



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

SECOND QUARTER 2011 FINANCIAL AND OPERATING RESULTS

Second quarter highlights include:

- Completed construction of facilities and commenced steam injection at our Blackrod SAGD pilot project;
- Completed construction of facilities at Mooney and commenced polymer injection in early July;
- Drilled 63 conventional development wells at Onion Lake;
- At Onion Lake, we also filed a SAGD commercial development application with regulatory authorities in July;
- Revenues increased 23% to \$42.0 million compared to Q2 in 2010;
- Cash flow from operations increased 37% to \$18.8 million compared with \$13.8 million in Q2 2010;
- Maintained a strong balance sheet with working capital of \$84.9 million and no debt after incurring capital expenditures of \$95.2 million in the first half of the year.

John Festival, President of BlackPearl, commenting on Q2 2011 activities indicated that “we are extremely pleased with the milestones achieved in the first half of the year. Our goal when we joined BlackPearl was to validate the potential of the properties and then commence development of these core areas. We have made major strides this quarter with the completion of the polymer facilities at Mooney and the commencement of operations on the thermal SAGD pilot at Blackrod. In addition, We made significant progress at Onion Lake, not only in maintaining our conventional drilling program but also advancing our SAGD development plans with the filing of a commercial development application for the area.

Our production growth in Q2 was hampered by forest fires and wet weather, but these are temporary issues, and we should have a strong second half of the year, with year-end production still targeted at 11,000 barrels of oil per day.”

Property Review

Blackrod SAGD Project

At Blackrod, construction of the SAGD pilot facilities was completed during the second quarter, and we initiated steam injection in June. We are in the warm-up phase of the pilot whereby steam is injected into both the injector and producer horizontal wells. Initial observations indicate that the reservoir is accepting steam as anticipated, and we are achieving uniform heat distribution from the heel to the toe of the horizontal wells, both very good indicators for future production and operating results from the SAGD well pair. Within the next month we will install a downhole pump and commence oil production.

Work is continuing on a 40,000 barrel per day commercial application for the Blackrod project. This application requires extensive work on an environmental impact assessment of the project. We expect to file the application with regulatory authorities in the first half of 2012.

The Blackrod leases have a recoverable contingent resource assigned to them in excess of 700 million barrels of oil and have the potential to support a development of over 70,000 barrels of oil per day (bopd).

Onion Lake

We had a very active second quarter at Onion Lake with a total of 63 wells drilled. Due to wet weather in Saskatchewan this spring, the majority of these wells will not be put on production until sometime in the third quarter. Additional drilling at Onion Lake is planned for the second half of the year.

We are also evaluating the potential of building our own oil processing battery and pipeline tie-in at Onion Lake. If these facilities were constructed, we would be less reliant on third party processors accepting our incremental production at Onion Lake. In addition, we believe it is advantageous to own the infrastructure in our core areas to ensure we retain more control over the entire operation. A decision on this proposal will be made later this year when the feasibility study is completed and we have cost estimates finalized.

In addition to conventional development, a portion of the Onion Lake lands are amenable to thermal development. In fact, the majority of the contingent resource estimates for Onion Lake are based on thermal development in the area. To assist in the transition from conventional to SAGD development, we will have to “pre-spend” some capital by drilling the horizontal wells that will be used in the SAGD operations. This will ensure that we are not drilling in areas that have been partially depleted or disturbed by conventional drilling. We expect to drill up to 20 horizontal wells by the end of 2012. These wells will not be put on production until we begin SAGD development. We have recently filed an application with regulatory authorities for a 10,000 bopd commercial SAGD project in the area. We will temporarily slow down our planned conventional drilling program at Onion Lake until some of the horizontal wells are drilled.

Mooney

At Mooney, construction of the ASP (Alkali, Surfactant, Polymer) facilities during the second quarter was hampered as a result of the forest fires in the Slave Lake area. Fortunately none of our facilities were damaged by the fires; however, construction and all production activities were halted for about three weeks. The facilities have since been completed, and chemical and water injection commenced in early July. We expect production response from the flood will take 6 to 12 months. Production from phase one of the ASP flood is expected to be in the range of 3,000 to 4,000 barrels of oil per day. During the second half of 2011, we will be expanding the existing heavy oil battery to process the incremental oil and water production. The battery expansion is designed to handle all of the production of phase one and two of the ASP flood. This will allow us additional flexibility in timing the expansion of the ASP flood. We also plan to drill up to ten horizontal wells on the phase 2 expansion lands this fall. These wells will be produced conventionally until we add them to the ASP flood.

Non-core Areas

We continue to invest in some of our non-core properties. At our John Lake field in central Alberta, during the second quarter we drilled two horizontal wells which will be completed and put on production during the third quarter. The John Lake field was originally developed by another operator using vertical wells, with modest success. In 2010, BlackPearl elected to drill a horizontal well and achieved very encouraging results, with initial production rates in excess of 100 bopd. If the two newest wells are successful we plan to drill an additional 5- 10 wells at John Lake in the second half of 2011 and Q1 2012. The field may ultimately be capable of supporting a development of 30 to 40 horizontal wells.

At Druid, in southwest Saskatchewan, we are currently building an oil treating and water disposal facility. This will allow us to re-activate several wells in the area which were previously shut-in for economic reasons due to lack of water disposal facilities. We expect to be able to bring on 200 – 400 bopd when construction of the facilities is complete.

In the US, we have elected to have several of our heavy oil leases in Utah expire as we have no activities planned in the area.

Production

Overall, average production decreased 9% to 6,545 boe (barrels of oil equivalent) per day for the second quarter of 2011 from 7,163 boe per day in Q2 2010. For the six months ended June 30, 2011, production decreased 2% to 6,779 boe per day from 6,925 boe per day for the same period 2010. The decrease in 2011 oil production is a result of asset dispositions in late 2010 and Q1 2011, wet weather in Saskatchewan this spring which hampered our ability to truck oil and the forest fires in the Slave Lake area which required us to shut-in the entire Mooney field for three weeks in Q2.

