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## SECOND QUARTER 2010 FINANCIAL AND OPERATING RESULTS

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Highlights of our second quarter activities include:

- Oil and gas production averaged 7,163 boe/day, a 39% increase over Q2 2009 and a 7% increase over Q1 production volumes;
- Revenues increased 55% to \$34.3 million compared to Q2 in 2009; Cash flow from operations increased 76% to \$13.9 million compared with \$7.9 million in Q2 2009;
- Operating efficiency improvements resulted in lower production expenses and general and administrative costs;
- Successfully completed several non-core property dispositions which has resulted in net proceeds of \$19.2 million during the first six months of 2010;
- Strengthened the balance sheet with an equity offering of 10.3 million common shares; working capital sits at \$97.4 million and no debt;
- Active second half planned with over 60 wells to be drilled primarily at Onion Lake and major facility construction projects at Blackrod and Mooney.

John Festival, President of BlackPearl, commenting on Q2 2010 activities indicated that “we had a relatively quiet second quarter in terms of new activity due to spring break-up and wet weather conditions. However, we will be very active the remainder of the year on our three core areas. Short-term production growth will come from continued development drilling at Onion Lake while we proceed with construction of the commercial polymer flood at Mooney and the SAGD pilot at Blackrod. During the second quarter we continued to optimize production from our new wells at Onion Lake with overall Company production averaging in excess of 7,100 boe/day. Third quarter production will be modestly impacted by recent asset dispositions but we are confident that our planned second half activities will allow us to reach our 2010 exit production target of 8,000 – 8,500 boe/day”.

### **Property Review**

#### Blackrod SAGD Project

BlackPearl owns 100% of the Blackrod property as a result of acquiring, earlier this year, the 20% working interest held by Serrano Energy Ltd. We are waiting on regulatory approvals before we commence construction of the facilities for the single well pair SAGD pilot. These approvals are expected later this year. Engineering and design work on the steam and water handling facilities for the pilot are on-going. Total capital costs of the pilot facilities and wells, including construction of a 31 kilometer all weather road to the facility site, are estimated to be approximately \$25 million. We anticipate initiating steam injection during the first quarter of 2011.

#### Onion Lake

No new drilling activity occurred during the second quarter due to wet ground conditions from spring-breakup and heavy rains in Saskatchewan. Development drilling will begin in the third quarter with a planned 60 well drilling program. This program should be completed before year-end. During the second quarter the Company completed connecting last fall’s drilling sites into its fuel gas system which allowed

us to reduce operating costs during the quarter. 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

Engineering and design work on the water and chemical handling facilities for the ASP flood (Alkali Surfactant Polymer) continued during the second quarter. We anticipate receiving regulatory approval from the ERCB for phase 1 of the commercial ASP flood during the third quarter. Once we receive these approvals we will commence field construction of the facilities and we expect to be in a position to start ASP injection early in 2011.

In addition, earlier this year, we made an application to the Alberta Department of Energy for lower EOR royalties for the project. We expect to receive this ruling during the third quarter. If approved, the initial royalty rate on the ASP flood project is expected to be approximately 10%. This compares favourably to the current royalty rate on conventional Mooney production of 23% and the estimated 35 - 40% we would pay on ASP flood production without any royalty relief.

### Sale of Properties

During the first half of 2010, BlackPearl sold certain non-core oil and gas properties for \$19.2 million. At the time of the sale, these properties were producing approximately 700 boe/day. The assets sold were gas properties in southern Alberta and a heavy oil property in Saskatchewan. We intend to continue selling our non-core oil and gas assets over the next two or three years.

### **Production**

Oil and gas production for the three months ended June 30, 2010 was 7,163 boe/day, a 39% increase compared to the same period in 2009. It also represents a 7% increase from Q1 production in 2010 of 6,685 boe/day. The increase is attributable to development drilling activity at Onion Lake last fall and in the first quarter this year.

Production in the third quarter will be slightly impacted by producing property asset dispositions that occurred during the first half of 2010. However, ongoing development drilling at Onion Lake should result in our year-end exit production reaching 8,000 – 8,500 boe/day. Current production is approximately 6,800 boe/day.

