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FIRST QUARTER 2010 FINANCIAL AND OPERATING RESULTS

Highlights of our first quarter activities include:

- Oil and gas production averaged 6,685 boe/day, a 21% increase over Q1 2009;
- Crude oil prices continued to strengthen, averaging WTI US\$78.71 per barrel; heavy oil differentials remained tight at 10%; partially offset by a stronger Canadian dollar
- Revenues increased 131% to \$36.4 million compared to Q1 in 2009; Cash flow from operations was \$15 million, compared with negative \$1.8 million in Q1 2009;
- Acquired the remaining 20% working interest in the Blackrod SAGD project; we now own 100% of this property;
- Drilled 8 development wells at Onion Lake, 60 additional wells planned for the remainder of the year.
- Subsequent to March 31, strengthened the balance sheet with an equity offering of 10.3 million common shares for net proceeds of \$28.8 million.

John Festival, President of BlackPearl, commenting on Q1 2010 activities indicated that “we had a very good first quarter. Production is increasing as a result of new drilling at Onion Lake and heavy oil prices stayed strong; both of which positively impacted our Q1 financial results. Our 2010 capital plans on our core properties are progressing as expected. The only major unexpected item for us in the first quarter was the purchase of the remaining 20% interest at our Blackrod SAGD property, which we think we achieved at an attractive value for our shareholders. Proceeds from recent asset dispositions and our equity offering will allow us to expand our capital program, which will primarily be additional development drilling at Onion Lake. Production for the next two quarters will be impacted by the sale of about 700 boe per day, but this will be more than made up by the end of the year through our capital investments. We think by the end of the year we could be producing in excess of 8,000 boe per day, which is ahead of our 2010 target”.

Property Review

Blackrod SAGD Project

At Blackrod, we exercised our right of first refusal and acquired the 20% working interest in the project held by Serrano Energy Ltd., for \$21 million. BlackPearl now owns 100% of this project and we plan to construct and operate a SAGD pilot later this year or early next year. In connection with the pilot, we completed construction of a 31 kilometre all-weather road to the proposed plant site. In addition, during the first quarter we drilled a water source well, a water disposal well and two observation wells. All of these wells will be used to operate the pilot. Engineering design for the steam and water handling facilities for the pilot are on-going.

Onion Lake

All of our short-term production growth will occur at Onion Lake. Development drilling continued during the first quarter, with eight wells drilled. We are planning a much more active second half of 2010 at

Onion Lake, with over 60 wells planned. We plan to upgrade the fuel gas system and water disposal facilities at Onion Lake later this year. Over the next three to five years we plan to drill over 200 wells and then convert a portion of the Onion Lake field to thermal (SAGD) recovery.

Mooney

At Mooney, BlackPearl is preparing to build the first phase of its ASP flood (Alkali Surfactant Polymer) later this year following receipt of regulatory approval. This will involve construction of water and polymer handling facilities and converting 22 producing wells to injectors. Once injection commences we anticipate production response in six to twelve months. During the first quarter we have also filed an application for reduced crown royalties on the EOR project as a result of the increased capital costs of implementing an ASP flood.

Production

Oil and gas production for the three months ended March 31, 2010 was 6,685 boe/day, a 21% increase compared to the same period in 2009. It also represents a 26% increase from Q4 production in 2009 of 5,306 boe/day. The increase is attributable to development drilling activity at Onion Lake last fall as well as during the first quarter this year.

Production in the second quarter will be impacted by producing property asset dispositions that occurred in the first and second quarters. In total, these properties were producing approximately 700 boe/day at the time of the sale.

Average Daily Production (boe/d)	<i>Three months ended March 31,</i>	
	2010	2009
Onion Lake	4,301	2,167
Mooney	1,136	1,705
Ear Lake	361	433
Salt Lake	288	375
Long Coulee/Little Bow	403	466
Other	196	364
	6,685	5,510

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. for the first quarter 2010. These results are being compared with the three month period ended March 31, 2009. The MD&A should be read in conjunction with the Company's unaudited consolidated financial statements for the three months ended March 31, 2010, together with the accompanying notes.

References to "we", "our", "us", "the Company" or "BlackPearl" means BlackPearl Resources Inc. and its subsidiaries.

All dollar amounts are referenced in thousands of Canadian dollars, except where otherwise noted. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

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 for 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 does not represent a value equivalence at the wellhead.

This report includes terms commonly used in the oil and gas industry, such as cash flow and funds from operations which represent cash flow from operating activities expressed before changes in non-cash working capital, and cash flow per share. 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. These terms do not have standardized meanings prescribed by GAAP and therefore may not be comparable with the calculations of similar measures for other entities. Consequently, these are referred to as non-GAAP measures.

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

This MD&A contains forward-looking information and statements. At the end of this MD&A is an advisory on forward-looking information and statements.

The effective date of this MD&A is May 11, 2010.

OVERVIEW

BlackPearl is a Canadian-based oil and gas company whose common shares are traded on the TSX Exchange under the symbol “PXX”. The Corporation’s Swedish Depository Receipts trade on the NASDAQ OMX First North market under the symbol “PXXS”. BlackPearl’s main focus is heavy oil projects in Western Canada and the USA. The Company also holds interests in a number of natural gas properties.

BlackPearl’s current core properties include:

- Onion Lake, Saskatchewan – heavy oil;
- Mooney, Alberta – heavy oil; and
- Blackrod, Alberta – heavy oil.

These core properties provide the Company with a combination of short-term cash flow generation, medium-term reserves and production growth, enhanced oil recovery (EOR) development and longer-term reserves and production growth using thermal processes.

As part of BlackPearl’s overall business plan, management intends to sell the majority of the Company’s non-core assets. In Q1 2010, the Company sold assets producing approximately 70 boe/day of primarily natural gas assets in Southern Alberta and has signed purchase and sale agreements for an additional 200 boe/day of primarily southern Alberta gas properties. In addition, BlackPearl plans to market for sale approximately 500 boe/day of heavy oil properties in Saskatchewan. Additional non-core asset sales are planned over the next two or three years.

2010 SIGNIFICANT EVENTS

- On January 1, 2010 the Company amalgamated its wholly-owned subsidiary Pearl E&P Canada Ltd., with BlackPearl Resources Inc.
- In the first quarter of 2010 the Company agreed to sell various non-core assets producing about 300 boe/day, for approximately \$10 million. Of this total, sales of \$5.4 million, representing approximately 70 boe/day closed in the first quarter, with the remaining asset sales expected to close in the second quarter of 2010.
- On March 29, 2010 the Company acquired the remaining 20% working interest in the Blackrod area, located in the Athabasca oil sands, from Serrano Energy Ltd. for \$21 million. The acquisition results in BlackPearl having sole interest in the Blackrod area lands. The Company plans to construct a SAGD pilot on the property in 2010.
- On April 19, 2010, the Company agreed to issue 9,000,000 common shares at a price of \$2.90 per share, for aggregate gross proceeds of \$26.1 million. In addition, the Company also provided the underwriters of the offering an option to acquire an additional 1,350,000 common shares at \$2.90 per share. The financing closed on May 11, 2010.