Although we had an active development drilling program at Onion Lake in the second quarter of 2011, these wells will not significantly impact our production volumes until the second half of 2011. We have commenced ASP injection at Mooney and expect to see increased oil production in 6 to 12 months.

(boe/day)	Three months ended		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Onion Lake	5,666	5,098	5,597	4,702
Mooney	620	980	770	1,062
John Lake	259	47	278	36
Ear Lake (sold in 2010)	-	316	-	340
Salt Lake (sold in 2010)	-	253	-	270
Long Coulee (sold in 2011)	-	368	87	166
Other	-	101	47	349
	6,545	7,163	6,779	6,925

Financial Results

Oil and gas revenues increased 23% in the second quarter of 2011 to \$42.0 million compared with \$34.3 million in Q2 2010. The increase is attributable to higher crude oil prices in 2011.

The higher wellhead price reflects stronger WTI oil prices in Q2 2011 (US\$102.50/bbl vs US\$78.03/bbl). Heavy oil differentials were similar for the comparable periods at 18%. The Canadian dollar was stronger in 2011 compared to the US dollar (0.968 in Q2 2011 compared with 1.028 in Q2 2010), which reduced the revenues we would otherwise receive.

Operating and transportation costs were \$17.82 per boe in Q2 2011, which were slightly less than Q1 2011 at \$18.33 per boe, but higher than Q2 2010 at \$15.31 per boe. New heavy oil wells tend to have higher initial expenses due to increased sand production, increased fuel costs until wells are tied into the fuel gas system, and increased emulsion trucking and treating costs. These initial costs are reduced after several months of production from the new wells.

Cash flow from operations (before working capital adjustments) increased 37% in Q2 to \$18.8 million compared to \$13.8 million for the same period in 2010.

Financial and Operating Highlights

	Three months ended		Six months ended	
	June 30		June 30	
	2011	2010	2011	2010
Daily production / sales volumes ⁽¹⁾				
Oil (bbl/d)	6,398	6,515	6,527	6,230
Natural gas (mcf/d)	882	3,890	1,514	4,174
Combined (boe/d)	6,545	7,163	6,779	6,925
Product pricing (\$)				
Crude oil - per bbl	71.00	55.03	63.63	59.18
Natural gas - per mcf	3.99	3.97	3.88	4.53
Combined - per boe	70.59	52.58	62.53	56.40
(\$000's, except per share and boe amounts)				
Revenue				
Oil and gas revenue – gross	42,044	34,274	76,719	70,703
Royalties (\$/boe)	20.02	13.60	17.07	14.53
Transportation costs (\$/boe)	0.46	1.00	0.60	0.94
Operating costs (\$/boe)	17.36	14.31	17.49	15.86
Net income for the period	2,996	5,155	3,458	6,189
Per share, basic and diluted				
Basic	0.01	0.01	0.01	0.02
Diluted	0.01	0.01	0.01	0.01
Cash flow from operating activities, before working capital adjustments	18,834	13,761	30,494	28,791
Capital expenditures	57,040	5,687	95,161	37,870
Working Capital, end of period	84,870	97,440	84,870	97,440
Long term debt	-	-	-	-
Shares outstanding, end of period	284,239,554	272,845,386	284,239,554	272,845,386

(1) Boe amounts are based on a conversion ratio of 6 mcf of gas to 1 barrel of oil. Boe's may be misleading, particularly if used in isolation. Aboe 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 three and six months ended June 30, 2011. These results are being compared with the three and six month periods ended June 30, 2010. The MD&A should be read in conjunction with the Company's unaudited consolidated financial statements for the three and six months ended June 30, 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 August 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 primary focus is on heavy oil and oil sands projects in Western Canada.

BlackPearl’s current core properties are:

- Onion Lake, Saskatchewan – conventional heavy oil and, in the future, thermal SAGD recovery;
- Mooney, Alberta – conventional heavy oil using horizontal 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-phase low decline projects using thermal recovery processes.

Under BlackPearl’s current business plan, management intends to sell the Company’s non-core assets. In the first half of 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 dispositions in 2011.

2011 SIGNIFICANT EVENTS

- Capital expenditures during the first half of 2011 were \$95.2 million, with approximately \$19 million spent at Blackrod, \$51 million at Onion Lake and \$22 million at Mooney. The focus of the 2011 capital program to date was to complete the SAGD pilot facilities at Blackrod, complete the first phase of the polymer facilities at Mooney and continue conventional drilling at Onion Lake.
- Oil and gas sales during the first half of 2011 were \$76.7 million and cash flow from operations was \$30.5 million. Net income was \$3.5 million for the six months ended June 30, 2011.
- In 2011, BlackPearl completed non-core asset sales for proceeds of \$2.6 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>June 30</u>	<u>Mar. 31</u>	<u>Dec. 31</u>	<u>Sept. 30</u>	<u>June 30</u>	<u>Mar. 31</u>	<u>Dec. 31</u>	<u>Sept. 30</u>
Production (boe/d)	6,545	7,015	7,307	6,646	7,163	6,685	5,306	5,091
Revenue (\$/boe)	70.59	54.92	57.63	54.66	52.58	60.55	56.69	51.94
Oil and natural gas sales	42,044	34,675	38,743	33,421	34,274	36,429	27,674	24,065
Production costs	10,337	11,122	8,670	8,297	9,306	10,552	7,251	6,172
Net income (loss)	2,996	462	(4,832)	(1,443)	5,155	1,034	(3,897)	(12,013)
Per share, basic and diluted (\$)	0.01	0.00	(0.02)	(0.01)	0.01	0.00	(0.01)	(0.05)
Capital expenditures	57,040	38,121	38,033	19,926	5,687	34,181	17,559	57,796
Cash flow from operations ⁽²⁾	18,834	11,754	19,413	14,218	13,926	14,987	14,677	8,221
Per share, basic (\$)	0.07	0.04	0.07	0.05	0.05	0.06	0.06	0.03
Per share, diluted (\$)	0.06	0.04	0.07	0.05	0.05	0.06	0.06	0.03
Total assets (end of period)	576,142	564,175	572,410	504,426	493,394	472,753	468,309	465,942
Weighted average shares outstanding, basic (000s)	283,872	283,272	273,025	272,859	268,047	262,057	261,731	261,684
Weighted average shares outstanding, diluted (000s)	302,242	301,799	273,025	272,859	281,310	274,739	261,731	261,684

(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. Wide fluctuations in quarterly net income in 2010 and 2011 are primarily a result of gains and losses recorded on property dispositions during those periods. The continued improvement in heavy oil prices led to a significant increase in BlackPearl's capital program in 2011.