	Three months ended		Six months ended	
	June 30,		June 30,	
(Boe/day)	2010	2009	2010	2009
Onion Lake	5,098	2,063	4,702	2,115
Mooney	980	1,424	1,062	1,320
Ear Lake	316	461	340	447
Salt Lake	253	416	270	396
Long Coulee/Little Bow	368	426	385	446
Other	148	380	166	615
	<u>7,163</u>	<u>5,170</u>	<u>6,925</u>	<u>5,339</u>

### **Financial Results**

Oil and gas revenues increased 55% in the second quarter 2010 to \$34.3 million compared with \$22.1 million in Q2 2009. The increase is attributable to higher oil production volumes and higher crude oil prices. The higher wellhead price reflects stronger WTI oil prices in 2010 (US\$78.03/bbl vs US\$59.62/bbl), partially offset by wider heavy oil differentials (18% differential in 2010 compared with

13% in 2009) and a stronger Canadian dollar compared to the US dollar (1.028 in Q2 2010 compared with 1.167 in Q1 2009). Revenues are down 6% from the first quarter this year primarily as a result of wider heavy oil differentials.

Operating costs decreased significantly to \$14.31 per boe in Q2 2010 compared to \$17.54 per boe in Q1. New heavy oil wells tend to have higher initial expenses due to increased sand production, increased fuel costs until wells are tied into the fuel gas system, and increased emulsion trucking and treating costs. These initial costs are reduced after several months of production from the new wells.

Cash flow from operations (before working capital adjustments) increased 76% in Q2 to \$13.9 million compared to \$7.9 million for the same period in 2009.

### ***Financial and Operating Highlights***

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Daily production / sales volumes <sup>(1)</sup>				
Oil (bbl/d)	6,515	4,167	6,230	4,294
Natural gas (mcf/d)	3,890	6,017	4,174	6,271
Combined (Boe/d)	7,163	5,170	6,925	5,339
Product pricing (\$)				
Crude oil - per bbl	55.03	53.33	59.18	42.40
Natural gas - per mcf	3.97	3.51	4.53	4.32
Combined - per Boe	52.58	47.07	56.40	39.22
(\$000's, except per share and Boe amounts)				
Revenue				
Oil and gas revenue – gross	34,274	22,143	70,703	37,898
Royalties (\$/Boe)	13.60	10.74	14.53	8.20
Transportation costs (\$/Boe)	1.00	1.46	0.94	2.06
Operating costs (\$/Boe)	14.31	12.48	15.86	16.60
Net income (loss) for the period	(10,276)	(10,889)	(18,329)	(31,405)
Per share, basic and diluted	(0.04)	(0.03)	(0.07)	(0.14)
Cash flow from operating activities, before working capital adjustments	13,926	7,910	28,955	6,106
Capital expenditures	5,687	932	37,870	4,079
Working Capital, end of period	97,440	56,794	97,440	56,794
Long term debt	-	-	-	-
Shares outstanding, end of period	272,845,386	261,684,050	272,845,386	261,684,050

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

## 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 second quarter 2010. These results are being compared with the three and six month periods ended June 30, 2009. The MD&A should be read in conjunction with the Company's unaudited consolidated financial statements for the three and six months ended June 30, 2010, together with the accompanying notes.

References to "we", "our", "us", "the Company", "the Corporation" 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](http://www.sedar.com).

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

The effective date of this MD&A is August 10, 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. 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 the first half of 2010, the Company sold assets producing approximately 700 boe/day. 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 half of 2010 the Company sold various non-core assets for \$19.2 million. The assets sold included natural gas properties in southern Alberta and conventional heavy oil properties in Saskatchewan.
- 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. The pilot will include drilling a single horizontal well pair, water source and monitoring wells, and construction of steam generation and water handling facilities.
- On May 11, 2010, the Company issued 10,350,000 common shares at a price of \$2.90 per share, for aggregate gross proceeds of \$30 million.