SELECTED QUARTERLY INFORMATION

	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun
\$000s, except where noted	2010	2009	2009	2009	2009	2008	2008	2008
Production (boe/d)	6,685	5,306	5,091	5,170	5,510	6,198	5,776	8,246
Revenue (\$/boe)	60.55	56.69	51.94	47.07	31.77	36.28	85.02	79.74
Oil & gas revenue	36,429	27,674	24,065	22,143	15,755	20,687	45,180	59,839
Production costs	10,552	7,251	6,172	5,873	10,165	10,299	9,272	11,453
Net earnings (loss)	(8,053)	(3,897)	(12,013)	(10,889)	(20,516)	(83,686)	1,926	6,688
Per share, basic and diluted (\$)	(0.03)	(0.01)	(0.05)	(0.05)	(0.10)	(0.44)	0.01	0.04
Cash flow from operations	15,029	14,677	8,221	7,910	(1,804)	3,623	21,021	28,023
Per share, basic and diluted (\$)	0.06	0.06	0.03	0.03	(0.01)	0.02	0.11	0.15
Total assets	463,655	468,309	465,942	477,876	450,836	472,143	554,956	543,123
Weighted average shares outstanding (000s)	262,057	261,731	261,684	240,973	207,555	189,242	189,242	189,242

RESULTS OF OPERATIONS

\$000s, except where noted

	Three months ended March 31	
	2010	2009
Net loss	(8,053)	(20,516)
Per share, basic and diluted (\$)	(0.03)	(0.10)

For the first quarter ended March 31, 2010, the Company incurred a net loss of \$8.1 million or \$0.03 per share compared to a net loss of \$20.5 million or \$0.10 for the same period 2009. The net loss each year is due principally to high depletion charges. The Q1 2009 loss is also attributable to lower commodity prices resulting from the global economic downturn.

Commodity Prices

	2010		2009		
	Q1	Q4	Q3	Q2	Q1
WTI oil price (US\$/bbl)	\$78.71	\$76.19	\$68.30	\$59.62	\$43.08
Western Canadian Select Heavy oil (Cdn\$/bbl)	\$72.51	\$71.53	\$63.77	\$60.66	\$42.62
Light/heavy differential	10%	14%	15%	12%	21%
Foreign exchange (Cdn\$/US\$)	1.041	1.056	1.097	1.167	1.244
AECO gas (Cdn\$/GJ)	\$5.06	\$4.26	\$2.78	\$3.66	\$5.62

Crude oil prices continued to recover during the first quarter 2010, with the West Texas Intermediate (WTI) reference price averaging US\$78.71 per barrel compared with US\$43.08 per barrel for the same period in 2009. The improvement in crude oil prices is attributable to increased demand as global economies begin to recover from the economic slowdown in 2009. The WTI forward strip price for the remainder of 2010 is approximately US\$84.

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 a heavy barrel. 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 light/heavy differential averaged 10% for the first 3 months of 2010 and 21% in Q1 2009. The recent light/heavy differential is considerably narrower than the five-year average of approximately 24%, a trend that has been attributed to increased heavy oil refining capacity in the U.S., increased demand for Canadian heavy oil due to reduced supply of heavy oil from Mexico and Venezuela, as well as improved pipeline access for Canadian heavy crude to the Gulf Coast, a heavy oil refining hub.

Oil prices in Canada are also impacted by the Canada/U.S. dollar exchange rate since the WTI reference price of oil is in U.S. dollars. During Q1 2010, the Canadian dollar strengthened against the U.S. dollar, averaging 1.041 compared with 1.244 for the same period in 2009. The strengthening of the Canadian dollar partially offsets the increased WTI benchmark pricing experienced during 2010.

In the first three months of 2010, natural gas prices decreased 10% compared to Q1 2009, reflecting lower demand. The AECO-C gas price averaged \$5.06 per GJ in the first quarter 2010 compared to \$5.62 per GJ in Q1 2009.

Oil and Gas Production, Pricing and Revenue

	Three months ended March 31	
	2010	2009
Daily production / sales volumes ⁽¹⁾		
Oil (bbls/d)	5,941	4,423
Natural gas (mcf/d)	<u>4,462</u>	<u>6,527</u>
Combined (boe/d)	6,685	5,510
Product pricing		
Oil (\$/bbl)	63.77	31.99
Natural gas (\$/mcf)	<u>5.01</u>	<u>5.08</u>
Combined (\$/boe)	60.55	31.77
Revenue (\$000s)		
Oil and gas revenue – gross	36,429	15,755
Royalties	<u>(9,350)</u>	<u>(2,874)</u>
Oil and gas revenue – net	27,079	12,881

(1) Gas production converted at 6:1

Oil and gas revenues increased 131% in 2010 to \$36.4 million compared with \$15.8 million in Q1 2009. The increase is attributable to:

- a 34% increase in oil production;
- a 99% increase in the average oil price;
- a 32% decrease in natural gas production; and
- a 1% decrease in the average gas price.

Overall, average production increased 21% to 6,685 boe/d for the quarter ended March 31, 2010 compared with 5,510 boe/d in the same period 2009. The increase in 2010 production is attributable to 14 wells being brought on production in December 2009, as well as 8 additional wells being brought on in March, all at Onion Lake.

	Three months ended March 31, 2010			Three months ended March 31, 2009		
	Oil(bbls/d) ⁽¹⁾	Gas(mcf/d)	boe/d	Oil(bbls/d) ⁽¹⁾	Gas(mcf/d)	boe/d
Onion Lake	4,287	86	4,301	2,131	216	2,167
Mooney	967	1,016	1,136	1,347	2,146	1,705
Ear Lake	341	120	361	433	1	433
Salt Lake	220	409	288	288	523	375
Long Coulee/Little Bow	22	2,283	403	27	2,632	466
Other	104	548	196	196	1,009	364
	5,941	4,462	6,685	4,422	6,527	5,510

(1) Includes NGL's

On a boe basis, 88% of the Company's oil and gas production was heavy oil. The percentage of revenues derived from heavy oil will likely increase in the future as all of the Company's ongoing development activities will be in heavy oil areas. The Onion Lake area accounted for 64% of total production in the first quarter 2010 and will contribute a higher proportion for the remainder of the year as it will account for most of BlackPearl's near-term drilling activity.