BUSINESS ENVIRONMENT

Commodity Prices

	2011		2010			
	Q2	Q1	Q4	Q3	Q2	Q1
Average Crude Oil Prices						
West Texas Intermediate (WTI) (US\$/bbl)	102.50	93.95	85.10	76.08	78.03	\$78.71
Western Canadian Select (WCS) (Cdn\$/bbl)	82.09	70.19	67.86	62.91	65.78	72.51
Differential – WCS/WTI (Cdn\$/bbl)	17.63	22.74	18.19	15.66	14.43	9.43
Differential – WCS/WTI (%)	17.8%	24.5%	21.1%	19.8%	18.0%	11.5%
Average Natural Gas Prices						
AECO gas (Cdn\$/GJ)	3.54	3.58	3.39	3.52	3.66	5.06
Foreign Exchange (Cdn\$/US\$)	0.968	0.986	1.013	1.039	1.028	1.041

Crude oil prices strengthened during the second quarter 2011, with the West Texas Intermediate (WTI) reference price averaging US\$102.50 per barrel compared with US\$93.95 per barrel in the first quarter 2011. 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 the first half of 2011 were particularly impacted by the political instability in several Middle Eastern and North African countries. As a result of the recent market uncertainty that has impacted oil prices, the WTI forward strip price for the remainder of 2011 is currently approximately US\$81.

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 17.8% in Q2 2011, which was a decrease from the first quarter 2011 (24.5%), but was consistent with the differential experienced in Q2 2010. The narrower differential is a result of a reduction in the effects from pipeline disruptions which first occurred in 2010, an increase in heavy oil processing capacity resulting from the availability of additional facilities which were originally shut-down for annual maintenance, as well as seasonal higher demand for heavy oil in the spring.

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 second quarter 2011, the Canadian dollar continued to strengthen against the U.S. dollar, averaging Cdn\$0.968 to US\$1 compared with Cdn\$0.986 to US\$1 in the first quarter 2011. The strengthening of the Canadian dollar partially offsets the increased WTI benchmark pricing experienced during the first half of 2011.

In Q2 2011, natural gas prices increased slightly from Q1 2011. As a result of asset dispositions during 2010, BlackPearl's natural gas production currently represents only about 2% 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	Six months ended	
	Q2	Q1	Q2	June 30	
				2011	2010
Daily production / sales volumes ⁽¹⁾					
Oil (bbls/d)	6,398	6,656	6,515	6,527	6,230
Natural gas (mcf/d)	882	<u>2,153</u>	<u>3,890</u>	1,514	<u>4,174</u>
Combined (boe/d)	6,545	7,015	7,163	6,779	6,925
Product pricing					
Oil (\$/bbl)	71.00	56.47	55.03	63.63	59.18
Natural gas (\$/mcf)	3.99	<u>3.84</u>	<u>3.97</u>	3.88	<u>4.53</u>
Combined (\$/boe)	70.59	54.92	52.58	62.53	56.40
Sales (\$000s)					
Oil and natural gas revenue – gross	42,044	34,675	34,274	76,719	70,703
Royalties	(11,923)	<u>(9,019)</u>	<u>(8,868)</u>	(20,942)	<u>(18,218)</u>
Oil and natural gas revenue – net	30,121	25,656	25,406	55,777	52,485

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

Oil and natural gas sales increased by 23% in Q2 2011 to \$42.0 million from \$34.3 million in the same period 2010. The increase in sales is attributable to:

- A 34% increase in average product prices; and
- A 9% decrease in production (on a boe basis)

Overall, average production decreased 7% to 6,545 boe per day for the second quarter of 2011 from 7,015 boe per day in Q1 2011 and 7,163 boe per day in Q2 2010. For the six months ended June 30, 2011, production decreased 2% to 6,779 boe per day from 6,925 boe per day for the same period 2010. The decrease in 2011 oil production is a result of asset dispositions in late 2010 and Q1 2011, wet weather in Saskatchewan this spring which hampered our ability to truck oil and the forest fires in the Slave Lake area which required us to shut-in the entire Mooney field for three weeks in Q2. Although we had an active development drilling program at Onion Lake in the second quarter of 2011, these wells will not significantly impact our production volumes until the second half of 2011. We have commenced polymer injection at Mooney; however, we do not expect to see a significant impact on our oil production volumes until sometime in 2012.

The decrease in natural gas volumes in Q2 2011 reflect property dispositions in the Long Coulee/Little Bow area near the end of the first quarter.

Production by Area (boe/d)	2011		2010	Six months ended	
	Q2	Q1	Q2	June 30	
				2011	2010
Onion Lake	5,666	5,520	5,098	5,597	4,702
Mooney	620	922	980	770	1,062
John Lake	259	297	47	278	36
Ear Lake (sold in 2010)	-	-	316	-	340
Salt Lake (sold in 2010)	-	-	253	-	270
Long Coulee/Little Bow (sold in 2011)	-	172	368	87	166
Other	-	104	101	47	349
	6,545	7,015	7,163	6,779	6,925

On a boe basis, 98% of the Company's oil and natural gas production in the second quarter 2011 was heavy oil. The Onion Lake area accounted for 87% of total production in Q2 2011.