## SELECTED QUARTERLY INFORMATION

	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
\$000s, except where noted	2010	2010	2009	2009	2009	2009	2008	2008
Production (boe/d)	7,163	6,685	5,306	5,091	5,170	5,510	6,198	5,776
Revenue (\$/boe)	52.58	60.55	56.69	51.94	47.07	31.77	36.28	85.02
Oil & gas revenue	34,274	36,429	27,674	24,065	22,143	15,755	20,687	45,180
Production costs	9,306	10,552	7,251	6,172	5,873	10,165	10,299	9,272
Net earnings (loss)	(10,276)	(8,053)	(3,897)	(12,013)	(10,889)	(20,516)	(83,686)	1,926
Per share, basic and diluted (\$)	(0.04)	(0.03)	(0.01)	(0.05)	(0.05)	(0.10)	(0.44)	0.01
Cash flow from operations	13,926	15,029	14,677	8,221	7,910	(1,804)	3,623	21,021
Per share, basic and diluted (\$)	0.05	0.06	0.06	0.03	0.03	(0.01)	0.02	0.11
Total assets	470,843	463,655	468,309	465,942	477,876	450,836	472,143	554,956
Weighted average shares outstanding (000s)	268,047	262,057	261,731	261,684	240,973	207,555	189,242	189,242

## RESULTS OF OPERATIONS

\$000s, except where noted

	2010		2009	Six months ended June 30	
	Q2	Q1	Q2	2010	2009
Net loss	(10,276)	(8,053)	(10,889)	(18,329)	(31,405)
Per share, basic and diluted (\$)	(0.04)	(0.03)	(0.05)	(0.07)	(0.14)

For the three months ended June 30, 2010, the Company incurred a net loss of \$10.3 million or \$0.04 per share compared to a net loss of \$10.9 million or \$0.05 per share for the same period 2009. The six month period ended June 30, 2010 yielded losses of \$18.3 million compared to \$31.4 million in 2009. The net loss each year is due principally to high depletion charges.

## Commodity Prices

	2010		2009		
	Q2	Q1	Q4	Q3	Q2
Crude Oil Prices					
West Texas Intermediate (WTI) (US\$/bbl)	\$78.03	\$78.71	\$76.19	\$68.30	\$59.62
Western Canadian Select (WCS) (Cdn\$/bbl)	65.78	72.51	71.53	63.77	60.66
Differential – WCS/WTI (Cdn\$/bbl)	14.43	9.43	8.93	11.16	8.92
Differential – WCS/WTI (%)	18.0%	11.5%	11.1%	14.9%	12.8%
Natural Gas Prices					
AECO gas (Cdn\$/GJ)	3.66	5.06	4.26	2.78	3.66
Foreign Exchange (Cdn\$/US\$)	1.028	1.041	1.056	1.097	1.167

Crude oil prices weakened slightly during the second quarter 2010, with the West Texas Intermediate (WTI) reference price averaging US\$78.03 per barrel compared with US\$78.71 per barrel in the first quarter 2010. Demand for crude oil is tied to global economic growth. In 2010, North America and China

have seen reasonable economic growth; however, there has been concern with slower growth, credit risks and government deficit spending in some European countries. The WTI forward strip price for the remainder of 2010 is approximately US\$81.

The majority of BlackPearl's production revenues are derived from the sale of heavy oil, which receives a lower price than light oil due to increased processing requirements for 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 18% for the second quarter 2010, compared with 11.5% in Q1 2010 and 12.8% in Q2 2009. The recent light/heavy differential is considerably narrower than the five-year average of approximately 23%, 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 Q2 2010, the Canadian dollar strengthened against the U.S. dollar, averaging 1.028 compared with 1.041 for the Q1 2010. The strengthening of the Canadian dollar partially compounds the decreased WTI benchmark pricing experienced during the second quarter 2010.

In the second quarter of 2010, natural gas prices decreased 28% compared to Q1 2010, reflecting lower demand, but remained consistent with Q2 2009. The AECO-C gas price averaged \$3.66 per GJ in the second quarter 2010 compared to \$5.06 per GJ in Q1 2010.

