expressed before changes in non-cash working capital, as well as cash flow per share and operating netback. These terms are used by the Company to analyze operating performance, leverage and liquidity and to provide shareholders and investors with additional information to measure the Company's performance and efficiency and its ability to fund a portion of its future activities and to service any long-term debt if incurred in the future. These terms do not have standardized meanings prescribed by GAAP and therefore may not be comparable with the calculation of similar measures by other entities. Consequently, these are referred to as non-GAAP measures.

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

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 May 10, 2011.

OVERVIEW

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

BlackPearl's current core properties are:

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

Through continuous investment by the Company in drilling wells, delineating resources and constructing surface facilities, these core properties provide the Company with a combination of short-term cash flow generation, medium-term reserves and production growth and long-term reserves growth on multi-stage low decline projects using thermal recovery processes.

Under BlackPearl's business plan, management intends to sell the Company's non-core assets. In the first quarter 2011, the Company disposed of properties containing minimal reserves. Additional non-core asset sales are planned; however, additional work will be undertaken on these remaining properties prior to bringing them to market. As a result, the Company does not anticipate any additional significant property sales in 2011.

2011 SIGNIFICANT EVENTS

- Capital expenditures during 2011 were $39.4 million, with approximately $13 million spent at Blackrod, $14 million at Onion Lake and $12 million at Mooney. The focus of the Q1 capital program was to complete the SAGD pilot facilities at Blackrod and the first phase of the polymer facilities at Mooney.

- Oil and gas sales during Q1 2011 were $34.7 million and cash flow from operations was $11.7 million. Net earnings were $0.5 million in Q1.

- In 2011 BlackPearl completed non-core asset sales for proceeds of $2.5 million. The assets sold included natural gas properties in southern Alberta as well as the polymer pilot facilities used at Mooney.

SELECTED QUARTERLY INFORMATION

($000s, except where noted)	**2011**	2010				2009[1]		
	Mar. 31	**Dec. 31**	**Sept. 30**	**June 30**	March 31	Dec. 31	Sept. 30	June 30
Production (boe/d)	**7,015**	**7,307**	**6,646**	**7,163**	6,685	5,306	5,091	5,170
Revenue ($/boe)	**54.92**	**57.63**	**54.66**	**52.58**	60.55	56.69	51.94	47.07
Oil and natural gas sales	**34,675**	**38,743**	**33,421**	**34,274**	36,429	27,674	24,065	22,143
Production costs	**11,122**	**8,670**	**8,297**	**9,306**	10,552	7,251	6,172	5,873
Net income (loss)	**462**	**(4,832)**	**(1,443)**	**5,155**	1,034	(3,897)	(12,013)	(10,889)
Per share, basic and diluted ($)	**0.00**	**(0.02)**	**(0.01)**	**0.01**	0.00	(0.01)	(0.05)	(0.05)
Capital expenditures	**39,411**	**38,033**	**19,926**	**5,687**	34,181	17,559	57,796	37,870
Cash flow from operations[2]	**11,754**	**19,413**	**14,218**	**13,926**	14,987	14,677	8,221	7,910
Per share, basic and diluted ($)	**0.04**	**0.07**	**0.05**	**0.05**	0.06	0.06	0.03	0.03
Total assets (end of period)	**564,175**	**572,410**	**504,426**	**493,394**	472,753	468,309	465,942	477,876
Weighted average shares outstanding, basic (000s)	**283,272**	**273,025**	**272,859**	**268,047**	262,057	261,731	261,684	240,973
Weighted average shares outstanding, diluted (000s)	**301,799**	**273,025**	**272,859**	**281,310**	274,739	261,731	261,684	240,973

(1) Information for 2009 has been presented in accordance with Canadian GAAP and has not been restated to IFRS.
(2) Cash flow from operations is a non-GAAP measure. It represents cash flow from operating activities before changes in working capital.

Fluctuations in quarterly revenues and net earnings over the last eight quarters are due primarily to the volatility in oil and natural gas prices and changes in sales volumes due to production growth through successful drilling activity, principally in the Onion Lake area. Decreased production in Q3 2010 and Q1 2011 was primarily a result of asset dispositions during the last fifteen months. The continued improvement in heavy oil prices led to a significant increase in BlackPearl's capital program throughout 2010, which expected to continue to increase in 2011.