BlackPearl's realized crude oil prices were higher in Q2 2011 compared to Q1 prices as well as Q2 2010 prices. In addition to light oil prices being stronger in Q2, the narrowing of heavy oil differentials contributed to the increase in the Company's realized price.

The Company did not enter into any commodity price hedging arrangements in Q2 2011 and, at the present time, does not anticipate hedging any of its production for the remainder of the year.

Royalties

	2011		2010	Six months ended June 30	
	Q2	Q1	Q2	2011	2010
Royalties (\$000s)	11,923	9,019	8,868	20,942	18,218
As a percentage of revenue	28%	26%	26%	27%	26%

Royalties increased by 34% from \$8.9 million in the second quarter 2010, and by 31% from \$9.0 million in the first quarter 2011, to \$11.9 million for Q2 2011. The increase reflects higher revenues during 2011. Generally, royalty rates in western Canada vary based on volumes produced by individual wells, prices received and the area the production is derived from. Production from Onion Lake is not eligible for any of the new drilling incentives and therefore the royalty rate is higher than other areas with active drilling programs.

Production Costs

	2011		2010	Six months ended June 30	
	Q2	Q1	Q2	2011	2010
Production costs (\$000s)	10,337	11,122	9,306	21,459	19,857
Per boe (\$)	17.36	17.61	14.31	17.49	15.86

Production expenses increased on an absolute basis in both the three and six month periods ended June 30, 2011 over the same periods in 2010 primarily due to additional fixed costs incurred on new wells drilled during 2011. However, production expenses decreased in Q2 from the first quarter 2011 as a result of decreased production. On a per-unit-of-production basis, costs are consistent with Q1 2011; however, they are higher than Q2 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. In addition, 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. As we expect to begin producing a number of the new wells drilled in the first half of 2011, with their associated higher initial operating costs, we expect operating costs for the next few months will be comparable to the first half of the year.

Transportation Costs

	2011		2010	Six months ended June 30	
	Q2	Q1	Q2	2011	2010
Transportation costs (\$000s)	273	457	654	730	1,177
Per boe (\$)	0.46	0.72	1.00	0.60	0.94

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. In an effort to reduce chemical and other costs incurred to eliminate water and other impurities from produced oil, in Q2 2011, more of the Onion Lake production was shipped as emulsion and therefore our transportation costs to ship clean oil was lower.

Operating Netback

(\$/boe)	2011		2010	Six months ended June 30	
	Q2	Q1	Q2	2011	2010
Revenue	\$70.59	\$54.92	\$52.58	\$62.53	\$56.40
Royalties	20.02	14.28	13.60	17.07	14.53
Transportation costs	0.46	0.72	1.00	0.60	0.94
Production costs	17.36	17.61	14.31	17.49	15.86
Netback per boe	\$32.75	\$22.31	\$23.67	\$27.37	\$25.07

The Q2 2011 netback of \$32.75 per boe is a 38% increase from the \$23.67 per boe reported in the same quarter 2010, as well as a 47% increase from Q1 2011. The increase in the netback from Q2 2010 and Q1 2011 is primarily attributable to the increase in realized crude oil prices in Q2 2011.

General and Administrative Expenses (G&A)

(000s, except per boe)	2011		2010	Six months ended June 30	
	Q2	Q1	Q2	2011	2010
Gross G&A expense	2,707	3,341	1,846	6,048	4,007
Operator recoveries	(1,513)	(674)	(345)	(2,187)	(749)
Per boe (\$)	2.01	4.22	2.30	3.15	2.60

G&A, in absolute terms, decreased 55% in the second quarter 2011 when compared to the first quarter 2011. The decrease is primarily a result of \$1.1 million in performance bonuses paid to employees in Q1 2011. No bonuses were paid in 2010. In general, as we move our three core projects to the next stage of development, we expect to add staff which will increase our G&A costs. However, with the anticipated increase in production, the cost per boe of production should be comparable or slightly lower than in previous periods.

Stock-Based Compensation

	2011		2010	Six months ended June 30	
	Q2	Q1	Q2	2011	2010
Stock-based compensation (\$000s)	1,553	1,466	864	3,019	1,801
Per boe (\$)	2.61	2.32	1.33	2.46	1.44

Stock-based compensation costs are non-cash charges which reflect the estimated value of stock options granted. The Company uses the fair value method of accounting for stock options granted to directors, officers, employees and consultants whereby the fair value of all stock options granted is recorded as a charge to operations over the period from the grant date to the vesting date of the option. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes options pricing model. The increase in stock-based compensation expense in Q2 2011 reflects additional options previously granted as well as a higher option value assigned to each grant of options. In the second quarter 2011, 860,067 options were exercised.

Depletion and Depreciation

	2011		2010	Six months ended June 30	
	Q2	Q1	Q2	2011	2010
Depletion and depreciation (\$000s)	14,121	13,001	14,528	27,122	28,646
Per boe (\$)	23.71	20.59	22.29	22.10	22.85

DD&A expense was relatively consistent in the second quarter June 30, 2011 with the same quarter 2010, however, DD&A did increase by 9% to \$14.1 million or \$23.71 per boe from \$13.0 million or \$20.59 per boe in Q2 2011. The increase in depletion from Q1 2011 is a result of increased capital additions in the second quarter 2011.

Interest Income

	2011		2010	Six months ended June 30	
	Q2	Q1	Q2	2011	2010
Interest income (\$000s)	474	458	121	932	184

Interest income consists of interest earned on excess cash held by the Company. Interest income has increased as a result of a higher interest rates earned in 2011 as well as high average cash balances maintained by the Company.

Other Income

	2011		2010	Six months ended June 30	
	Q2	Q1	Q2	2011	2010
Other income (\$000s)	-	-	-	-	1,152

Other income in 2010 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. No credits were purchased in 2011. The program expired on March 31, 2011.