#### *Oil and Gas Production, Pricing and Revenue*

	2010		2009	Six months ended June 30	
	Q2	Q1	Q2	2010	2009
Daily production / sales volumes <sup>(1)</sup>					
Oil (bbls/d)	<b>6,515</b>	5,941	4,167	<b>6,230</b>	4,294
Natural gas (mcf/d)	<b><u>3,890</u></b>	<u>4,462</u>	<u>6,017</u>	<b><u>4,174</u></b>	<u>6,271</u>
Combined (boe/d)	<b>7,163</b>	6,685	5,170	<b>6,925</b>	5,339
Product pricing					
Oil (\$/bbl)	<b>55.03</b>	63.77	53.33	<b>59.18</b>	42.40
Natural gas (\$/mcf)	<b><u>3.97</u></b>	<u>5.01</u>	<u>3.51</u>	<b><u>4.53</u></b>	<u>4.32</u>
Combined (\$/boe)	<b>52.58</b>	60.55	47.07	<b>56.40</b>	39.22
Revenue (\$000s)					
Oil and gas revenue – gross	<b>34,274</b>	36,429	22,143	<b>70,703</b>	37,898
Royalties	<b><u>(8,868)</u></b>	<u>(9,350)</u>	<u>(5,053)</u>	<b><u>(18,218)</u></b>	<u>(7,927)</u>
Oil and gas revenue – net	<b>25,406</b>	27,079	17,090	<b>52,485</b>	29,971

(1) Gas production converted at 6:1

Oil and gas revenues increased 55% in the second quarter 2010 to \$34.3 million compared with \$22.1 million in Q2 2009. The increase is attributable to:

- a 56% increase in oil production;
- a 3% increase in the average oil price; and partially offset by
- a 35% decrease in natural gas production

Overall, average production increased to 7,163 boe/d for the quarter ended June 30, 2010 compared with 6,685 boe/d in Q1 2010 and 5,170 boe/d in the same period 2009. For the six months ended June 30, 2010, production increased 30% to 6,925 boe/d from 5,339 boe/d in 2009. The increase in 2010 production is attributable to drilling 28 wells at Onion Lake last fall and an additional 8 wells in the first quarter of this year.

boe/d	2010		2009	Six months ended	
	Q2	Q1	Q2	2010	June 30
Onion Lake	<b>5,098</b>	4,301	2,063	<b>4,702</b>	2,115
Mooney	<b>980</b>	1,136	1,424	<b>1,062</b>	1,320
Ear Lake	<b>316</b>	361	461	<b>340</b>	447
Salt Lake	<b>253</b>	288	416	<b>270</b>	396
Long Coulee/Little Bow	<b>368</b>	403	426	<b>385</b>	446
Other	<b>148</b>	196	380	<b>166</b>	615
	<b>7,163</b>	6,685	5,170	<b>6,925</b>	5,339

On a boe basis, 91% of the Company's oil and gas production in the second quarter 2010 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 71% of total production in Q2 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.

Production levels in the third quarter of 2010 will be lower than in the second quarter due to the sale of producing properties in the first half of the year. However, reduced production as a result of these asset dispositions should be more than offset in the fourth quarter as a result of new drilling activity.

The Company did not enter into any hedging arrangements in Q2 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	2010		2009	Six months ended	
	Q2	Q1	Q2	2010	June 30
Royalties	<b>8,868</b>	9,350	5,053	<b>18,218</b>	7,927
As a percentage of revenue	<b>26%</b>	26%	23%	<b>26%</b>	21%

Royalties increased 75% from \$5.1 million in Q2 2009 to \$8.9 million in the same period during 2010. The increases reflect higher revenues and production during the first six months of 2010. Conversely, the slight decrease in royalties from Q1 to Q2 2010 is a result of a decrease in commodity prices during Q2. Generally, royalty rates in western Canada are sensitive to prevailing commodity prices. As a result, royalties, as a percentage of revenues, were higher in the three and six-month periods ended 2010 compared to 2009, primarily due to higher crude oil prices.

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. On May 27, 2010, the Alberta government announced changes to the structure, which include a reduction in the maximum royalty rate from 50% to 40% for conventional oil and from 50% to 36% for natural gas. These

changes will take effect January 1, 2011. In addition, production from new oil wells will have a maximum royalty rate of 5% for the first year of production or the first 50,000 barrels of production, which ever occurs first. Approximately 20% 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	2010		2009	Six months ended June 30	
	Q2	Q1	Q2	2010	2009
Production costs	<b>9,306</b>	10,552	5,873	<b>19,857</b>	16,038
Per boe (\$)	<b>14.31</b>	17.54	12.48	<b>15.86</b>	16.60

Production expenses, on an absolute basis, have increased for the three and six months ended June 30, 2010 compared to the prior year period primarily due to increased production volumes. However, on a boe basis costs have decreased from Q1. The Company expects production costs will continue in the range of \$13 – 17 per boe. New heavy oil wells tend to have higher initial expenses due to significantly 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.