BUSINESS ENVIRONMENT

Commodity Prices

	2011	2010			
Average Crude Oil Prices	**Q1**	Q4	Q3	Q2	Q1
West Texas Intermediate (WTI) (US$/bbl)	**$93.95**	$85.10	76.08	$78.03	$78.71
Western Canadian Select (WCS) (Cdn$/bbl)	**70.19**	67.86	62.91	65.78	72.51
Differential – WCS/WTI (Cdn$/bbl)	**22.74**	18.19	15.66	14.43	9.43
Differential – WCS/WTI (%)	**24.5%**	21.1%	19.8%	18.0%	11.5%
Average Natural Gas Prices					
AECO gas (Cdn$/GJ)	**3.75**	3.73	3.61	3.66	5.06
Foreign Exchange (Cdn$/US$)	**0.986**	1.013	1.039	1.028	1.041

Crude oil prices strengthened during the first quarter 2011, with the West Texas Intermediate (WTI) reference price averaging US$93.95 per barrel compared with US$85.10 per barrel in the fourth 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. Crude oil prices in Q1 2011 were particularly impacted by the political instability in several Middle Eastern and North African countries. The WTI forward strip price for the remainder of 2011 is currently approximately US$104.

The majority of BlackPearl's production revenues are derived from the sale of heavy oil, which receives a lower price than light oil due to increased processing requirements for heavy oil. The difference between the reference price of light oil and the reference price of heavy oil is commonly referred to as the light/heavy differential. The differential can be volatile due to supply and demand, refinery margins, seasonal fluctuations and transportation issues. The differential averaged 24.5 percent in Q1 2011, which was an increase from the fourth quarter 2010 (21.1%) and over double the differential experienced in Q1 2010. The wider differential is a result of continued effects of two pipeline disruptions which first occurred in 2010, as well as reduced heavy oil processing capacity as a result of facility shut-downs for annual maintenance. This resulted in a temporary build-up of heavy oil inventories in Canada which resulted in a decrease in heavy oil prices. Wide differentials continued through April; however, we are seeing reduced differentials for May.

Oil prices in Canada are also affected by the Canada/U.S. dollar exchange rate since the WTI reference price of oil is in U.S. dollars. During the first quarter 2011, the Canadian dollar strengthened against the U.S. dollar, averaging Cdn$0.986 to US$1 compared with Cdn$1.013 to US$1 in the fourth quarter 2010. The strengthening of the Canadian dollar partially offsets the increased WTI benchmark pricing experienced during the first quarter of 2011.

In Q1 2011, natural gas prices remained consistent with Q4 2010. As a result of asset dispositions during 2010, BlackPearl's natural gas production currently represents about 5% of total production and therefore changes in natural gas prices have a minor impact on the Company's current operations

Oil and Natural Gas Production, Pricing and Revenue

	2011	2010	
	Q1	Q4	Q1
Daily production / sales volumes [1]			
Oil (bbls/d)	**6,656**	6,871	5,941
Natural gas (mcf/d)	**2,153**	2,614	4,462
Combined (boe/d)	**7,015**	7,307	6,685
Product pricing			
Oil ($/bbl)	**56.47**	59.79	63.77
Natural gas ($/mcf)	**3.84**	3.59	5.01
Combined ($/boe)	**54.92**	57.63	60.55
Sales ($000s)			
Oil and natural gas revenue – gross	**34,675**	38,742	36,429
Royalties	**(9,019)**	(9,648)	(9,350)
Oil and natural gas revenue – net	**25,656**	29,094	27,079

[1] Natural gas production converted at 6:1 (for boe figures)

Oil and natural gas revenues decreased by 5 percent in Q1 2011 to $34.7 million from $36.4 million in the same period 2010. The decrease is attributable to:

- A 9 percent decrease in average product prices; and
- A 5 percent increase in production (on a boe basis)

Overall, average production increased to 7,015 boe per day for the first quarter ended March 31, 2011 from 6,685 boe per day in the same period 2010. The increase in 2011 production is primarily attributable to our ongoing development drilling program at Onion Lake throughout the course of 2010.