The Company did not enter into any hedging arrangements in Q1 2010, and, at the present time, does not anticipate hedging any of its production for the remainder of the year.

Royalties

\$000s, except where noted	Three months ended March 31	
	2010	2009
Royalties	9,350	2,874
As a percentage of revenue	26%	18%

Royalties increased 225% from \$2.9 million in Q1 2009 to \$9.4 million in the same period 2010, mainly reflecting higher revenues and production during the first quarter of 2010. Generally, royalty rates in western Canada are sensitive to prevailing commodity prices. As a result, royalties, as a percentage of revenues, were higher in Q1 2010, primarily due to higher crude oil prices.

The Company's largest area, Onion Lake, is on the Onion Lake First Nation reserve, and royalties are paid to the First Nation based on Saskatchewan Crown equivalent rates.

In the first quarter of 2010, the Alberta government undertook a review of the energy sector to determine if, among other things, the royalty structure in Alberta is competitive with other jurisdictions. The findings of the review have resulted in proposed changes to the current royalty structure. The Alberta government has indicated that the changes to the royalty structure will be announced by May 31, 2010 and the changes will include a reduction in the maximum royalty rate from 50% to 40% for conventional oil and 35% for natural gas. Approximately 35% of BlackPearl's total production is from Alberta based properties which will be impacted by the new royalty structure.

Production Costs

\$000s, except where noted	Three months ended March 31	
	2010	2009
Production costs	10,552	10,165
Per boe (\$)	17.54	20.50

Production costs on a per boe basis averaged \$17.54 in the first quarter 2010, a decrease from \$20.50 for the same period in 2009. The lower rates are due to improved operating efficiencies resulting in lower labour costs, fuel and chemical usage and improved sand-handling processes. Management anticipates production expenses should average between \$15 and \$16 per boe on an annualized basis for 2010. First quarter costs per boe were slightly higher than this due to a number of new wells coming online in December 2009 and March 2010 at Onion Lake. 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 will be reduced after several months of production from the new wells. In addition, production costs in the first quarter of 2010 included equalization payments from prior years which added approximately \$0.75 per barrel.

Transportation Costs

\$000s, except where noted	Three months ended March 31	
	2010	2009
Transportation costs	522	1,304
Per boe (\$)	0.87	2.63

Transportation costs are incurred to move marketable crude oil and natural gas to their selling points. Average transportation costs in Q1 2010 were \$0.87 per boe which is a decrease from the \$2.63 realized in the first three months of 2009. Changes in transportation costs are generally related to moving crude oil to different sales points to capture better marketing opportunities. All of the new production at Onion Lake is being shipped as emulsion rather than clean marketable oil and as a result the trucking charges are classified as production expenses rather than transportation costs. The high cost per BOE in the first quarter 2009 is a result of a one-time adjustment to transportation costs that was recorded in that quarter.

Operating Netback

	Three months ended March 31	
	2010	2009
Revenues	60.55	31.77
Royalties	15.54	5.80
Transportation costs	0.87	2.63
Production costs	17.54	20.50
Netback per boe	26.60	2.84

The Q1 2010 netback of \$26.60 per boe is considerably higher than the \$2.84 reported in Q1 2009. This is primarily attributable to the recovery in crude oil prices in 2010.

General and Administrative Expenses (G&A)

\$000s, except where noted	Three months ended March 31	
	2010	2009
Gross G&A expense	2,162	3,307
Operator recoveries	(404)	(422)
	1,758	2,885
Per boe (\$)	2.92	5.82

The decrease in general and administrative costs from the first quarter 2009 is a result of staff reductions implemented early in 2009 as well as other cost reduction initiatives adopted by the Company that resulted in savings in areas such as outside consulting fees, travel costs and office expenses.

Net general and administrative costs are expected to be in the area of \$8 million for 2010. As production volumes are expected to increase in 2010, general and administrative costs on a boe basis should decline.

Stock-Based Compensation

\$000s, except where noted	Three months ended March 31	
	2010	2009
Stock-based compensation	937	(13)
Per boe (\$)	1.56	(0.03)

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. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes options pricing model. In the first quarter 2010, the Company issued 180,000 options at prices ranging from \$2.42 to \$2.60 per share. In addition, 220,668 options were exercised and 61,166 were forfeited.

Depletion, Depreciation and Accretion (DD&A)

\$000s, except where noted	Three months ended March 31	
	2010	2009
Depletion, depreciation and accretion	22,349	22,104
Per boe (\$)	37.15	44.57

DD&A expense was \$22.3 million or \$37.15 per boe for the three months ended March 31, 2010 in comparison to \$22.1 million or \$44.57 per boe for the same quarter 2009. The Company recognized a lower depletion rate in Q1 2010 as a result of an increase in proved reserves as detailed in the Company's 2009 reserve report. A write-down in the amount of \$0.2 million of the US assets has been included in the Q1 2010 depletion, depreciation and accretion in the Company's March 31, 2010 financial statements.

Interest Expense

\$000s, except where noted	Three months ended March 31	
	2010	2009
Interest income	(64)	(65)
Interest expense	11	20
Net interest expense (income)	(53)	(45)
Per boe (\$)	(0.09)	(0.09)

Interest expense consists mainly of standby fees on the Company's undrawn credit facility. Any interest earned on excess cash held by the Company is netted against interest expense. Net interest income for the three months ended March 31, 2010 is consistent with that of the same period in 2009.

Other Income

\$000s, except where noted	Three months ended March 31	
	2010	2009
Other income	1,152	-

Other income consists mainly of net cash received as part of a drilling incentive program offered by the Alberta government to encourage drilling activity within the province. These drilling credits received were acquired from a third party that did not have sufficient production to utilize the credits.

Income Taxes

\$000s, except where noted	Three months ended March 31	
	2010	2009
Current income and other taxes	62	202
Future income tax (recovery)	-	(2,752)
	62	(2,550)

BlackPearl pays Saskatchewan resource surcharge based on its production revenues in the province. The current tax expense in the first quarter of 2010 is a provision for this surcharge. BlackPearl does not have current income tax payable and does not expect to pay current income taxes in 2010 as the Company has sufficient resource pools to shelter expected income.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2010, BlackPearl had a working capital surplus of \$46.3 million compared to a surplus of \$58 million at December 31, 2009. The decrease is a result of \$32.2 million in capital expenditures in Q1 which was partially offset by \$15 million in cash flow from operations as well as \$5.4 million in proceeds from asset dispositions.