### *Transportation Costs*

\$000s, except where noted	2010		2009	Six months ended June 30	
	Q2	Q1	Q2	2010	2009
Transportation costs	<b>654</b>	522	687	<b>1,177</b>	1,991
Per boe (\$)	<b>1.00</b>	0.87	1.46	<b>0.94</b>	2.06

Transportation costs are incurred to move marketable crude oil and natural gas to their selling points. Changes in transportation costs, on a boe basis, are generally related to moving crude oil to different sales points to capture better marketing opportunities, or as a result of production being shipped as emulsion rather than clean marketable oil. Costs related to trucking emulsion are classified as production expenses rather than transportation costs.

## Operating Netback

	2010		2009	Six months ended	
	Q2	Q1	Q2	June 30	2009
Revenues	<b>\$52.58</b>	\$60.55	\$47.07	<b>\$56.40</b>	\$39.22
Royalties	<b>(13.60)</b>	(15.54)	(10.74)	<b>(14.53)</b>	(8.20)
Transportation costs	<b>(1.00)</b>	(0.87)	(1.46)	<b>(0.94)</b>	(2.06)
Production costs	<b>(14.31)</b>	(17.54)	(12.48)	<b>(15.86)</b>	(16.60)
Netback per boe	<b>\$23.67</b>	\$26.60	\$22.39	<b>\$25.07</b>	\$12.36

The Q2 2010 netback of \$23.67 per boe is a slight increase from the \$22.39 reported in Q2 2009, but is a reduction from the Q1 2010 netback of \$26.60. The decrease from Q1 is a result of a drop in oil prices in Q2. However, the six month 2010 netback of \$25.07 is considerably higher than the 2009 netback of \$12.36. This is primarily attributable to the overall recovery in crude oil prices in 2010.

## General and Administrative Expenses (G&A)

	2010		2009	Six months ended	
	Q2	Q1	Q2	June 30	2009
\$000s, except where noted					
Gross G&A expense	<b>1,846</b>	2,162	2,421	<b>4,007</b>	5,728
Operator recoveries	<b>(345)</b>	(404)	(264)	<b>(749)</b>	(686)
	<b>1,501</b>	1,758	2,157	<b>3,258</b>	5,042
Per boe (\$)	<b>2.30</b>	2.92	4.59	<b>2.60</b>	5.22

The Company continued with its cost reduction initiatives which resulted in general and administrative costs decreasing to \$1.5 million in the second quarter compared with \$1.8 million in Q1 and \$2.2 million in the second quarter of 2009. Cost savings are primarily in areas such as outside consulting fees, travel costs and office expenses, as well as reduced staff levels from prior years. Net general and administrative costs are expected to be in the area of \$7 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

	2010		2009	Six months ended	
	Q2	Q1	Q2	June 30	2009
\$000s, except where noted					
Stock-based compensation	<b>864</b>	937	541	<b>1,801</b>	528
Per boe (\$)	<b>1.33</b>	1.56	1.15	<b>1.44</b>	0.55

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. In the second quarter 2010, the Company issued 150,000 options at an average exercise price of \$2.79 per share. In addition, 314,001 options were exercised and 232,999 were forfeited.

### *Depletion, Depreciation and Accretion (DD&A)*

\$000s, except where noted	2010		2009	Six months ended June 30	
	Q2	Q1	Q2	2010	2009
Depletion, depreciation and accretion	<b>23,635</b>	22,349	19,628	<b>45,984</b>	41,732
Per boe (\$)	<b>36.26</b>	37.15	41.72	<b>36.68</b>	43.18

DD&A expense increased 20% to \$23.6 million or \$36.26 per boe for the second quarter 2010 compared to \$19.6 million or \$41.72 per boe for the same quarter in 2009. The lower depletion rate per boe in 2010 is 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 Q2 2010 depletion, depreciation and accretion in the Company's June 30, 2010 financial statements.

