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 nine months ended September 30, 2011. These results are being compared with the three and nine month periods ended September 30, 2010. The MD&A should be read in conjunction with the Company's unaudited consolidated financial statements for the three and nine months ended September 30, 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.

The following is a summary of the abbreviations that may have been used in this document:

Oil and Natural Gas Liquids		Natural Gas	
bbl	barrel	Mcf	thousand cubic feet
bbls/d	barrels per day	MMcf	million cubic feet
Mbbls/d	thousand barrels per day	Mcf/d	thousand cubic feet per day
MMbbls	million barrels	Bcf	billion cubic feet
NGLs	natural gas liquids	MMBtu	Million british thermal units
boe	barrel of oil equivalent	GJ	Gigajoule
boe/d	Barrel of oil equivalent per day		
WTI	West Texas Intermediate (a light oil reference price)		
WCS	Western Canadian Select (a heavy oil reference price)		
SAGD	Steam Assisted Gravity Drainage (a thermal recovery process)		
ASP	Alkali, Surfactant, Polymer		

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 November 9, 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 three quarters 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 three quarters of 2011 were $135.7 million, with approximately $27 million spent at Blackrod, $65 million at Onion Lake and $41 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 three quarters of 2011 were $121.3 million and cash flow from operations was $49.4 million. Net income was $3.4 million for the nine months ended September 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.

- The Company has not undertaken any equity issuances in 2011; however, 1,516,624 common shares have been issued pursuant to the exercise of stock options and warrants during the nine months ended September 30, 2011.

- At September 30, 2011, BlackPearl had working capital of $64.2 million and no long-term debt.

SELECTED QUARTERLY INFORMATION

($000s, except where noted)	**2011**			2010				2009[1]
	Sept 30	**June 30**	**Mar. 31**	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31
Production (boe/d)	**8,113**	**6,545**	**7,015**	7,307	6,646	7,163	6,685	5,306
Revenue ($/boe)	**59.70**	**70.59**	**54.92**	57.63	54.66	52.58	60.55	56.69
Oil and natural gas sales	**44,564**	**42,044**	**34,675**	38,743	33,421	34,274	36,429	27,674
Production costs	**13,665**	**10,337**	**11,122**	8,670	8,297	9,306	10,552	7,251
Net income (loss)	**(51)**	**2,996**	**462**	(4,832)	(1,443)	5,155	1,034	(3,897)
Per share, basic and diluted ($)	**0.00**	**0.01**	**0.00**	(0.02)	(0.01)	0.02	0.00	(0.01)
Capital expenditures	**40,499**	**57,040**	**38,121**	38,033	19,926	5,687	34,181	17,559
Cash flow from operations[2]	**18,924**	**18,834**	**11,754**	19,413	14,136	13,926	14,987	14,677
Per share, basic ($)	**0.07**	**0.07**	**0.04**	0.07	0.05	0.05	0.06	0.06
Per share, diluted ($)	**0.07**	**0.06**	**0.04**	0.07	0.05	0.05	0.06	0.06
Total assets (end of period)	**573,536**	**576,142**	**564,175**	572,410	504,426	493,394	472,753	468,309
Weighted average shares outstanding, basic (000s)	**284,353**	**283,872**	**283,272**	273,025	272,859	268,047	262,057	261,731
Weighted average shares outstanding, diluted (000s)	**284,353**	**302,242**	**301,799**	273,025	272,859	281,310	274,739	261,731

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

Fluctuations in quarterly revenues and net earnings over the last eight quarters are due primarily to the volatility in oil and natural gas prices and changes in sales volumes due to production growth through successful drilling activity, principally in the Onion Lake area. Decreased production in Q3 2010 and Q1 2011 was primarily a result of asset dispositions during the last fifteen months. The increased production in Q3 2011 is a result of new production from Onion Lake wells drilled in the first half of 2011. 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			
Average Crude Oil Prices	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1
West Texas Intermediate (WTI) (US$/bbl)	**89.74**	102.50	93.95	85.10	76.08	78.03	78.71
Western Canadian Select (WCS) (Cdn$/bbl)	**70.98**	82.09	70.19	67.86	62.91	65.78	72.51
Differential – WCS/WTI (Cdn$/bbl)	**17.27**	17.63	22.74	18.19	15.66	14.43	9.43
Differential – WCS/WTI (%)	**19.6%**	17.8%	24.5%	21.1%	19.8%	18.0%	11.5%
Average Natural Gas Prices							
AECO gas (Cdn$/GJ)	**3.44**	3.54	3.58	3.39	3.52	3.66	5.06
Foreign Exchange (Cdn$ to US$)	**1.020**	1.033	1.014	0.987	0.962	0.973	0.961