Q1 production was lower than the fourth quarter of 2010 as a result of asset dispositions near the end of last year, temporarily shutting-in production on certain pads at Onion Lake to accommodate new drilling activities, and starting the process to convert up to 22 producing wells at Mooney to polymer injectors.

Production by Area (boe/d)	**2011**	2010	
	Q1	Q4	Q1
Onion Lake	**5,520**	5,586	4,301
Mooney	**922**	1,018	1,136
John Lake	**297**	191	24
Ear Lake (sold in 2010)	**-**	-	361
Salt Lake (sold in 2010)	**-**	252	288
Long Coulee/Little Bow	**172**	190	403
Other	**104**	70	172
	7,015	7,307	6,685

On a boe basis, 95 percent of the Company's oil and natural gas production in the first quarter 2011 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 79 percent of total production in Q1 2011 and is anticipated to contribute a higher proportion for the remainder of 2011 as it will account for most of BlackPearl's near-term drilling activity.

BlackPearl's realized crude oil prices were lower in Q1 2011 compared to Q4 prices as well as Q1 2010 prices. Although light oil prices were strong in Q1, significantly higher heavy oil differentials and higher condensate prices used for blending with our heavy oil to meet pipeline specifications impacted our realized price.

The Company did not enter into any commodity price hedging arrangements in Q1 2011 and, at the present time, does not anticipate hedging any of its production for the remainder of the year.

Royalties

	2011	2010	
	Q1	Q4	Q1
Royalties ($000s)	**9,019**	9,648	9,350
As a percentage of revenue	**26%**	25%	26%

Royalties decreased by 4 percent from $9.4 million in the first quarter 2010, and by 7% from $9.6 million in the fourth quarter 2010, to $9.0 million for Q1 2011. The decrease reflects lower revenues during 2011. Generally, royalty rates in western Canada are sensitive to prevailing commodity prices and individual well production rates. Royalties, as a percentage of revenues, were consistent from both Q1 and Q4 2010 to the first quarter in 2011. Royalty rates at Onion Lake were 28 percent in the first quarter 2011 and are unlikely to change significantly for the remainder of the year. Royalty rates at Mooney were 14 percent in Q1 2011. As a result of receiving EOR status for the polymer flood at Mooney, the royalty rate at Mooney should initially drop to approximately 10 percent when polymer injection commences later in the year.

Production Costs

	2011	2010	
	Q1	Q4	Q1
Production costs ($000s)	**11,122**	8,670	10,552
Per boe ($)	**17.61**	12.90	17.54

Production expenses increased on an absolute basis in the first quarter 2011 over the same period 2010 primarily due to increased production volumes. On a per-unit-of-production basis, costs are consistent with Q1 2010, however, they are higher than Q4 2010 as a result of some difficulties in treating clean oil from some of our new wells at Onion Lake which has resulted in higher emulsion trucking and treating costs. New heavy oil wells tend to have higher initial expenses due to high sand production, increased fuel costs until wells are tied into the fuel gas system, and increased emulsion trucking and treating costs. These initial costs are expected to be reduced after several months of production from the new wells. In addition, when the polymer flood at Mooney is initiated operating costs are expected to be higher due to the additional cost of chemicals for injection.

Transportation Costs

	2011	2010	
	Q1	Q4	Q1
Transportation costs ($000s)	**457**	690	552
Per boe ($)	**0.72**	1.03	0.87

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

	2011	2010	
($/boe)	**Q1**	Q4	Q1
Revenues	**$54.92**	$57.63	$60.55
Royalties	**14.28**	14.35	15.54
Transportation costs	**0.72**	1.03	0.87
Production costs	**17.61**	12.90	17.54
Netback per boe	**$22.31**	$29.35	$26.60

The Q1 2011 netback of $22.31 per boe is a 16 percent decrease from the $26.60 per boe reported in the same quarter 2010, as well as a 24% decrease from Q4 2010. The decrease in the netback from Q1 2010 is primarily attributable to the reduction in realized crude oil prices in 2011, whereas the decrease from Q4 2010 is also a result of increased production costs.