### *Interest Expense*

\$000s, except where noted	2010		2009	Six months ended June 30	
	Q2	Q1	Q2	2010	2009
Interest income	<b>(121)</b>	(64)	(111)	<b>(184)</b>	(176)
Interest expense	<b>10</b>	11	143	<b>21</b>	163
Net interest expense (income)	<b>(111)</b>	(53)	32	<b>(163)</b>	(13)
Per boe (\$)	<b>(0.17)</b>	(0.09)	0.07	<b>(0.13)</b>	(0.01)

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 and six months ended June 30, 2010 has increased as a result of a higher cash balance held by the Company in 2010.

### *Other Income*

\$000s, except where noted	2010		2009	Six months ended June 30	
	Q2	Q1	Q2	2010	2009
Other income	-	1,152	-	<b>1,152</b>	-

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. The Company has entered into agreements to acquire additional third party drilling credits. BlackPearl will generate an additional \$1.5 million in revenues if the Company is able to fully utilize these credits by March 31, 2011.

## *Income Taxes*

	2010		2009	Six months ended June 30	
\$000s, except where noted	Q2	Q1	Q2	2010	2009
Current income and other taxes	53	62	328	115	530
Future income tax (recovery)	-	-	(2,507)	-	(5,258)
	53	62	(2,179)	115	(4,728)

BlackPearl pays Saskatchewan resource surcharge based on a portion of its production revenues in the province, which is included in current income tax expense. 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 June 30, 2010, BlackPearl had a working capital surplus of \$97.4 million compared to a surplus of \$58.0 million at December 31, 2009. The increase is a result of common share issuances totaling \$29.1 million, the disposition of non-core properties for net proceeds of \$19.2 million and operating cash flows of \$29 million, which was partially offset by \$37.9 million in capital expenditures.

In addition to its working capital position, BlackPearl also has an undrawn \$25 million credit facility. The amount available under the credit facility is based on the value of oil and gas reserves. The credit facility was recently renewed on substantially the same terms as the previous year. The next review of the Company's credit facility is scheduled to be completed by May 31, 2011. 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 10.7:1 at June 30, 2010 and was in compliance with these covenants throughout the first six months of 2010.

The Company expects its 2010 capital spending to be approximately \$125 million. This will be financed from working capital and anticipated funds from operations. The Company does not expect to utilize its credit facility to fund this program. The Company can adjust its capital program if required to maintain its financial stability.

## CAPITAL EXPENDITURES

BlackPearl's capital program is focused on heavy oil opportunities. During the six months ended June 30, 2010, capital spending was significantly higher than 2009. The increase was primarily a result of acquiring the remaining 20% of the Blackrod SAGD project for \$21 million and drilling 8 heavy oil wells at Onion Lake during the first quarter. During Q2 2010, the Company's capital program totalled \$5.7 million, an increase from the \$0.9 million spent in the second quarter 2009. During the second quarter of 2010 the Company completed the sale of certain oil and gas properties for proceeds of \$13.8 million. Total dispositions of non-core assets totalled \$19.2 million during the first half of 2010. The assets sold were mainly natural gas properties in southern Alberta and heavy oil properties in Saskatchewan.

\$000s	2010		2009	Six months ended June 30	
	Q2	Q1	Q2	2010	2009
Land	320	277	264	597	573
Seismic	80	50	-	130	-
Drilling and completion	2,634	6,623	44	9,257	1,517
Equipment	2,474	4,187	624	6,661	1,976
Other	179	46	-	225	-
Total	5,687	11,183	932	16,870	4,066
Property acquisitions	-	21,000	-	21,000	13
Total capital expenditures	5,687	32,183	932	37,870	4,079
Property dispositions	(13,849)	(5,389)	-	(19,238)	-
Net capital expenditures	(8,162)	26,794	932	18,632	4,079

## CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The Company has a number of financial obligations in the ordinary course of business. The following table summarizes the outstanding contractual obligations and commitments of the Company as at June 30, 2010:

\$000s	2010	2011	2012	2013	2014	Thereafter
Long-term debt	-	-	-	-	-	-
Operating leases <sup>(1)</sup>	549	1,166	1,234	1,234	1,626	2,946
Drilling rig commitment <sup>(2)</sup>	412	935	1,211	319	-	-
	961	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 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	June 30, 2010		December 31, 2009	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	Held-for-trading (i)	\$93,895	\$93,895	\$56,352	\$56,352
Accounts receivable	Loans and receivables (i)	11,893	11,893	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)	(12,580)	(12,580)	(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 June 30, 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 six months of 2010.