Crude oil prices weakened during the third quarter 2011, with the West Texas Intermediate (WTI) reference price averaging US$89.74 per barrel compared with US$102.50 per barrel in the second 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 nine months of 2011 were particularly impacted by the political instability in several Middle Eastern and North African countries. The decrease in Q3 2011 crude oil prices has been attributed to the debt crisis in the US and several European countries and slowing global economic growth and the effect these issues will have on oil demand. The WTI forward strip price for 2012 is currently approximately US$96.

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 19.6% in Q3 2011, which was an increase from the second quarter 2011 (17.8%), but was consistent with the differential experienced in Q3 2010.

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 third quarter 2011, the Canadian dollar weakened slightly against the U.S. dollar, averaging Cdn$0.980 to US$1 compared with Cdn$0.968 to US$1 in the second quarter 2011. The weakening of the Canadian dollar partially offsets the decreased WTI benchmark pricing experienced during the third quarter of 2011.

In Q3 2011, natural gas prices decreased slightly from Q2 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	Nine months ended September 30	
	Q3	Q2	Q3	**2011**	2010
Daily production / sales volumes [1]					
Oil (bbls/d)	**8,028**	6,398	6,166	**7,033**	6,208
Natural gas (Mcf/d)	**512**	882	2,881	**1,176**	3,738
Combined (boe/d)	**8,113**	6,545	6,646	**7,229**	6,831
Product pricing					
Oil ($/bbl)	**59.87**	71.00	57.17	**62.18**	58.51
Natural gas ($/Mcf)	**4.10**	3.99	3.52	**3.91**	4.26
Combined ($/boe)	**59.70**	70.59	54.66	**61.46**	55.83
Sales ($000s)					
Oil and natural gas revenue – gross	**44,564**	42,044	33,421	**121,283**	104,124
Royalties	**(10,315)**	(11,923)	(8,931)	**(31,257)**	(27,149)
Oil and natural gas revenue – net	**34,249**	30,121	24,490	**90,026**	76,975

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

Oil and natural gas revenue increased by 33% in Q3 2011 to $44.6 million from $33.4 million in the same period 2010. The increase in revenue is attributable to:

- A 22% increase in production (on a boe basis); and
- A 9% increase in average product prices

Overall, average production increased 24% to 8,113 boe per day for the third quarter of 2011 from 6,545 boe per day in Q2 2011 and 6,646 boe per day in Q3 2010. For the nine months ended September 30, 2011, production increased 6% to 7,229 boe per day from 6,831 boe per day for the same period 2010. The increase in 2011 oil production is primarily a result of new production from Onion Lake wells drilled during the first half of 2011. Seventy-six wells were drilled at Onion Lake in the first nine months of 2011, eighteen of which have not been put on production as of the end of the quarter. We have commenced the first phase of our polymer injection project at Mooney; however, we do not expect to see a significant impact on our oil production volumes until sometime in 2012. We are also seeing production increases in some of our non-core areas such as John Lake and Zoller Lake as a result of recent drilling in these areas.

Production by Area (boe/d)	2011		2010	Nine months ended September 30	
	Q3	Q2	Q3	**2011**	2010
Onion Lake	**7,065**	5,666	5,157	**6,092**	4,855
Mooney	**509**	620	890	**682**	1,004
John Lake	**401**	259	53	**320**	42
Other	**138**	-	546	**135**	930
	8,113	6,545	6,646	**7,229**	6,831

On a boe basis, 99% of the Company's oil and natural gas production in the third quarter 2011 was heavy oil. The Onion Lake area accounted for 87% of total production in Q3 2011.

BlackPearl's realized crude oil prices were lower in Q3 2011 compared to Q2 prices, but were slightly higher than Q3 2010 prices. Weaker light oil prices combined with fairly consistent heavy oil differentials accounted for the change to the Company's realized price between Q3 and Q2.