As oil prices improve and financial markets continue to stabilize, the Company's cash flow is improving and is becoming sufficient to fund a meaningful capital program. In addition to the Company's initial 2010 capital budget, BlackPearl acquired the remaining 20% working interest in the Blackrod area lands in Q1 2010 for \$21 million. BlackPearl's partner in the Blackrod property elected to sell its interest to a third party and BlackPearl decided to exercise its right of first refusal to acquire the property. In order to ensure the activities planned in the original budget will not be affected, the Company entered into an agreement with a syndicate of underwriters to issue 9,000,000 common shares, on a bought deal basis, for gross proceeds of \$26.1 million. The Underwriters have been granted an over-allotment option, which may be exercised up to 30 days after closing of the offering to purchase up to 1,350,000 additional common shares at \$2.90. If the over-allotment is fully exercised, gross proceeds from the offering will be \$30 million. The offering, including the exercise of the over-allotment, closed on May 11, 2010.

In addition to this financing, BlackPearl still has, at its disposal, an undrawn \$25 million credit facility. The amount available under the credit facility is based on the value of oil and gas reserves. The next annual review of the Company's credit facility is scheduled to be completed by May 31, 2010 and based on discussions with the lender, no substantive changes are anticipated on the renewal. The only financial covenant in the facility is to maintain a working capital ratio of 1:1 at the end of each fiscal quarter. Working capital ratio is defined as current assets plus unutilized credit under the credit facility compared to current liabilities. The Company had a working capital ratio of 4.7:1 at March 31, 2010 and was in compliance with these covenants throughout the first quarter 2010.

CAPITAL EXPENDITURES

BlackPearl's capital program is focused on heavy oil opportunities. During Q1 2010, the Company's capital program totalled \$32.2 million, a significant increase from the \$3.1 million spent in the first quarter 2009. During the first quarter of 2010 the Company acquired a 20% working interest in the Blackrod SAGD project for \$21 million. The Company now owns 100% of this project and plans to

construct a single well pilot on the Blackrod property later this year. In addition, the Company drilled a total of 12 wells in the first quarter, 8 wells at Onion Lake and 4 services wells at Blackrod. The Company also completed \$5.4 million of non-core asset sales during the first quarter, primarily southern Alberta gas properties.

\$000s	Three months ended March 31	
	2010	2009
Land	277	308
Seismic	50	-
Drilling and completion	6,623	1,474
Equipment	4,187	1,352
Other	46	-
Total	11,183	3,134
Property acquisitions	21,000	13
Total capital expenditures	32,183	3,147
Property dispositions	(5,389)	-
Net capital expenditures	26,794	3,147

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The Company has a number of financial obligations in the ordinary course of business. The following table summarizes the outstanding contractual obligations and commitments of the Company as at March 31, 2010:

\$000s	2010	2011	2012	2013	2014	Thereafter
Long-term debt	-	-	-	-	-	-
Operating leases ⁽¹⁾	824	1,166	1,234	1,234	1,626	2,946
Drilling rig commitment ⁽²⁾	412	935	1,211	319	-	-
	1,236	2,101	2,445	1,553	1,626	2,946

- (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 \$18.6 million (including an estimate for operating costs) over the next seven years.
- (2) Relates to a commitment to utilize a drilling rig from a specific company for a minimum number of days per year.

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 OTHER INSTRUMENTS

The following table outlines the classification, carrying value and fair value of the Company's financial instruments. All of these instruments are used in the normal course of business. The Company has not entered into any derivative financial instruments or any other hedging activities.

	Classification	March 31, 2010		December 31, 2009	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	Held-for-trading (i)	\$48,184	\$48,184	\$56,352	\$56,352
Accounts receivable	Loans and receivables (i)	13,410	13,410	11,977	11,977
Investment in MAV Notes	Held-for-trading (ii)	1,284	1,284	1,284	1,284
Accounts payable and accrued liabilities	Other financial liabilities (iii)	(19,236)	(19,236)	(16,318)	(16,318)

The fair values of financial assets and financial liabilities are calculated on the basis of information available at the balance sheet date using the following methods:

- (i) The fair value of cash and cash equivalents and accounts receivable approximates their carrying amounts due to the short-term nature of the instruments.
- (ii) Effective December 31, 2009, the Company adopted the amendments to Section 3862 “Financial Instruments – Disclosures”. These amendments require the Company to present information about financial instruments measured at fair value 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: quoted prices (unadjusted) in active markets for identical assets or liabilities;
 - b. Level 2: 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: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. At March 31, 2010, the only instrument held by the Company that is subject to valuation through the hierarchy is the Company’s investment in MAV notes, which have been assessed as being level 3. 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.

- (iii) The fair value of accounts payable and accrued liabilities approximates their carrying amounts due to the short-term nature of the instruments.

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 9 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 the first quarter of 2010.

OUTSTANDING SHARE DATA

As at May 11, 2010, the Company had 272,631,385 common shares outstanding (including the most recent equity financing), 10,000,320 vested warrants outstanding and 13,061,832 stock options outstanding under its stock-based compensation.

PROPOSED TRANSACTIONS

- (a) The Company has signed purchase and sale agreements to sell oil and gas properties producing approximately 200 boe/day for \$4.3 million. These property dispositions are expected to close in the second quarter of 2010.
- (b) The Company has accepted an offer to sell certain oil and gas properties, producing approximately 500 boe/day, for \$10.3 million. The offers are subject to completion of the purchaser's due diligence and execution of a formal binding purchase and sale agreement. The sale is expected to close in the second quarter.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect reported assets and liabilities, disclosure of contingencies and revenues and expenses. Management is also required to adopt accounting policies that require the use of significant estimates. Actual results could differ materially from those estimates. A comprehensive discussion of the Company's significant accounting policies and critical estimates is contained in the MD&A and audited consolidated financial statements for the year ended December 31, 2009. There have been no significant changes in critical accounting estimates since December 31, 2009.

RISKS AND UNCERTAINTIES

Please refer to the Company's 2009 MD&A and the 2009 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 quarter of 2010.

RECENT ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standards

In January 2006, the CICA Accounting Standards Board (AcSB) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, the Accounting Standards Board confirmed in February, 2008 that International Financial Reporting Standards (IFRS) will replace Canadian GAAP for interim and annual reporting purposes. The required changeover date is for fiscal years beginning on or after January 1, 2011.