#### **OUTSTANDING SHARE DATA**

As at August 10, 2010, the Company had 272,855,386 common shares outstanding, 10,000,320 vested warrants outstanding and 12,945,499 stock options outstanding under its stock-based compensation.

#### **PROPOSED TRANSACTIONS**

As of the date of this MD&A, the Company does not have any pending transactions.

#### **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 six months of 2010.

#### **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 objective is to improve financial reporting by having one single set of accounting standards that are comparable with other entities on an international basis. 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. Under IFRS the Company has the option of using proved reserves (1P) or proved plus probable reserves (2P) to calculate depletion. Using Canadian GAAP the Company is required to only use 1P reserves to calculate depletion.
- 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. Under IFRS impairment losses can be reversed if the recoverable amount increases in the future. Existing Canadian GAAP doesn’t permit reversal of impairments.
- 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 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.

Of the above differences, the Company anticipates that the changes in the depletion calculation will have the most significant impact resulting in lower depletion, depreciation and amortization charges in the Company's financial statements under IFRS. As at June 30, 2010, these differences have not been quantified.

The Company is currently in the process of establishing new IFRS accounting policies and is expecting to be completed in the third 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 third quarter of 2010. It should be noted that control requirements are currently being developed for the opening balance sheet, dual reporting and the maintenance of IFRS after the required changeover date.

During the second quarter, the Company implemented system and software changes required to support reporting under IFRS. The system is currently being 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 functions as a separate component of the current system, allowing the original 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.

## OUTLOOK

The Company previously provided guidance on its 2010 results in its Q1 report to shareholders. This current update to the Q1 guidance primarily reflects slightly higher average production levels for the year and changes in commodity prices.

Our planned capital expenditure program remains unchanged at approximately \$125 million. The major components of this program include drilling 60 – 70 wells at Onion Lake, construction of the SAGD pilot at Blackrod, acquiring the remaining 20% working interest on the Blackrod project and building the facilities for phase 1 of the commercial ASP flood at Mooney.

2010 Guidance	Original 2010 Guidance	Q1 2010 Update	Q2 2010 Update
Production (boe/d)			
Annual average*	6,400	6,500	6,800 – 7,300
Exit*	7,000 - 7,500	8,000 - 8,500	8,000 – 9,000
Cashflow from operations (\$mm)	40 - 50	50 - 55	53 – 57
Capital budget (\$mm)	86	125	120 – 130
Year-end debt	-	-	-
Year-end working capital (\$mm)	26	30 - 35	30 – 35
Pricing Assumptions (Averages for the year)			
Crude oil - WTI	US\$72	US\$79	US\$77
Light/heavy differential	US\$10	US\$10	US\$12
Cdn/US\$ exchange	0.95	0.99	0.99

\*net of dispositions

## FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements and forward-looking information (collectively referred to as "**forward-looking statements**") within the meaning of applicable Canadian securities laws. All statements other than statements of historical fact are forward-looking statements. Forward-looking information typically contains statements with words such as "anticipate", "believe", "plan", "continuous", "estimate", "expect", "may", "will", "project", "should", or similar words suggesting future outcomes. In particular, this report contains forward-looking statements pertaining to the following:

- business plans and strategies;
- capital expenditure and drilling programs;
- methods and ability to finance capital expenditure programs;
- anticipated oil and gas production levels;
- future oil and gas prices and their impact on BlackPearl;
- future costs including operating and administrative costs and royalty rates;
- future cash flows and net earnings;
- future asset dispositions;

- impact of the changes to the Alberta royalty framework;
- estimated tax pools;

In addition, statements relating to "reserves" 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 in fact 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 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.