Income Taxes

(000s, except where noted)	2011		2010	Six months ended June 30	
	Q2	Q1	Q2	2011	2010
Current income and other taxes (recovery)	(23)	(58)	53	(81)	115
Future income tax (recovery)	-	-	-	-	-
	(23)	(58)	53	(81)	115

The current income tax recovery in the second 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	Six months ended June 30	
	Q2	Q1	Q2	2011	2010
Gain (loss) on disposition of petroleum and natural gas properties (\$000s)	109	3,436	6,559	3,545	7,719

During 2010 and 2011, BlackPearl recorded gains 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	Six months ended June 30	
	Q2	Q1	Q2	2011	2010
Net income (loss)	2,996	462	5,155	3,458	6,189
Per share, basic (\$)	0.01	0.00	0.01	0.01	0.02
Per share, diluted (\$)	0.01	0.00	0.01	0.01	0.01

For the quarter ended June 30, 2011, the Company generated net income of \$3.0 million compared to net income of \$5.2 million in the same quarter of 2010 and \$0.4 million in Q1 2011. The higher net income in 2010 is mainly a result of larger gains on property dispositions during the period. The increase in net income in Q2 2011 compared with Q1 is a result of a significant increase in realized prices during the second quarter 2011.

	2011		2010	Six months ended June 30	
	Q2	Q1	Q2	2011	2010
Cash-flow from operations	18,834	11,754	13,761	30,494	28,791
Per share, basic (\$)	0.07	0.04	0.05	0.11	0.11
Per share, diluted (\$)	0.06	0.04	0.05	0.10	0.11

Cash-flow from operations increased in the second quarter 2011 to \$18.8 million from \$13.8 million in the same quarter in 2010 and \$11.8 million in Q1 2011. The higher cash-flow in Q2 2011 is a result of a significant increase in realized prices during the quarter.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2011, BlackPearl had working capital of \$84.9 million compared to \$144.0 million at December 31, 2010. The decrease is mainly a result of operating cash inflows of \$30.5 million, offset by \$95.2 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. BlackPearl renewed its existing credit facility during Q2 2011 and the next review of the Company's credit facility is scheduled to be completed by May 29, 2012. 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 3.6:1 at June 30, 2011 and was in compliance with these covenants throughout the second quarter 2011.

The Company expects capital spending for the remainder of 2011 to be between \$70 and \$80 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 June 30, 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 the six months ended 2011, capital spending was higher than in the same period in 2010, totaling \$95.2 million, an increase from the \$37.9 million spent in 2010. The focus of the 2011 capital program has been to complete the SAGD pilot facilities at Blackrod, complete the first phase of the polymer facilities at Mooney and drill 75 conventional heavy oil wells at Onion Lake. In addition, in 2011 we completed drilling 10 delineation wells at Blackrod to support the commercial development application which is expected to be submitted in Q1 2012. During the first half of 2011 the Company completed the sale of certain minor oil and natural gas properties for proceeds of \$2.6 million.

	2011		2010	Six months ended June 30	
	Q2	Q1	Q2	2011	2010
Land	437	1,188	320	1,625	597
Seismic	277	1,582	80	1,859	130
Drilling and completion	33,152	13,939	2,634	47,091	9,257
Equipment	23,101	21,391	2,474	44,492	6,661
Other	73	21	179	94	225
Total	57,040	38,121	5,687	95,161	16,870
Property acquisitions	-	-	-	-	21,000
Total capital expenditures	57,040	38,121	5,687	95,161	37,870
Property dispositions	(100)	(2,500)	(13,849)	(2,600)	(19,238)
Net capital expenditures	56,940	35,621	(8,162)	92,561	18,632

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 June 30, 2011:

(\$000s)	2011	2012	2013	2014	2015	Thereafter
Operating leases ⁽¹⁾	617	1,234	1,364	1,626	1,626	1,320
Electrical service agreement ⁽²⁾	3,012	2,969	-	-	-	-
	3,629	4,203	1,364	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 \$19.6 million (including an estimate for operating costs) over the next 63 months.

(2) 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, 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 Q2 2011.

OUTSTANDING SHARE DATA

As at August 10, 2011, the Company had 284,719,678 common shares outstanding, 9,645,196 vested warrants outstanding and 14,340,831 stock options outstanding under its stock-based compensation.

PROPOSED TRANSACTIONS

As of August 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 six 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 a decommissioning liability that provides current recognition of estimated expenditures that will be incurred in the future. The Company's decommissioning liabilities 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.

- *Decommissioning liabilities* - Under IFRS, the assumptions used in calculating decommissioning liabilities 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 decommissioning liabilities 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	Q2 Update
Production (boe/d)			
Annual average	9,200 – 9,700	8,500 – 9,000	8,000
Exit	11,000 – 13,000	11,000 – 13,000	11,000
Cashflow from operations (\$millions)	65 – 70	70 – 75	70 – 75
Capital expenditures (\$millions)	130 – 150	165 – 175	165 – 180
Year-end debt	-	-	-
Year-end working capital (\$millions)	60 – 70	45 – 50	40 – 45
Pricing Assumptions (annual average)			
Crude oil - WTI	US\$80	US\$95	US\$95
Light/heavy differential	US\$16	US\$19	US\$19
Cdn\$/US\$ exchange	1.00	1.05	1.04

The Company anticipates year end exit production of 11,000 barrels of oil per day, the lower end of our previous guidance range. The delays in the start-up of the ASP flood at Mooney will limit the production growth from this project until 2012.