General and Administrative Expenses (G&A)

	2011	2010	
(000s, except per boe)	**Q1**	Q4	Q1
Gross G&A expense	**3,341**	2,703	2,162
Operator recoveries	**(674)**	(591)	(404)
	2,667	2,112	1,758
Per boe ($)	**4.22**	3.14	2.92

G&A in absolute terms increased 52% in the first quarter 2011 when compared to the same period 2010, and by 45% per unit of production. The increase is primarily a result of $1.1 million in performance bonuses paid to employees in Q1 2011. No bonuses were paid in 2010.

Stock-Based Compensation

	2011	2010	
	Q1	Q4	Q1
Stock-based compensation ($000s)	**1,466**	1,250	937
Per boe ($)	**2.32**	1.86	1.56

Stock-based compensation costs are non-cash charges which reflect the estimated value of stock options granted. The Company uses the fair value method of accounting for stock options granted to directors, officers, employees and consultants whereby the fair value of all stock options granted is recorded as a charge to operations over the period from the grant date to the vesting date of the option. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes options pricing model. The increase in stock-based compensation expense in Q1 2011 reflects additional options previously granted as well as a higher option value assigned to each grant of options. In the first quarter 2011, 164,100 options were exercised.

Depletion and Depreciation

	2011	2010	
	Q1	Q4	Q1
Depletion and depreciation ($000s)	**13,001**	14,193	14,118
Per boe ($)	**20.59**	21.11	23.46

DD&A expense decreased by 8 percent to $13.0 million or $20.59 per boe for the quarter ended March 31, 2011 from both $14.1 million or $23.46 per boe for the same period 2010 and $14.2 million or $21.11 per boe in Q4 2010. The decrease in depletion is a result of lower production in 2011. In addition, the lower depletion rate per boe is a result of an increase in proved and probable reserves in 2010.

Interest Income

	2011	2010	
	Q1	Q4	Q1
Interest income ($000s)	**458**	468	63
Per boe ($)	**0.73**	0.70	0.10

Interest income consists of interest earned on excess cash held by the Company. Interest income has increased as a result of a higher cash balance held by the Company in 2011.

Other Income

	2011	2010	
	Q1	Q4	Q1
Other income	**-**	1,689	1,152

Other income consists mainly of net cash received as part of a drilling incentive program offered by the Alberta government to encourage drilling activity within the province. These drilling credits received were acquired from third parties that did not have sufficient production to utilize the credits. BlackPearl did not buy any drilling credits in Q1 and the program expired on March 31, 2011.

Income Taxes

	2011	2010	
(000s)	**Q1**	Q4	Q1
Current income and other taxes (recovery)	**(58)**	49	62
Future income tax (recovery)	**-**	-	-
	(58)	49	62

BlackPearl pays Saskatchewan resource surcharge based on a portion of its production revenues in the province, which is included in current income tax expense. As the result of a number of property dispositions in 2010, the Company expects to pay minimal amounts of Saskatchewan resource surcharge in 2011. The income tax recovery in the first quarter 2011 is a result of a tax refund assessed on a prior period.

Gain (loss) on disposition of petroleum and natural gas properties

	2011	2010	
	Q1	Q4	Q1
Gain (loss) on disposition of petroleum and natural gas properties	**3,436**	(9,252)	1,161

During the first quarter of 2011, BlackPearl recorded a gain on the disposition of certain petroleum and natural gas properties in southern Alberta as well as the polymer pilot facilities in the Mooney area.

RESULTS OF OPERATIONS
($000s, except where noted)

	2011	2010	
	Q1	Q4	Q1
Net income (loss) ($000s)	**462**	(4,832)	1,034
Per share, basic and diluted ($)	**0.00**	(0.02)	0.00

For the quarter ended March 31, 2011, the Company incurred net income of $0.5 million compared to net income of $1.0 million in the same quarter of 2010. The higher income in 2010 is mainly a result of drilling credits received during the quarter that were not received in Q1 2011.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2011, BlackPearl had working capital of $120.5 million compared to $144.0 million at December 31, 2010. The decrease is mainly a result of operating cash inflows of $11.7 million, offset by $39.4 million in capital expenditures.