The Company has commenced the process to transition from current Canadian GAAP to IFRS. There are three phases in the process: diagnostic, detailed assessment and design and implementation. The Company's internal staff has been appointed the task of performing the actual conversion, while the Company's external auditors have been engaged to act as advisors. The Company has completed a high level review of the major differences between current Canadian GAAP and IFRS and has commenced the detailed assessment and design phase of the project. The following areas have been identified as to be significantly affected by the changeover to IFRS:

Property, Plant & Equipment

Under Canadian GAAP, the Company adheres to the full cost method of accounting as dictated by Accounting Guideline 16. This method of accounting is not recognized under IFRS. The significant differences in accounting include:

- Pre-exploration costs (costs incurred prior to obtaining the legal right to explore) are to be expensed whereas, under full cost accounting, these costs are included in PP&E.
- Exploration and evaluation costs ("E&E") will be initially capitalized as E&E assets under IFRS. Once the associated project becomes technically and commercially viable, these costs will be transferred to PP&E. On the other hand, should the project be determined unviable, the related costs must be expensed in the period the determination is made. Under full cost accounting, E&E costs are recorded to PP&E, but are not included in the calculation of depletion. Costs are subsequently included in the depletable base when proved reserves are assigned or when it is determined that the costs are impaired.
- PP&E costs will be depreciated on a unit-of-production basis at the area asset level (unit of account). Under Canadian GAAP, depreciation is recorded at the country costcentre level. The Company has tentatively determined its asset areas for purposes of performing these depletion calculations.
- Impairment of PP&E is to be assessed at the cash generating unit level. This is the lowest level at which cash inflows can be identified. Under full cost accounting, impairment is tested at the country costcentre level. The Company anticipates it will have between four and eight cash generating units.
- Asset dispositions will generally result in a gain or loss recorded in the statement of operations. Under full cost accounting, proceeds received on asset sales are deducted from the full-cost pool without recognizing a gain or loss unless it results in a significant change in your depletion rate.

One of the major steps for many oil and gas companies moving to IFRS is transitioning away from the full cost accounting method for property, plant and equipment costs. The full cost method is not supported by IFRS. The International Accounting Standards Board has approved a transition amendment to IFRS 1 – First Time Adoption of IFRS that will allow Canadian oil and gas companies that use the full cost method of accounting for exploration and development activities to use their independent reserve report to allocate their property, plant and equipment full cost pool to individual cash generating units, which is required under IFRS. BlackPearl will elect to utilize this exemption.

Asset Retirement Obligations

Currently, under Canadian GAAP, once an obligation is recorded, the liability is not subsequently re-measured using updated assumptions. Under IFRS, however, these assumptions are constantly updated at each balance sheet date and the liability altered accordingly. Upon adoption of IFRS, the transition amendment IFRS 1 allows for any change in the ARO liability resulting from adoption to be recorded to retained earnings. In subsequent periods, the impact of changes in assumptions on the ARO liability is adjusted to PP&E.

Income Taxes

Both Canadian GAAP and IFRS follow the liability method of accounting for income taxes, where tax assets and liabilities are recognized on temporary differences. However, there are certain exceptions to the treatment of temporary differences under IFRS that may result in an adjustment to the Company's future tax liability under IFRS. In addition, the Company's future tax liability will be impacted by the tax effects of any changes noted in the above areas.

Establishing new IFRS accounting policies has begun and is expected to be completed in the second quarter of 2010. The Company also expects to have a tentative opening balance sheet (January 1, 2010) that is in accordance with IFRS by the end of the first half of 2010.

The Company is scheduled to undergo system and software changes prior to the end of the second quarter 2010. Subsequent to installation, the upgraded system will be analyzed and tested to determine the appropriate process changes required, if any, as well as any additional internal control changes that may result. It should be noted that the upgrade will function as a separate component of the current system, allowing the current software and processes to function normally without being subject to disruption or potential error during testing.

During the implementation phase, the Company will execute the required changes to business processes, financial systems, accounting policies, disclosure controls and internal controls over financial reporting. At this time, the impact on financial statements cannot be reasonably determined.

CONTROL CERTIFICATION

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Management reported on its disclosure controls and procedures and the design of its internal controls over financial reporting in the year end 2009 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. It should be noted that the Chief Executive Officer and Chief Financial Officer believe the internal controls, including compensating controls to overcome the lack of certain segregation of duties and the utilization of outside advice to assist with complex taxation, accounting and reporting issues to overcome limited in-house expertise on these matters, are designed appropriately given the nature and size of the Company's operations. Because of their inherent limitations, internal controls over financial reporting may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute assurance that objectives of the control systems are met.

OUTLOOK

2010 Guidance	Original 2010 Guidance	Q1 2010 Update
Production (boe/d)		
Annual average*	6,400	6,500
Exit*	7,000 - 7,500	8,000 - 8,500
Cashflow from operations (\$mm)	40 - 50	50 - 55
Capital budget (\$mm)	86	125
Year-end debt	-	-
Year-end working capital	26	30 - 35
Crude oil - WTI	US\$72	US\$79
Light/heavy differential	US\$10	US\$10
Cdn/US\$ exchange	0.95	0.99

*net of dispositions

The significant changes from the original guidance provided for 2010 include:

- Issuance of 10.3 million common shares for net proceeds of approximately \$28.8 million.
- Capital budget increased for the acquisition of the 20% interest in the Blackrod SAGD project, the additional 20% of planned capital expenditures on the project during the year and drilling an additional 20 wells at Onion Lake.
- An additional 500 boe/d of asset dispositions, bringing total dispositions to approximately 800 boe/d.
- An increase in forecast crude oil prices, partially offset by a stronger Canadian dollar.

Oil and gas production will be impacted in the second quarter of 2010 as a result of producing property asset dispositions, as well as no new drilling activity due to spring break-up.

FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements and forward-looking information within the meaning of applicable Canadian securities legislation (collectively referred to as “forward-looking statements”). All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as “anticipate”, “believe”, “plan”, “continuous”, “estimate”, “expect”, “may”, “will”, “project”, “should”, “predict”, “targeting”, “seek”, “intend”, “could”, “potential” or similar words. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon. In particular, this report contains forward-looking statements pertaining to the following:

- business plans and strategies;
- capital expenditure and drilling programs;
- methods and ability to finance capital expenditure programs;
- renewal of existing credit facilities;
- future oil and gas prices and their impact on BlackPearl;
- the quantity of reserves;
- anticipated oil and gas production levels;
- future costs including operating and administrative costs and royalty rates;
- future cash flows and its uses;
- future earnings;
- future asset dispositions;
- impact of the proposed changes to the Alberta royalty framework;
- tax pools.

Actual results could differ materially from the results anticipated in these forward-looking statements as a result of several risk factors. These factors include, but are not limited to, volatility of oil and natural gas prices, ability to replace reserves, uncertainties associated with estimating oil and gas reserves, substantial capital requirements and the Company's ability to access additional capital, risks and uncertainties inherent in exploration and development activities, government regulation and changes in legislation, environmental matters, aboriginal claims, dependence on key personnel, availability of drilling equipment and skilled personnel, expiration of licenses and leases, competition, conflicts of interest, issuance of debt or equity, title to properties, variations in exchange rates and hedging and uncertainty in global financial markets. Further information regarding these risk factors may be found under the heading "Risk Factors" in the Annual Information Form.