We expect capital spending of \$70 – 80 million during the second half of 2011. The major components of this spending program include continued development drilling at Onion Lake, begin drilling horizontal wells for the future SAGD project at Onion Lake, expansion of the heavy oil battery at Mooney to accommodate increased oil and water volumes from the polymer flood, as well as drilling some of the horizontal wells on the phase 2 expansion lands, environmental and engineering work on the commercial SAGD development application at Blackrod, and development work on some of our non-core areas. This spending program will be funded from existing working capital and forecast cash flow. As a result of the pull-back in oil prices in the last two weeks, we will closely monitor this capital spending program and if oil prices stabilize at a price lower than what our budget was prepared at we will scale back this second half spending to ensure that we maintain a healthy working capital position.

With estimated cash flow from operations (before working capital adjustments) of \$70 – 75 million for the year we would end the year with a strong working capital position and no debt.

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", "outlook" or similar words suggesting future outcomes. In particular, this report contains forward-looking statements pertaining to our 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 income; 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)	Note	June 30, 2011	December 31, 2010	January 1, 2010
Assets				
Current assets				
Cash and cash equivalents		\$ 109,737	\$ 169,596	\$ 56,352
Accounts receivable		14,510	19,551	11,977
Income and other taxes receivable		-	2,083	4,817
Prepaid expenses and deposits		1,176	883	1,167
		<u>125,423</u>	<u>192,113</u>	<u>74,313</u>
Investments		1,839	1,839	1,284
Exploration and evaluation assets	(4)	94,750	74,606	30,270
Property, plant and equipment	(5)	354,130	303,852	362,442
		<u>\$ 576,142</u>	<u>\$ 572,410</u>	<u>\$ 468,309</u>
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		\$ 40,553	\$ 48,081	\$ 16,318
Decommissioning liabilities	(7)	25,462	23,794	32,970
		<u>66,015</u>	<u>71,875</u>	<u>49,288</u>
Shareholders' equity				
Share capital	(8)	862,411	857,812	779,809
Contributed surplus		20,576	19,041	15,444
Deficit		(372,860)	(376,318)	(376,232)
		<u>510,127</u>	<u>500,535</u>	<u>419,021</u>
		<u>\$ 576,142</u>	<u>\$ 572,410</u>	<u>\$ 468,309</u>

Commitments and contingencies (note 9)
See accompanying notes to consolidated financial statements

BLACKPEARL RESOURCES INC.

Consolidated Statements of Income					
(unaudited)					
(Cdn\$ in thousands, except for per share amounts)					
	Note	Three months ended June 30		Six months ended June 30	
		2011	2010	2011	2010
Revenue					
Oil and gas sales		\$ 42,044	\$ 34,274	\$ 76,719	\$ 70,703
Royalties		(11,923)	(8,868)	(20,942)	(18,218)
		<u>30,121</u>	<u>25,406</u>	<u>55,777</u>	<u>52,485</u>
Expenses					
Production		10,337	9,306	21,459	19,857
Transportation		273	654	730	1,177
General and administrative		1,194	1,501	3,861	3,258
Depletion and depreciation		14,121	14,528	27,122	28,646
Accretion of decommissioning liabilities		232	234	428	539
Stock-based compensation	(8)	1,553	864	3,019	1,801
Interest and bank charges		11	11	111	21
Foreign currency exchange loss (gain)		10	(220)	147	(63)
		<u>27,731</u>	<u>26,878</u>	<u>56,877</u>	<u>55,236</u>
Other income					
Interest income		474	121	932	184
Other income		-	-	-	1,152
Gain on disposition of petroleum and natural gas properties	(5)	109	6,559	3,545	7,719
		<u>583</u>	<u>6,680</u>	<u>4,477</u>	<u>9,055</u>
Income before income taxes		<u>2,973</u>	<u>5,208</u>	<u>3,377</u>	<u>6,304</u>
Income taxes					
Current income tax (recovery)		(23)	53	(81)	115
		<u>(23)</u>	<u>53</u>	<u>(81)</u>	<u>115</u>
Net income for the period		<u>\$ 2,996</u>	<u>\$ 5,155</u>	<u>\$ 3,458</u>	<u>\$ 6,189</u>
Earnings per common share					
Basic		\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.02
Diluted		\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01

See accompanying notes to consolidated financial statements

BLACKPEARL RESOURCES INC.

Consolidated Statements of Changes in Equity
(unaudited)

(Cdn\$ in thousands)

Six months ended June 30, 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	-	-	3,458	3,458
Stock-based compensation	-	3,019	-	3,019
Shares issued on exercise of stock options	3,115	-	-	3,115
Transfer to share capital on exercise of stock options	1,484	(1,484)	-	-
Balance - June 30, 2011	\$ 862,411	\$ 20,576	\$ (372,860)	\$ 510,127

Six months ended June 30, 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	-	-	6,189	6,189
Shares issued on equity offering	28,593	-	-	28,593
Stock-based compensation	-	1,801	-	1,801
Shares issued on exercise of stock options	464	-	-	464
Transfer to share capital on exercise of stock options	227	(227)	-	-
Balance - June 30, 2010	\$ 809,093	\$ 17,018	\$ (370,043)	\$ 456,068

See accompanying notes to consolidated financial statements

BLACKPEARL RESOURCES INC.

