



700, 444 – 7th Avenue S.W.
Calgary, AB T2P 0X8
Telephone: 403-215-8313
Fax: 403-262-5123

FIRST QUARTER 2011 FINANCIAL AND OPERATING RESULTS

Highlights of our first quarter activities include:

- SAGD pilot facilities at Blackrod were completed - commissioning is underway;
- Mooney ASP facilities are nearing completion - polymer injection to begin by the end of May;
- Onion Lake conventional development is continuing; plans remain the same, to drill 100 – 120 wells this year;
- Oil and gas production averaged 7,015 boe/day, a 5% increase over Q1 2010;
- Revenues were \$34.7 million, 5% lower compared to Q1 in 2010; Cash flow from operations was \$11.7 million;
- Maintained a strong working capital position of over \$120 million and no debt;
- Increased 2011 capital program to \$175 million.

John Festival, President of BlackPearl, commenting on Q1 2011 activities indicated that “I am extremely pleased with the progress we have made on each of our three core properties. At Blackrod we are commissioning our SAGD pilot plant while working on a regulatory application for a 40,000 barrel per day commercial project. At Mooney, we have completed the polymer injection facilities, converted half of the wells from producers to injectors and should commence polymer injection shortly. At Onion Lake we did not drill as many wells as we had planned in Q1 due to rig availability; however, we have three rigs currently operating and we should be able to catch up and complete our entire drilling program in 2011. In addition, we plan to submit a commercial SAGD application at Onion Lake for 10,000 barrels per day in 2011 and drill some horizontal producers as part of our future thermal operations. We continue to grow heavy oil production despite having sold non-core properties which comprised 15% of our production. 2011 will be another exciting year for BlackPearl as we reach more milestones towards our goal of 80,000 barrels of oil per day.”

Property Review

Blackrod SAGD Project

At Blackrod, construction of the water handling and steam generation facilities for the SAGD pilot were completed during the first quarter and the horizontal well pair was completed and equipped. We have commenced commissioning of the facilities and expect to have steam in the ground before the end of May. We anticipate it will take six to twelve months of steam injection before we can make initial assessments of the pilot performance.

In addition to completing the pilot facilities we drilled ten delineation wells during the first quarter which were required to support our application for the first phase of commercial development at Blackrod. This application is expected to be filed in 2012. The Blackrod project has the potential to ultimately produce up to 70,000 barrels of oil per day.

Onion Lake

At Onion Lake, we drilled 12 wells during the first quarter, which was well below our original plan to drill 35 wells. The reduction in drilling was due to the lack of rig availability and experienced crews during the busy winter months. Rigs are now available and to catch-up on our planned drilling program we have contracted two additional rigs and now have three rigs operating at Onion Lake. We still plan to drill between 100 and 120 conventional wells at Onion Lake this year as originally planned.

During the first quarter we also undertook an extensive review of thermal development at Onion Lake. As a result of this review we plan to submit a 10,000 barrel per day SAGD development application this summer and, upon approval, we will begin drilling some of the horizontal wells that will be used for SAGD operations. Pre-drilling some of the horizontal wells will reduce the risk of reservoir damage caused by lost circulation from drilling through partially depleted zones. SAGD development will not begin until we have maximized recovery from conventional development.

Mooney

At Mooney, construction of the alkali surfactant polymer injection facilities is nearing completion. Initial injection is anticipated to commence before the end of May. Initially, production at Mooney will be impacted as we convert half of the existing producing wells to injectors. It is expected to take six to twelve months to re-pressurize the reservoir and start to see increased production volumes. Peak production rates from the first phase of the polymer flood are expected to be 3,000 to 4,000 barrels of oil per day. The upgrades required to the existing oil treating facilities will begin in the third quarter this year.

Production

Daily average oil and gas production increased to 7,015 boe per day for the first quarter ended March 31, 2011, a 5% increase compared to 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. Production in the first quarter of 2011 was lower than Q4 2010 production of 7,344 barrels of oil per day due primarily as a result of the disposition of the Salt Lake area properties at the end of December. First quarter 2011 production was also affected by having to shut-in some existing Onion Lake producing wells to accommodate pad drilling, as well as starting to convert some of the Mooney producing wells to injectors.

Our previous guidance to exit 2011 with production of 11,000 – 13,000 barrels per day remains unchanged.

Production by Area (boe/d)	Three months ended March 31	
	2011	2010
Onion Lake	5,520	4,301
Mooney	922	1,136
John Lake	297	24
Ear Lake (sold in 2010)	-	361
Salt Lake (sold in 2010)	-	288
Long Coulee/Little Bow	172	403
Other	104	172
	7,015	6,685

Financial Results

Revenues in Q1 2011 were \$34.7 million, down 5% from the same period in 2010. The 5% increase in oil and gas production was offset by an 11% decrease in realized oil prices. Although WTI oil prices strengthened in Q1 2011 (US\$93.95/bbl vs US\$78.71/bbl), the increase was negatively affected by wider heavy oil differentials (24.5% differential in 2011 compared with 11.5% in 2010), a stronger Canadian dollar compared to the US dollar (0.986 in Q1 2011 compared with 1.041 in Q1 2010) and higher condensate prices used for blending.