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 the remainder of 2010 are located in the "Outlook" section of this MD&A. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

Statements relating to "reserves" are forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves described exist in the quantities predicted or estimated and can profitably be 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 in fact be realized. Actual results will differ, and the difference may be material and adverse to the Company and its shareholders.

Readers are also cautioned that the foregoing list of factors and risks is not exhaustive. Consequently, there is no representation by the Company 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 Company 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		
(Cdn\$ in thousands)	March 31 2010 (unaudited)	December 31 2009
Assets		
Current assets		
Cash	\$ 48,184	\$ 56,352
Accounts receivable	13,410	11,977
Income and other taxes receivable	2,848	4,817
Prepaid expenses and deposits	1,060	1,167
	<u>65,502</u>	<u>74,313</u>
Investments (note 3)	1,284	1,284
Petroleum and natural gas properties (note 4)	396,869	392,712
	<u>\$ 463,655</u>	<u>\$ 468,309</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 19,236	\$ 16,318
Asset retirement obligation (note 6)	24,788	25,435
	<u>44,024</u>	<u>41,753</u>
Shareholders' equity		
Share capital (note 7)	780,094	779,809
Contributed surplus (note 7)	16,287	15,444
Deficit	(376,750)	(368,697)
	<u>419,631</u>	<u>426,556</u>
	<u>\$ 463,655</u>	<u>\$ 468,309</u>

Commitments and contingencies (note 8)
 See accompanying notes to consolidated financial statements

BLACKPEARL RESOURCES INC.

**Consolidated Statement of Operations, Comprehensive Loss and Deficit
(unaudited)**

(Cdn\$ in thousands, except for per share amounts)

	Three months ended March 31	
	2010	2009
Revenue		
Oil and gas sales	\$ 36,429	\$ 15,755
Royalties	(9,350)	(2,874)
	<u>27,079</u>	<u>12,881</u>
Other income	1,152	-
	<u>28,231</u>	<u>12,881</u>
Expenses		
Production	10,552	10,165
Transportation	522	1,304
General and administrative	1,758	2,885
Depletion, depreciation and accretion	22,349	22,104
Stock-based compensation (note 7)	937	(13)
Interest (income)	(53)	(45)
Foreign currency exchange loss (gain)	157	(453)
	<u>36,222</u>	<u>35,947</u>
Loss before income taxes	<u>(7,991)</u>	<u>(23,066)</u>
Income taxes		
Current income tax	62	202
Future income tax (recovery)	-	(2,752)
	<u>62</u>	<u>(2,550)</u>
Comprehensive loss for the period	(8,053)	(20,516)
Deficit, beginning of period	<u>(368,697)</u>	<u>(321,382)</u>
Deficit, end of period	\$ (376,750)	\$ (341,898)
Basic and diluted loss per share	\$ (0.03)	\$ (0.10)
Weighted average number of common shares used in computing loss per share:		
basic	262,057,136	207,555,049
diluted ⁽¹⁾	262,057,136	207,555,049

See accompanying notes to consolidated financial statements

⁽¹⁾ Any impact of unexercised stock options or warrants are not included in the calculation of net loss per share or weighted average number of shares outstanding as they would be anti-dilutive.

BLACKPEARL RESOURCES INC.

Consolidated Statements of Cash Flows
(unaudited)

(Cdn\$ in thousands)

Three months ended
March 31

	2010	2009
Operating activities		
Net loss for the period	\$ (8,053)	\$ (20,516)
Items not involving cash:		
Depletion, depreciation and accretion	22,349	22,104
Stock-based compensation (recovery)	937	(13)
Future income tax (recovery)	-	(2,752)
Foreign exchange loss (gain)	157	(453)
Abandonment costs	(361)	(174)
	15,029	(1,804)
Changes in non-cash working capital balances related to operations	5,405	(26,030)
	20,434	(27,834)
Financing activities		
Proceeds on issue of common shares, net of costs	190	-
	190	-
Investing activities		
Additions to petroleum and natural gas properties	(32,183)	(3,147)
Proceeds from sale of petroleum and natural gas properties	5,389	-
Cash received on acquisition of BlackCore Resources Inc.	-	5,589
Changes in non-cash working capital from investing	(1,998)	14,804
	(28,792)	17,246
Net decrease in cash	(8,168)	(10,588)
Cash, beginning of period	56,352	24,059
Cash, end of period	\$ 48,184	\$ 13,471
Supplementary Information		
Cash interest paid	\$ 28	\$ 9
Cash taxes paid	\$ 46	\$ 5

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. NATURE OF OPERATIONS

BlackPearl Resources Inc. (collectively with its subsidiaries, the “Company” or “BlackPearl”) 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”. The Company is engaged in the business of oil and gas exploration, development and production in North America.

These unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”), and follow the same accounting policies and methods of computation as the audited consolidated financial statements for the year ended December 31, 2009. Certain disclosures, which are normally required to be included in the notes to the annual consolidated financial statements have been condensed or omitted. The interim consolidated financial statements should be read in conjunction with the audited annual financial statements for the year ended December 31, 2009.

2. FUTURE ACCOUNTING POLICIES

The CICA Accounting Standards Board (“AcSB”) has confirmed that the use of International Financial Reporting Standards (“IFRS”) will be required for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011 for publicly accountable profit-oriented enterprises. Companies will be required to provide comparative IFRS information for 2010. The Company is assessing the potential impacts of this changeover and has developed a plan for the conversion, but the Company has not at this time made a determination of the impact on its financial statements.

3. INVESTMENTS

	March 31, 2010	December 31, 2009
MAV Notes (formerly Asset-backed commercial paper)	\$1,284	\$1,284

The Company acquired an interest in third party asset-backed commercial paper (“ABCP”) with a face value of \$5 million on October 19, 2007 as part of a corporate acquisition. As a result of liquidity issues in the ABCP market, these investments did not settle on maturity. On January 21, 2009, a restructuring plan was implemented which resulted in the Company receiving longer-term replacement Master Asset Vehicle or MAV notes for its investment in short-term ABCP.

The Company received the following replacement notes:

Notes	Maturity Date (1)	Interest Rate (2)	Face Amount
MAV II Class A-1	July 15, 2056	BA – 0.5%	\$1,534
MAV II Class A-2	July 15, 2056	BA – 0.5%	2,804
MAV II Class B	July 15, 2056	BA – 0.5%	509
MAV II Class C	July 15, 2056	BA + 20%	150
			\$4,997

1) Maturity date reflects legal maturity date. The latest maturity date of the underlying assets is December 31, 2016.