Consolidated Statements of Cash Flows				
(unaudited)				
(Cdn\$ in thousands)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Operating activities				
Net income for the period	\$ 2,996	\$ 5,155	\$ 3,458	\$ 6,189
Items not involving cash:				
Depletion and depreciation	14,121	14,528	27,122	28,646
Accretion of decommissioning liabilities	232	234	428	539
Stock-based compensation	1,553	864	3,019	1,801
Foreign exchange loss (gain)	73	(384)	210	(227)
Gain on disposal of petroleum and natural gas properties	(109)	(6,559)	(3,545)	(7,719)
Abandonment costs incurred	(32)	(77)	(198)	(438)
	<u>18,834</u>	<u>13,761</u>	<u>30,494</u>	<u>28,791</u>
Changes in non-cash working capital related to operations	658	(11,603)	(1,100)	(6,199)
	<u>19,492</u>	<u>2,158</u>	<u>29,394</u>	<u>22,592</u>
Financing activities				
Proceeds on issue of common shares, net of costs	2,542	28,867	3,115	29,057
	<u>2,542</u>	<u>28,867</u>	<u>3,115</u>	<u>29,057</u>
Investing activities				
Capital expenditures	(57,040)	(5,687)	(95,161)	(37,870)
Proceeds from sale of petroleum and natural gas properties	100	13,849	2,600	19,238
Changes in non-cash working capital from investing	1,546	6,360	256	4,362
	<u>(55,394)</u>	<u>14,522</u>	<u>(92,305)</u>	<u>(14,270)</u>
Effect of exchange rate changes on cash and cash equivalents	(63)	164	(63)	164
Increase (decrease) in cash and cash equivalents	<u>(33,423)</u>	<u>45,711</u>	<u>(59,859)</u>	<u>37,543</u>
Cash and cash equivalents, beginning of period	<u>143,160</u>	<u>48,184</u>	<u>169,596</u>	<u>56,352</u>
Cash and cash equivalents, end of period	<u>\$ 109,737</u>	<u>\$ 93,895</u>	<u>\$ 109,737</u>	<u>\$ 93,895</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.

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.

The policies applied in these condensed interim Consolidated Financial Statements are based on IFRS issued and outstanding as of August 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.

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 decommissioning liabilities includes estimates of the future costs to settle the liability, the timing of the cash flows to settle the liability, 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.

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

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. Cash and cash equivalents are designated at fair value through profit or loss.

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. 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. Instruments are classified as current if they are assumed to be settled within one year, otherwise they are classified as non-current. The Company will assess at each reporting period whether there is any objective evidence that a financial asset, other than those measured at fair value, 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, decommissioning 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 cannot 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. Depreciation of these corporate assets is calculated using the declining-balance method.

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 reserves 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 property, plant and equipment 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 less cost to sell is determined to be the amount for which the asset could be sold in an arm's length transaction, less the costs of disposal. 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.

Decommissioning liabilities

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

Increases in decommissioning liabilities resulting from the passage of time are recorded as accretion of decommissioning liabilities in the consolidated statement of income. Actual expenditures incurred are charged against the accumulated decommissioning liability 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 expense is comprised of 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

IFRS 9: Financial Instruments – In November 2009, the International Accounting Standards Board (IASB) issued IFRS 9 to address classification and measurement of financial assets. In October 2010, the IASB revised the standard to include financial liabilities. The standard is required to be adopted for periods beginning January 1, 2013.

IFRS 10: Consolidated Financial Statements – In May 2011, the IASB issued IFRS 10 which provides additional guidance to determine whether an investee should be consolidated. The guidance applies to all investees, including special purpose entities. The standard is required to be adopted for periods beginning January 1, 2013. The standard will not have a material impact on the Company’s financial statements.

IFRS 11: Joint Arrangements – In May 2011, the IASB issued IFRS 11 which presents a new model for determining whether an entity should account for joint arrangements using proportionate consolidation or the equity method. An entity will have to follow the substance rather than legal form of a joint arrangement and will no longer have a choice of accounting method. The standard is required to be adopted for periods beginning January 1, 2013. The Company is currently evaluating the impact that the standard may have on its financial statements.

IFRS 12: Disclosure of Interests in Other Entities – In May 2011, the IASB issued IFRS 12 which aggregates and amends disclosure requirements included within other standards. The standard requires a company to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is required to be adopted for periods beginning January 1, 2013. The Company is currently evaluating the impact that the standard may have on its financial statements.

IFRS 13: Fair Value Measurement – In May 2011, the IASB issued IFRS 13 to provide comprehensive guidance for instances where IFRS requires fair value to be used. The standard provides guidance on determining fair value and requires disclosures about those measurements. The standard is required to be adopted for periods beginning January 1, 2013. The Company is currently evaluating the impact that the standard may have on its financial statements.

IAS 1: Presentation of Items of Other Comprehensive Income – In June 2011, the IASB issued amendments to IAS 1 Presentation of Financial Statements to split items of other comprehensive income (OCI) between those that are reclassified to income and those that are not. The standard is required to be adopted for periods beginning on or after July 1, 2012. The Company is currently evaluating the impact that the standard may have on its financial statements.

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	18,123
Change in asset retirement cost	2,021
At June 30, 2011	\$ 94,750

The Company's exploration and evaluation assets consist entirely of costs pertaining to the Blackrod SAGD project in northern Alberta. During the first half 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	76,944	94	77,038
Change in asset retirement cost	(579)	-	(579)
Disposals	(3,793)	-	(3,793)
At June 30, 2011	\$ 646,344	\$ 3,262	\$ 649,606
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	26,974	148	27,122
Disposals	(4,734)	-	(4,734)
At June 30, 2011	\$ 293,965	\$ 1,511	\$ 295,476
Net book value			
January 1, 2010	\$ 360,571	\$ 1,871	\$ 362,442
December 31, 2010	\$ 302,047	\$ 1,805	\$ 303,852
June 30, 2011	\$ 352,379	\$ 1,751	\$ 354,130

During the six months ended June 30, 2011, BlackPearl disposed of a number of petroleum and natural gas properties. The Company received proceeds of \$2.6 million (\$19.2 million – 2010) and recorded a gain on disposition of \$3.5 million (\$7.7 million – 2010) on the June 30, 2011 financial statements.

6. CREDIT FACILITY

The Company has a 364-day extendible term credit facility with a Canadian financial institution in the amount of \$25 million. The Company may borrow, repay and re-borrow advances with the aggregate 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 June 30, 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 June 30, 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 29, 2012. The maturity date of the credit facility is May 29, 2012 and should the lender decide not to renew the facility, any debts outstanding must be repaid by May 28, 2013.