Operating costs were \$17.61 per barrel in Q1 2011, comparable to the first quarter of 2010 but higher than what we have been experiencing in recent quarters. The increase in operating costs is a result of some difficulty 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 are initially more expensive to operate due to higher sand production, and the fact that the new wells are not yet tied into our fuel gas system, and therefore we are required to purchase propane to run our equipment. The operating costs from the new wells are expected to drop after a few months of production.

Net income was \$0.5 million in the first quarter compared with \$1 million in the first quarter of 2010. Included in earnings was a gain on disposition of non-core properties of \$3.4 million. Cash flow from operating activities (before working capital adjustments) was \$11.7 million in 2011 compared with \$15.0 million in 2010.

Capital expenditures were \$38.1 million in the first quarter of 2011. The majority of costs consisted of the construction of the SAGD facilities at Blackrod, the polymer facilities at Mooney, and continued development drilling at Onion Lake.

At March 31, 2011 we had working capital of \$120.5 million and no long term debt.

Financial and Operating Highlights

	Three months ended March 31	
	2011	2010
Daily sales volumes ⁽¹⁾		
Oil (bbl/d)	6,656	5,941
Natural gas (mcf/d)	2,153	4,462
Combined (boe/d)	7,015	6,685
Product pricing		
Oil (\$/bbl)	56.47	63.77
Natural gas (\$/mcf)	3.84	5.01
Combined (\$/boe)	54.92	60.55
(\$000's, except per share and boe amounts)		
Revenue		
Oil and gas revenue - gross	34,675	36,429
Royalties (\$/boe)	14.28	15.54
Transportation costs (\$/boe)	0.72	0.87
Operating costs (\$/boe)	17.61	17.54
Net income (loss) for the period	462	1,034
Per share, basic and diluted	0.00	0.00
Cash flow from operating activities, before working capital adjustments	11,754	14,987
Capital expenditures	39,411	34,181
Working Capital, end of period	120,506	46,266
Long term debt	-	-
Shares outstanding, end of period	283,379,487	262,181,385

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

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⁾		
	<u>Mar. 31</u>	<u>Dec. 31</u>	<u>Sept. 30</u>	<u>June 30</u>	<u>March 31</u>	<u>Dec. 31</u>	<u>Sept. 30</u>	<u>June 30</u>
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		
	Q1	Q4	Q3	Q2	Q1
Average Crude Oil Prices					
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)	<u>2,153</u>	<u>2,614</u>	<u>4,462</u>
Combined (boe/d)	7,015	7,307	6,685
Product pricing			
Oil (\$/bbl)	56.47	59.79	63.77
Natural gas (\$/mcf)	<u>3.84</u>	<u>3.59</u>	<u>5.01</u>
Combined (\$/boe)	54.92	57.63	60.55
Sales (\$000s)			
Oil and natural gas revenue – gross	34,675	38,742	36,429
Royalties	<u>(9,019)</u>	<u>(9,648)</u>	<u>(9,350)</u>
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

(\$/boe)	2011	2010	
	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	
(000s)	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	
(000s)	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.

(\$000s)	Three months ended March 31	
	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.

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		Three months ended March 31	
(unaudited)		2011	2010
(Cdn\$ in thousands, except for per share amounts)			
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

	Share Capital	Contributed Surplus	Deficit	Total Equity
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	\$ 858,647	\$ 20,245	\$ (375,856)	\$ 503,036

Three months ended March 31, 2010

	Share Capital	Contributed Surplus	Deficit	Total Equity
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	\$ 780,093	\$ 16,287	\$ (375,198)	\$ 421,182

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.

DIRECTORS

John H. Craig
Director
Toronto, Ontario

Brian D. Edgar
Director
Vancouver, British Columbia

John L. Festival
Director, President and Chief Executive Officer

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

Victor Luhowy
Director
Priddis, Alberta

OFFICERS

John Festival
President & Chief Executive Officer
Calgary, Alberta

Don Cook
Chief Financial Officer
Calgary, Alberta

Chris Hogue
Vice President, Operations
Calgary, Alberta

Ed Sobel
Vice President, Exploration
Calgary, Alberta

Diane Phillips
Corporate Secretary
Calgary, Alberta

CORPORATE INFORMATION

CORPORATE OFFICE BLACKPEARL RESOURCES INC.

700, 444 – 7th Avenue S.W.
Calgary, Alberta
T2P 0X8 Canada
Telephone: (403) 215-8313
Facsimile: (403) 265-8324
Website: www.blackpearlresources.ca

BANKER
ATB Financial
Calgary, Alberta

AUDITOR
PricewaterhouseCoopers LLP
111—5th Avenue S.W.
Calgary, Alberta

TRANSFER AGENT
Computershare Trust Company of Canada
600, 530—8th Avenue S.W.
Calgary, Alberta

STOCK EXCHANGE LISTING
TSX Exchange
Trading Symbol: PXX
First North (OMX Nordic Exchange)
Trading Symbol: PXXS

COMPANY REGISTRATION NUMBER
409596-1

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

The report for the period ending
June 30, 2011 will be published
on or before August 14, 2011