The Company did not enter into any commodity price hedging arrangements in Q3 2011 and, at the present time, does not anticipate hedging any of its production for the remainder of the year.

Royalties

	2011		2010	Nine months ended September 30	
	Q3	Q2	Q3	**2011**	2010
Royalties ($000s)	**10,315**	11,923	8,931	**31,257**	27,149
Per boe ($)	**13.82**	20.02	14.61	**15.84**	14.56
As a percentage of revenue	**23%**	28%	27%	**26%**	26%

Royalties increased by 15% from $8.9 million in the third quarter 2010 to $10.3 million in Q3 2011. The increase reflects higher revenues during 2011. The decrease in royalty expense from Q2 to Q3 2011 is a result of a significant one-time royalty adjustment that was calculated in the Company's favour that pertained to previous periods. 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	Nine months ended September 30	
	Q3	Q2	Q3	**2011**	2010
Production costs ($000s)	**13,665**	10,337	8,297	**35,124**	28,154
Per boe ($)	**18.31**	17.36	13.57	**17.80**	15.10

Production expenses increased on an absolute basis in both the three and nine month periods ended September 30, 2011 over the same periods in 2010 primarily due to increased production volumes as well as additional fixed costs incurred on new wells drilled during 2011. In general, 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. In Q3 2011, we brought on production over 50 new heavy oil wells at Onion Lake. These initial costs are expected to be reduced after several months of production from the new wells. In addition, production costs are higher than Q3 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. The higher costs associated with treating and trucking emulsion that is included in production expenses is partially offset by lower transportation costs. Third quarter operating costs have also increased as a result of a one-time adjustment of approximately $600,000 relating to costs from previous periods. In addition, although the incremental costs of initially re-pressurizing the reservoir at Mooney are being capitalized, the existing fixed operating costs are continuing with lower production levels (since half the wells were converted to injectors), which contributes to higher operating costs on a per barrel basis. This affected Q3 2011 operating costs by over $0.75 per barrel.

Transportation Costs

	2011		2010	Nine months ended September 30	
	Q3	Q2	Q3	**2011**	2010
Transportation costs ($000s)	**231**	273	867	**961**	2,044
Per boe ($)	**0.31**	0.46	1.42	**0.49**	1.10

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 Q3 2011, more of the Onion Lake production was shipped as emulsion and therefore our transportation costs to ship clean oil was lower.

Operating Netback

	2011		2010	Nine months ended September 30	
($/boe)	**Q3**	Q2	Q3	**2011**	2010
Revenue	**$59.70**	$70.59	$54.66	**$61.46**	$55.83
Royalties	**13.82**	20.02	14.61	**15.84**	14.56
Transportation costs	**0.31**	0.46	1.42	**0.49**	1.10
Production costs	**18.31**	17.36	13.57	**17.80**	15.10
Netback per boe	**$27.26**	$32.75	$25.06	**$27.33**	$25.07

The Q3 2011 netback of $27.26 per boe is a 9% increase from the $25.06 per boe reported in the same quarter 2010; however, it is a 17% decrease from Q2 2011. The decrease in the netback from Q2 2011 is primarily attributable to the decrease in realized crude oil prices in Q3 2011.

General and Administrative Expenses (G&A)

	2011		2010	Nine months ended September 30	
(000s, except per boe)	**Q3**	Q2	Q3	**2011**	2010
Gross G&A expense	**1,985**	2,033	1,818	**7,359**	5,825
Operator recoveries	**(667)**	(839)	(400)	**(2,180)**	(1,149)
	1,318	1,194	1,418	**5,179**	4,676
Per boe ($)	**1.77**	2.01	2.32	**2.62**	2.51

G&A, in absolute terms, increased 10% in the third quarter 2011 when compared to the second quarter 2011. In general, as we move each of our three core projects to the next stage of development, we are adding staff which will increase our G&A costs. However, with the anticipated increase in production, the cost per boe of production is expected to be comparable or slightly lower than in previous periods. Fluctuations in overhead recoveries is generally based on capital spending activities. The increase in overhead recoveries in 2011 compared to 2010 reflects the Company's larger capital spending program in 2011.