In addition to its working capital, BlackPearl also has an undrawn $25 million credit facility. The amount available under the credit facility is based on the value of oil and natural gas reserves. The next review of the Company's credit facility is scheduled to be completed by May 31, 2011. The Company does not anticipate any significant changes to the terms of this facility on renewal. The only financial covenant in the facility is to maintain a working capital ratio of 1:1 at the end of each fiscal quarter. Working capital ratio is defined as current assets plus unutilized credit under the credit facility compared to current liabilities. The Company had a working capital ratio of 4.5:1 at March 31, 2011 and was in compliance with these covenants throughout the first quarter 2011.

The Company expects capital spending for the remainder of 2011 to be between $130 and $140 million. This will be financed from working capital and operating cash flows. The Company does not expect to utilize its credit facility to fund this program other than to issue letters of credit periodically to secure delivery of goods and services. At March 31, 2011, there is a $3 million letter of credit outstanding against the facility. The Company can adjust its capital program if required to maintain its financial flexibility.

On a longer-term basis, the December 31, 2010 oil and natural gas reserves evaluation and contingent resource study, prepared by Sproule Unconventional Limited, indicates that the Company will require significant capital investment to fully develop the Company's existing properties. The Company will likely require additional external financing to fund this capital investment; however, the Company has not determined the amount or structure of this financing. This requirement for additional funding will likely occur when the Company initiates commercial development of one of its thermal projects at Blackrod and/or Onion Lake. This financing decision is expected to be made sometime in 2012.

CAPITAL EXPENDITURES

BlackPearl's capital program is focused on heavy oil opportunities. During Q1 2011, capital spending was higher than in the same quarter 2010, totaling $39.4 million, an increase from the $32.2 million spent in 2010. The focus of the Q1 capital program was to complete construction of the SAGD pilot facilities at Blackrod and the polymer facilities at Mooney. In addition, we anticipated drilling up to 35 wells at Onion Lake; however, due to limited rig availability and experienced rig crews during the winter, only 12 wells were drilled. In addition, in Q1 we completed drilling 10 delineation wells at Blackrod to support the commercial development application which is expected to be submitted in Q1 2012. During Q1 2011 the Company completed the sale of certain minor oil and natural gas properties for proceeds of $2.5 million.

	Three months ended March 31	
($000s)	**2011**	2010
Land	**1,188**	277
Seismic	**1,582**	50
Drilling and completion	**13,939**	6,623
Equipment	**21,391**	4,187
Other	**21**	46
Total	**38,121**	11,183
Property acquisitions	**-**	21,000
Total capital expenditures	**38,121**	32,183
Property dispositions	**(2,500)**	(5,389)
Net capital expenditures	**35,621**	26,794

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 March 31, 2011:

($000s)	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) 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 $20.5 million (including an estimate for operating costs) over the next six years.
(2) Relates to two separate commitments to utilize drilling rigs from two companies for a minimum number of days per year.
(3) Relates to a commitment for the installation of electrical services at the Mooney ASP facility.

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

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

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

The carrying value of cash, accounts receivable and accounts payable approximates their fair value due to the short-term nature of these instruments**.** The fair value of the investment in MAV notes has been determined by a cash flow model considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments.

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 10 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 Q1 2011.

OUTSTANDING SHARE DATA

As at May 10, 2011, the Company had 283,686,554 common shares outstanding, 10,000,320 vested warrants outstanding and 14,498,831 stock options outstanding under its stock-based compensation.

PROPOSED TRANSACTIONS

As of May 10, 2011, the Company does not have any significant pending transactions.

CRITICAL 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.

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.

RISKS AND UNCERTAINTIES

Please refer to the Company's 2010 MD&A and the 2010 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 three months of 2011.

ENVIRONMENTAL RISKS

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Compliance with such legislation can require significant expenditures and a breach could result in the imposition of fines and penalties, some of which could be material. Senior management continually assesses new and existing regulatory requirements and environmental risks and determines the impact these risks might have on the Company, as well as the appropriate actions necessary to manage those risks. These assessments and the resulting policy decisions are discussed quarterly with the Board of Directors which evaluates the performance and effectiveness of the Company's environmental policies and programs.