2) BA represents Bankers Acceptance interest rates with a maturity of 90 days.

The replacement notes have been classified as held-for-trading which will require them to be measured at fair value at each period end with changes in fair value included in the consolidated statement of operations in the period in which they arise. Although a small number of transactions have been made public, the

Company does not consider them to be of sufficient volume or value to constitute an active market. Accordingly, the Company has not used these trades to determine the fair value of the notes. Until an active market is established, however, the fair value will be determined using a probability weighted discounted cash flow considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments. As at March 31, 2010, the Company has estimated the fair value of the notes at \$1,284,000 (December 31, 2009 - \$1,284,000).

4. PETROLEUM AND NATURAL GAS PROPERTIES

March 31, 2010			
	Cost	Accumulated depreciation and depletion	Net book value
Petroleum and natural gas properties	\$676,796	(\$281,767)	\$395,029
Office equipment	2,962	(1,122)	1,840
	\$679,758	(\$282,889)	\$396,869
December 31, 2009			
	Cost	Accumulated depreciation and depletion	Net book value
Petroleum and natural gas properties	\$650,744	(\$259,903)	\$390,841
Office equipment	2,916	(1,045)	1,871
	\$653,660	(\$260,948)	\$392,712

The depletion and ceiling test calculations have excluded the cost of unproved properties of \$58.7 million (December 31, 2009 – \$33.6 million) and included future development costs of \$57.3 million (December 31, 2009 – \$63.6 million).

The Company performed the ceiling test calculations at March 31, 2010 to assess whether the carrying value of the petroleum and natural gas properties were recoverable. A write-down in the amount of \$0.2 million (December 31, 2009 - \$2.9 million) of the US assets has been included in depletion, depreciation and accretion in the Company's three months ended March 31, 2010 financial statements.

During the first quarter of 2010, the Company sold a number of non-core properties for net proceeds of \$5.4 million. No gain or loss was recorded on the dispositions.

5. CREDIT FACILITY

The Company has a credit facility with a Canadian financial institution which is comprised of a \$25 million revolving 364-day extendible term facility. The Company may borrow, repay and re-borrow advances with the aggregated outstanding not to exceed the total credit facility. The facility bears interest at the institution's prime rate or at banker's acceptance or LIBOR loan rates, plus applicable margins, which varies depending on the Company's working capital ratio. At March 31, 2010, a prime rate based drawdown would be at the institution's prime rate plus 0.75%. The Company also incurs a standby fee for undrawn amounts. The facility is secured by a fixed and floating charge on the assets of the Company and is secured by a general securities agreement. At March 31, 2010, there were no advances outstanding under this facility.

The facility is subject to annual reviews. The next scheduled review is to be completed by May 31, 2010.

6. ASSET RETIREMENT OBLIGATION

The Company's asset retirement obligation results from ownership interest in oil and gas assets, including well sites, gathering systems, batteries and processing facilities. The total undiscounted amount of the estimated cash flows required to settle the asset retirement obligation is approximately \$37.5 million which will be incurred over the next 27 years with the majority of costs incurred between 2011 and 2024.

The fair value of the asset retirement obligation was calculated using a credit adjusted risk-free rate of 6.5 percent and an inflation factor of 2 percent. Settlement of the obligation is expected to be funded from general corporate funds at the time of retirement.

Changes to the asset retirement obligation were as follows:

		Period ended March 31, 2010		Year ended December 31, 2009
Asset retirement obligation at beginning of period	\$	25,435	\$	20,064
Liabilities acquired through acquisitions, net of dispositions		(1,029)		2,939
Liabilities incurred during the year		331		1,516
Actual remediation costs		(361)		(604)
Accretion		412		1,520
Asset retirement obligation at end of period	\$	24,788	\$	25,435

7. 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 December 31, 2009	261,960,717	\$779,809
Shares issued upon exercise of stock options	220,668	285
Balance as at March 31, 2010	262,181,385	\$780,094

(c) Warrants Outstanding:

The following summarizes warrants outstanding as at March 31, 2010:

	Number of warrants	Weighted average exercise price per share
Outstanding at December 31, 2009 and March 31, 2010	10,000,320	\$ 0.60

(i) Each outstanding warrant allows the holder to acquire, on or before January 13, 2013, one BlackPearl share for a price of \$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 ten percent

of the total number of issued and outstanding shares in the Company. The term and the vesting period of any options granted are determined at the discretion of the board of directors. The maximum term for options granted is ten years. The exercise price of the option cannot be less than the five-day volume weighted average trading price of the common shares immediately preceding the day the option is granted.

The following summarizes stock options outstanding as at March 31, 2010:

	Number of Options	Weighted Average Exercise Price (\$)
Outstanding at December 31, 2009	13,454,333	1.60
Granted	180,000	2.52
Exercised	(220,668)	0.86
Forfeited	(61,166)	1.73
Outstanding at March 31, 2010	13,352,499	1.63

Options outstanding and exercisable as at March 31, 2010 are summarized below:

Options Outstanding				Options Exercisable		
Range of Exercise Prices (\$)	Number of Options	Weighted-Average Exercise Price (\$)	Weighted-Average Life (Years)	Number of Options	Weighted-Average Exercise Price (\$)	Weighted-Average Life (Years)
0.40 – 1.50	7,175,499	0.72	3.80	3,101,340	0.70	3.82
1.51 – 3.00	5,141,000	2.24	4.20	739,000	2.39	2.84
3.01 – 4.50	144,000	3.38	2.59	96,000	3.38	2.59
4.51 – 5.15	892,000	5.10	1.78	869,000	5.11	1.76
	13,352,499	1.63	3.81	4,805,340	1.81	3.28

(e) Stock Based Compensation

Stock-based compensation of \$949,000, net of recoveries of \$12,000, has been recorded in the Consolidated Statements of Operations and Deficit for the three-month period ended March 31, 2010 (2009 – recovery of \$13,000). The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option pricing model. The weighted average fair value of options granted during 2010 and the assumptions used in their determination are noted below:

	March 31, 2010	December 31, 2009
Weighted average fair value of stock options granted (per option)	\$1.38	\$0.85
Expected life of stock options (years)	3.00	2.58
Volatility (weighted average)	84%	88%
Risk-free rate of return (weighted average)	1.77%	1.43%
Expected dividend yield	0%	0%

(f) Contributed Surplus Continuity

The following table summarizes changes in contributed surplus during the period:

	March 31, 2010	December 31, 2009
Balance, beginning of the period	\$ 15,444	\$ 11,895
Stock-based compensation	949	2,751
Recovery of expense on forfeited stock options	(12)	(1,290)
Warrants issued on BlackCore acquisition	-	2,200
Transferred to share capital on exercise of stock options	(94)	(112)
Balance, end of period	\$ 16,287	\$ 15,444

8. COMMITMENTS AND CONTINGENCIES

- (a) The Company has a seven-year operating lease for office space as at March 31, 2010, the payments (net of sublease proceeds) due under this lease agreement (including an estimate for operating costs) are as follows:

	2010	2011	2012	2013	2014	Subsequent to 2014
Office rent	\$824	\$1,166	\$1,234	\$1,234	\$1,626	\$2,946

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 \$18.6 million (including an estimate for operating costs) over the next seven years.