Stock-Based Compensation

	2011		2010	Nine months ended September 30	
	Q3	Q2	Q3	**2011**	2010
Stock-based compensation ($000s)	**1,706**	1,553	944	**4,725**	2,745
Per boe ($)	**2.29**	2.61	1.54	**2.39**	1.47

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 Q3 2011, compared with the same period in 2010, reflects additional options previously granted as well as a higher option value assigned to each grant of options. In the third quarter 2011, 137,333 options were exercised.

Depletion and Depreciation

	2011		2010	Nine months ended September 30	
	Q3	Q2	Q3	**2011**	2010
Depletion and depreciation ($000s)	**17,706**	14,121	14,950	**44,828**	43,596
Per boe ($)	**23.72**	23.71	24.45	**22.72**	23.38

DD&A expense increased in the third quarter September 30, 2011 from the same quarter 2010 as well as the second quarter 2011. DD&A increased by 25% to $17.7 million or $23.72 per boe from $14.1 million or $23.71 per boe in Q2 2011. The increase in depletion from Q3 2010 and Q2 2011 is primarily a result of increased production in the third quarter 2011.

Interest Income

	2011		2010	Nine months ended September 30	
	Q3	Q2	Q3	**2011**	2010
Interest income ($000s)	**273**	474	246	**1,205**	427

Interest income consists of interest earned on excess cash held by the Company. Interest income has increased as a result of higher interest rates earned in 2011 as well as high average cash balances maintained by the Company when compared to 2010. The decrease in Q3 from Q2 2011 is a result of lower cash balances held due to additional capital spending.

Other Income

	2011		2010	Nine months ended September 30	
	Q3	Q2	Q3	**2011**	2010
Other income ($000s)	**-**	-	291	**-**	1,443

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

	2011		2010	Nine months ended September 30	
(000s, except where noted)	**Q3**	Q2	Q3	**2011**	2010
Current income and other taxes (recovery)	**-**	(23)	23	**(81)**	138
Future income tax (recovery)	**-**	-	-	**-**	-
	-	(23)	23	**(81)**	138

There were no income taxes paid or recoveries to note in the third quarter 2011.

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

	2011		2010	Nine months ended September 30	
	Q3	Q2	Q3	**2011**	2010
Gain (loss) on disposition of petroleum and natural gas properties ($000s)	**-**	109	491	**3,545**	8,210

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. The Company expects to sell more of its non-core assets over the next 12 to 24 months.

RESULTS OF OPERATIONS

($000s, except where noted)

	2011		2010	Nine months ended September 30	
	Q3	Q2	Q3	**2011**	2010
Net income (loss)	**(51)**	2,996	(1,443)	**3,407**	4,746
Per share, basic ($)	**0.00**	0.01	(0.01)	**0.01**	0.02
Per share, diluted ($)	**0.00**	0.01	(0.01)	**0.01**	0.02

For the quarter ended September 30, 2011, the Company generated a net loss of $51,000 compared to a net loss of $1.4 million in the same quarter of 2010 and net income of $3.0 million in Q2 2011. The reduced net loss in Q3 2011, compared with Q3 2010, is mainly a result of better commodity pricing. The decrease in net income in Q3 2011 compared with Q2 is a result of a significant decrease in realized prices during the third quarter 2011.

	2011		2010	Nine months ended September 30	
	Q3	Q2	Q3	**2011**	2010
Cash-flow from operations	**18,924**	18,834	14,136	**49,355**	43,091
Per share, basic ($)	**0.07**	0.07	0.05	**0.17**	0.16
Per share, diluted ($)	**0.07**	0.06	0.05	**0.16**	0.16

Cash-flow from operations increased in the third quarter 2011 to $18.9 million from $14.1 million in the same quarter in 2010 and $18.8 million in Q2 2011. The increase in cash flow in Q3 2011 compared with Q3 2010 reflects higher production volumes as well as higher wellhead sales prices.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2011, BlackPearl had working capital of $64.2 million compared to $144.0 million at December 31, 2010. The decrease is mainly a result of operating cash inflows of $49.4 million, offset by $135.7 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 3.4:1 at September 30, 2011 and was in compliance with these covenants throughout the third quarter 2011.