The Company's environmental responsibilities includes removing property, plant and equipment as well as reclaiming land and property to its original state, subsequent to the completion of oil and natural gas extraction activities. This requirement results in an asset retirement obligation that provides current recognition of estimated expenditures that will be incurred in the future. The Company's asset retirement obligations are discussed in further detail under "Critical Accounting Estimates" above, as well as in note 7 to the Company's Interim Consolidated Financial Statements.

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Effective January 1, 2011, International Financial Reporting Standards ("IFRS") have replaced Canadian GAAP for publicly accountable enterprises. BlackPearl has adopted IFRS for the interim and annual periods beginning on January 1, 2011, including comparative information pertaining to 2010.

Information regarding the Company's accounting policies and transition to IFRS can be found in notes 2, 3 and 12 to the Interim Consolidated Financial Statements. Significant items to note upon transition include:

- *Depletion and depreciation* - Under IFRS, depletion of P&NG 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 Canadian GAAP. This has resulted in significantly lower depletion under IFRS than under Canadian GAAP.

- *Asset retirement obligations* - 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, resulting from the use of the risk-free rate as opposed to the credit-adjusted risk-free rate, the amount of accretion recorded under IFRS is lower than that recorded under 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 Canadian GAAP.

- *Gains and losses on dispositions* - During 2010, the Company disposed of a number of non-core petroleum and natural gas properties. Under 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 every property, exploration and evaluation project or asset disposed of by the Company.

- *Transition adjustments* - 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.

CONTROL CERTIFICATION

Disclosure Controls and Procedures and Internal Controls of Financial Reporting

Management reported on its disclosure controls and procedures and the design of its internal controls over financial reporting in the year end 2010 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

BlackPearl has updated its 2011 guidance as follows:

2011 Guidance	Original Guidance	Q1 Update
Production (boe/d)		
Annual average	9,200 – 9,700	8,500 – 9,000
Exit	11,000 – 13,000	11,000 – 13,000
Cashflow from operations ($millions)	65 – 70	70 – 75
Capital expenditures ($millions)	130 – 150	165 – 175
Year-end debt	-	-
Year-end working capital ($millions)	60 – 70	45 – 50
Pricing Assumptions (annual average)		
Crude oil - WTI	US$80	US$95
Light/heavy differential	US$16	US$19
Cdn$/US$ exchange	1.00	1.05

BlackPearl's exit 2011 production guidance of 11,000 - 13,000 barrels of oil equivalent per day remains unchanged; however the average production levels for the year have been lowered due to reduced development drilling during the first quarter at Onion Lake.

We have increased our capital expenditure program for 2011 by about $30 million. The major elements of the increase in expenditures include:

1. drilling some of the horizontal wells at Onion Lake, which will be used for thermal development in the future;
2. increased the number of conventional wells to be drilled this year at Onion Lake; and
3. the battery upgrade at Mooney is being expanded so that it will be able to accommodate some of the production increase when phase 2 of the ASP flood is initiated.

Cash flow generated from operations has increased to reflect higher oil prices than what was incorporated in the original guidance.

This activity will be completely funded from existing working capital and forecast cash flow. In the event that commodity prices drop and cash flows do not reach anticipated levels, the Company will lower its capital spending by reducing the number of wells drilled at Onion Lake to ensure it can remain debt-free.

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, ability and timing 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; and
- Corporate guidance for 2011.

In addition, statements relating to "reserves" or “resources” are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and resources described exist in the quantities predicted or estimated and can be profitably produced in the future.

Undue reliance should not be placed on forward-looking statements, which are inherently uncertain, are based on estimates and assumptions, and are subject to known and unknown risks and uncertainties (both general and specific) that contribute to the possibility that the future events or circumstances contemplated by the forward-looking statements will not occur. There can be no assurance that the plans, intentions or expectations upon which forward-looking statements are based will be realized. Actual results will differ, and the difference may be material and adverse to the Corporation and its shareholders.

With respect to forward-looking statements contained in this report, management has made assumptions regarding future production levels; future oil and gas prices; future operating costs; timing and amount of capital expenditures; the ability to obtain financing on acceptable terms; availability of skilled labour and drilling and related equipment; general economic and financial market conditions; continuation of existing tax and regulatory regimes; and the ability to market oil and natural gas successfully to current and new customers. A description of some of the assumptions used for 2011 are located in “Outlook” above. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

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