- (b) The Company has contracted drilling rig services over the next four years. In the event that the Company does not utilize the minimum contracted days, the Company would be obligated to pay the rig operator a variable rate based on days not utilized under the contracts. As at March 31, 2010, the payments that would be due under the agreement (assuming no drilling days used) are as follows:

	2010	2011	2012	2013	2014	Subsequent to 2014
Drilling Contract	\$412	\$935	\$1,211	\$319	-	Nil

- (c) In connection with a November 2007 US property acquisition, the Company may be required to pay a performance payment of US \$9.8 million in cash prior to November 6, 2010, if either: (i) production from the assets reaches 5,000 barrels of oil per day; or (ii) proven reserves from the assets is greater than 50 million barrels of oil. As at March 31, 2010, there was no production from and no reserves attributable to these assets.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed to financial and market risk in a range of financial instruments including cash, accounts receivable, certain investments and accounts payable. 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 following tables set out the Company's classification, carrying amount and fair values of its financial assets and liabilities as at March 31, 2010 and December 31, 2009:

	Classification	March 31, 2010		December 31, 2009	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	Held-for-trading (i)	\$48,184	\$48,184	\$56,352	\$56,352
Accounts receivable	Loans and receivables (i)	13,410	13,410	11,977	11,977
Investment in MAV Notes	Held-for-trading (ii)	1,284	1,284	1,284	1,284
Accounts payable and accrued liabilities	Other financial liabilities (iii)	(19,236)	(19,236)	(16,318)	(16,318)

The fair values of financial assets and financial liabilities are calculated on the basis of information available at the balance sheet date using the following methods:

- (i) The fair value of cash and cash equivalents and accounts receivable approximates their carrying amounts due to the short-term nature of the instruments.
- (ii) Effective December 31, 2009, the Company adopted the amendments to Section 3862 "Financial Instruments – Disclosures". These amendments require the Company to present information about financial instruments measured at fair value 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: quoted prices (unadjusted) in active markets for identical assets or liabilities;
 - b. Level 2: 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: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. At March 31, 2010, the only instrument held by the Company that is subject to valuation through the hierarchy is the Company's investment in MAV notes, which have been assessed as being level 3. 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.
- (iii) The fair value of accounts payable and accrued liabilities approximates their carrying amounts due to the short-term nature of the instruments.

(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 and natural gas prices may significantly affect the Company's results of operations, costs 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. A \$1.00 change in oil prices at the wellhead would have the effect of changing net earnings for Q1 2010 by approximately \$445,000. 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. As at March 31, 2010 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 US dollars; (ii) certain expenditure commitments, deposits, accounts receivable, and accounts payable which are denominated in US dollars; and (iii) its operations in the United States. The Company manages this risk by monitoring foreign exchange rates and evaluating their effects on using Canadian or US vendors as well as timing of transactions. As at March 31, 2010, the Company has not entered into any fixed rate contracts. As at March 31, 2010, the Company held US\$2,679,000 in cash and short-term deposits and other net working capital items of US\$2,163,000.

As at March 31, 2010, if US\$ exchange rates had been \$0.10 lower with all other variables held constant, after tax earnings for the period would have been approximately \$392,000 higher, due to a decreased foreign exchange loss. An equal opposite impact would have occurred to net earnings had exchange rates been \$0.10 higher. The Company does not hedge its foreign currency risk.

(d) Credit Risk

Credit risk is the risk that a third party fails to meet its contractual obligations that could result in the Company incurring a loss.

The Company's accounts receivable are primarily with oil and gas marketers and joint venture partners. Receivables from oil and gas marketers are generally collected on the 25th day of the month following production. The Company attempts to mitigate this risk by assessing the financial strength of its counterpart and entering into relationships with larger purchasers with established credit history. During 2010, the Company has not experienced any collection issues with its marketers. At March 31, 2010, over 97% of total accounts receivables are for revenue accruals. Receivables from joint venture partners arise when the Company conducts joint operations on behalf of its partners and invoices them for their share of costs. To mitigate the risk of non-payment from joint venture partners the Company can require partners to pay certain costs in advance as well as the Company has the ability to withhold production from partners in the event of non-payment. As at March 31, 2010, accounts receivable includes an allowance for doubtful accounts of \$824,000 from joint interest partners. These amounts primarily relate to joint venture receivables inherited from other companies that were acquired by BlackPearl over the last three years.

The Company typically does not obtain collateral or security from its joint venture partners or oil and gas marketers. The carrying amounts of accounts receivable represent the maximum credit exposure.

The Company is not the operator of certain oil and gas properties in which it has an ownership interest. The Company is dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. In addition, the Corporation's activities may be impacted by the ability, expertise, judgment and financial capability of the operators.

As at March 31, 2010, the Company held \$48.2 million in cash at various major financial institutions throughout Canada and the USA, as well as \$1.3 million in investments. At March 31, 2010, three Canadian financial institutions held approximately 99% 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.

(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 conservative balance sheet with minimal use of long-term debt. As at March 31, 2010, the Company had an undrawn \$25 million credit facility, and a positive working capital position of \$46.3 million. 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	\$19,236	-	-

(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. As a result of the economic global downturn access to capital markets may be limited. 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 approximately \$26 million of additional equity during the second quarter of 2010 (See note 10). These funds will be used to expand 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 bank credit facility compared to current liabilities. The Company had a working capital ratio of 4.7:1 at March 31, 2010 and is in compliance with these covenants.

10. SUBSEQUENT EVENT

On April 19, 2010, the Company entered into an agreement with a syndicate of underwriters to issue 9,000,000 common shares, on a bought deal basis, for gross proceeds of \$26.1 million. The Underwriters have been granted an over-allotment option, which may be exercised up to 30 days after closing of the offering to purchase up to 1,350,000 additional common shares at \$2.90. If the over-allotment is fully exercised, gross proceeds from the offering will be \$30 million. The offering, including the exercise of the over-allotment, closed on May 11, 2010.

11. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in 2009.

DIRECTORS

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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
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CORPORATE INFORMATION

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

COMPANY REGISTRATION NUMBER
409596-1

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

The report for the period ending
June 30, 2010 will be published
on or before August 14, 2010