The Company expects capital spending for the remainder of 2011 to be between $35 and $45 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 September 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 nine months ended 2011, capital spending was higher than in the same period in 2010, totaling $135.7 million, an increase from the $57.8 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 76 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 nine months of 2011 the Company completed the sale of certain minor oil and natural gas properties for proceeds of $2.6 million.

	2011		2010	Nine months ended September 30	
	Q3	Q2	Q3	**2011**	2010
Land	**51**	437	1,858	**1,676**	2,455
Seismic	**278**	277	176	**2,137**	306
Drilling and completion	**22,636**	33,152	13,435	**69,727**	22,692
Equipment	**17,514**	23,101	4,447	**62,006**	11,108
Other	**20**	73	10	**114**	235
Total	**40,499**	57,040	19,926	**135,660**	36,796
Property acquisitions	**-**	-	-	**-**	21,000
Total capital expenditures	**40,499**	57,040	19,926	**135,660**	57,796
Property dispositions	**-**	(100)	(416)	**(2,600)**	(19,654)
Net capital expenditures	**40,499**	56,940	19,510	**133,060**	38,142

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The Company has a number of financial obligations in the ordinary course of business. The following table summarizes the outstanding contractual obligations and commitments of the Company as at September 30, 2011:

($000s)	2011	2012	2013	2014	2015	Thereafter
Operating leases (1)	317	1,248	1,364	1,626	1,626	1,320
Electrical service agreement (2)	1,506	2,969	-	-	-	-
	1,823	4,217	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 $18.7 million (including an estimate for operating costs) over the next 60 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 Q3 2011.

OUTSTANDING SHARE DATA

As at November 9, 2011, the Company had 284,835,344 common shares outstanding, 9,645,196 vested warrants outstanding and 14,525,165 stock options outstanding under its stock-based compensation program.

PROPOSED TRANSACTIONS

As of November 9, 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 decommissioning liabilities includes estimates of the future costs to settle the decommissioning 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.

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 nine 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	Update 2011	Initial 2012
Production (boe/d)		
Annual average	7,500 – 8,000	11,000
Exit	11,000	12,500
Cashflow from operations ($millions)	70 – 75	90 – 95
Capital expenditures ($millions)	175 – 180	125 – 135
Year-end debt	-	-
Year-end working capital ($millions)	35 – 40	5 – 10
Pricing Assumptions (annual average)		
Crude oil - WTI	US$93	US$85
Light/heavy differential	US$17	US$15
Foreign Exchange (Cdn$ to US$)	1.01	1.02

Our updated 2011 guidance is in-line with our previous Q2 guidance. We expect year-end production to be near 11,000 boe per day, with cash flow from operations in the range of $70-75 million and capital spending of $175-$180 million. This should leave us with a healthy balance sheet at year-end with working capital of $35-40 million and no long term debt.

We are also providing initial guidance for 2012. In 2012, we expect our capital spending to be between $125-$135 million. A major emphasis of our capital spending program next year will be on building infrastructure in each of our core areas. These infrastructure projects include:

- Constructing a heavy oil battery at Mooney to handle increased volumes from the ASP flood;
- Building a heavy oil battery at Onion Lake and planning for a pipeline to connect the facilities to a major oil gathering system;
- Drill up to 14 horizontal wells at Onion Lake that will eventually be used for thermal development of the property.

Although these infrastructure projects do not add to our production base they are necessary to efficiently develop and control operations in our core areas.

In addition to these infrastructure projects, we will continue with our conventional development program at Onion Lake with up to 50 wells planned. We also plan to drill 5 to 10 horizontal wells on phase two lands at Mooney. At Blackrod, we will begin the detailed engineering work for the first commercial development phase of our SAGD project as well as drill 10 additional delineation wells required for the commercial application.

It is expected that this capital program will be funded from existing working capital and anticipated cash flow from operations. We also have an unutilized $25 million line of credit that is available. We have a lot of flexibility in our capital program and if cash flows are lower than anticipated we are able to adjust capital spending if required.

We are also planning to sell some of our non-core properties in 2012. If we are successful in selling properties we would likely expand our capital program and accelerate the development in our core areas.

Exit production levels for 2012 are expected to be approximately 12,500 boe per day. The most significant increase in production is expected to come from the response of phase one of the ASP flood at Mooney.

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 and 2012.

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 and 2012 guidance 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.