7. DECOMMISSIONING LIABILITIES

The Company's decommissioning liability 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 \$28.7 million (\$27.3 million – December 31, 2010) . The fair value of the decommissioning liability was calculated using an inflation factor of 2% and discounted using a risk-free rate of 3.75% (3.75% - January 1, 2010). These liabilities will be settled at the end of the useful lives of the underlying assets which are currently expected to extend up to 27 years, with the majority of costs expected to be incurred between 2011 and 2024. Settlement of the liability is expected to be funded from general corporate funds at the time of retirement.

Changes to the decommissioning liability were as follows:

		Six months ended		Year ended
		June 30, 2011		December 31, 2010
Asset retirement obligation, beginning of period	\$	23,794	\$	32,970
New liabilities recognized		6,628		1,515
Reduction in liabilities due to asset dispositions		(5,186)		(10,759)
Remediation costs incurred		(198)		(905)
Liabilities settled		(4)		(35)
Accretion		428		1,008
Asset retirement obligation, end of period	\$	25,462	\$	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	1,024,167	3,115
Transferred from contributed surplus on exercise of stock options	-	1,484
Balance as at June 30, 2011	284,239,554	\$862,411

(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 June 30, 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
Granted	370,000	7.22
Exercised	(1,024,167)	3.04
Outstanding at June 30, 2011	14,315,831	2.27

Options outstanding and exercisable as at June 30, 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	6,295,500	0.73	2.54	4,776,501	0.73	2.56
1.51 – 3.00	4,697,831	2.25	3.03	1,964,511	2.29	2.58
3.01 – 4.50	219,000	3.27	2.31	144,000	3.38	1.35
4.51 – 6.00	2,733,500	5.08	3.89	352,000	5.05	0.58
6.01 – 7.66	370,000	7.22	4.87	-	-	-
	14,315,831	2.27	3.02	7,237,012	1.42	2.44

(e) Stock Based Compensation

Stock-based compensation of \$3,019,000 has been recorded in the consolidated statements of income for the six months ended June 30, 2011 (2010 – \$1,801,000). The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option pricing model. 370,000 options were granted during the six months ended June 30, 2011. The fair value of these options was estimated using the following weighted average assumptions: risk-free rate of 2.00%, volatility of 80.08%, expected term of 3 years and a market share price of \$7.22. There were no forfeitures during the 6 months ended June 30, 2011.

9. COMMITMENTS AND CONTINGENCIES

	2011	2012	2013	2014	2015	Thereafter
Operating leases ⁽¹⁾	\$ 617	\$ 1,234	\$ 1,364	\$ 1,626	\$ 1,626	\$ 1,320
Electrical service agreement ⁽²⁾	3,012	2,969	-	-	-	-
	\$ 3,629	\$ 4,203	\$ 1,364	\$ 1,626	\$ 1,626	\$ 1,320

(1) The Company has 63 months remaining on an operating lease for office space as at June 30, 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 \$19.6 million (including an estimate for operating costs) over the next 63 months.

(2) 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 June 30, 2011 include cash and cash equivalents, accounts 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 June 30, 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 to a lesser extent (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 June 30, 2011, the Company has not entered into any fixed rate contracts to mitigate its currency risks. As at June 30, 2011, the Company held US\$1,781,000 in cash and short-term deposits and other net working capital items of US\$592,000.

As at June 30, 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 \$119,000 higher (\$185,000 – 2010). An equal opposite impact would have occurred to net earnings had exchange rates been \$0.10 higher.

(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 June 30, 2011, over 95 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 June 30, 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 June 30, 2011, the Company held \$109.6 million in cash at various major financial institutions throughout Canada and the USA, as well as \$1.8 million in investments. At June 30, 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 June 30, 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 \$696,000 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 June 30, 2011, the Company had an undrawn \$25 million credit facility, and working capital of \$85.3 million (\$97.5 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	\$40,553	-	-

(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 3.6:1 at June 30, 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 June 30		Six months ended June 30	
	2011	2010	2011	2010
Cash interest paid	\$ 7	\$ -	\$ 107	\$ 28
Cash taxes paid (refund)	\$ (23)	\$ 53	\$ (81)	\$ 99

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

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Weighted average common shares outstanding				
Basic	283,872,209	268,047,459	283,573,540	265,068,845
Diluted	302,242,100	273,354,863	301,998,891	270,325,873

12. TRANSITION TO IFRS

As stated in note 2, beginning in 2011 the Company's financial statements have been prepared in accordance with IFRS. For accounting periods prior to 2011 the Company prepared its financial statements under old Canadian GAAP. The effect of the Company's transition to IFRS 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

IFRS generally requires first-time adopters to retrospectively apply all IFRS standards and interpretations currently in effect. However, IFRS 1 provides certain exceptions and exemptions to this general principle. 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. 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 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 decommissioning liabilities – Under old Canadian GAAP, decommissioning liabilities 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 decommissioning liability each reporting period since the liability was incurred and make corresponding adjustments to the liability and PPE at the transition date. However, IFRS 1 allows companies that followed full cost accounting to measure decommissioning liabilities 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 June 30 2010	At January 1 2010
Equity under old Canadian GAAP		476,884	439,086	426,556
Change in depletion	(a)	31,866	17,338	-
Change in accretion	(b)	363	(540)	-
Gain (Loss) on disposition of petroleum and natural gas properties	(c)	(1,043)	7,719	-
Decommissioning liability revaluation	(d)	(7,535)	(7,535)	(7,535)
Equity under IFRS		500,535	456,068	419,021

	Note (iii)	Year ended December 31, 2010	Three months ended June 30, 2010	Six months ended June 30, 2010
Comprehensive loss under old Canadian GAAP		(31,272)	(10,276)	(18,329)
Change in depletion	(a)	31,866	9,106	17,338
Change in accretion	(b)	363	(234)	(539)
Gain (loss) on disposal of petroleum and natural gas properties	(c)	(1,043)	6,559	7,719
Comprehensive income (loss) under IFRS		(86)	5,155	6,189

(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 decommissioning liabilities 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
September 30, 2011 will be published
on or before November 14, 2011