By their very nature, forward-looking statements involve inherent risks and uncertainties (both general and specific) and risks that forward-looking statements will not be achieved. These factors include, but are not limited to, risks associated with oil and gas exploration, financial risks, substantial capital requirements, bank financing, government regulation, environmental matters, prices, markets and marketing, dependence on key personnel, availability of drilling equipment and access, uninsurable risks, management of growth, expiration of licenses and leases, reserves estimates, seasonality, competition, conflicts of interest, issuance of debt, 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. 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 may be material. Readers are also cautioned that the foregoing list of factors is not exhaustive. Consequently, there is no representation by the Corporation that actual results achieved will be the same in whole or in part as those set out in the forward-looking information. Furthermore, the forward-looking statements contained in this report are made as of the date hereof, and the Corporation does not undertake any obligation, except as required by applicable securities legislation, to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

**BLACKPEARL RESOURCES INC.**

<b>Consolidated Balance Sheets</b>		
<b>(Cdn\$ in thousands)</b>	<b>June 30 2010 (unaudited)</b>	<b>December 31 2009 (audited)</b>
<b>Assets</b>		
Current assets		
Cash	\$ 93,895	\$ 56,352
Accounts receivable	11,893	11,977
Income and other taxes receivable	2,951	4,817
Prepaid expenses and deposits	1,281	1,167
	<u>110,020</u>	<u>74,313</u>
Investments (note 3)	1,284	1,284
Petroleum and natural gas properties (note 4)	359,539	392,712
	<u>\$ 470,843</u>	<u>\$ 468,309</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 12,580	\$ 16,318
Asset retirement obligation (note 6)	19,177	25,435
	<u>31,757</u>	<u>41,753</u>
<b>Shareholders' equity</b>		
Share capital (note 7)	809,094	779,809
Contributed surplus (note 7)	17,018	15,444
Deficit	(387,026)	(368,697)
	<u>439,086</u>	<u>426,556</u>
	<u>\$ 470,843</u>	<u>\$ 468,309</u>

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

BLACKPEARL RESOURCES INC.

<b>Consolidated Statement of Operations, Comprehensive Loss and Deficit</b>				
<b>(unaudited)</b>				
<b>(Cdn\$ in thousands, except for per share amounts)</b>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30</b>		<b>June 30</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Revenue</b>				
Oil and gas sales	\$ 34,274	\$ 22,143	\$ 70,703	\$ 37,898
Royalties	(8,868)	(5,053)	(18,218)	(7,927)
	<u>25,406</u>	<u>17,090</u>	<u>52,485</u>	<u>29,971</u>
Other income	-	-	1,152	-
	<u>25,406</u>	<u>17,090</u>	<u>53,637</u>	<u>29,971</u>
<b>Expenses</b>				
Production	9,306	5,873	19,857	16,038
Transportation	654	687	1,177	1,991
General and administrative	1,501	2,157	3,258	5,042
Depletion, depreciation and accretion	23,635	19,628	45,984	41,732
Stock-based compensation	864	541	1,801	528
Interest (income)	(111)	32	(163)	(13)
Foreign currency exchange loss (gain)	(220)	684	(63)	230
Write-down of investments	-	556	-	556
	<u>35,629</u>	<u>30,158</u>	<u>71,851</u>	<u>66,104</u>
Loss before income taxes	<u>(10,223)</u>	<u>(13,068)</u>	<u>(18,214)</u>	<u>(36,133)</u>
<b>Income taxes</b>				
Current income tax	53	328	115	530
Future income tax (recovery)	-	(2,507)	-	(5,258)
	<u>53</u>	<u>(2,179)</u>	<u>115</u>	<u>(4,728)</u>
<b>Comprehensive loss for the period</b>	<b>(10,276)</b>	<b>(10,889)</b>	<b>(18,329)</b>	<b>(31,405)</b>
<b>Deficit, beginning of period</b>	<b>(376,750)</b>	<b>(341,898)</b>	<b>(368,697)</b>	<b>(321,382)</b>
<b>Deficit, end of period</b>	<b>\$ (387,026)</b>	<b>\$ (352,787)</b>	<b>\$ (387,026)</b>	<b>\$ (352,787)</b>
Basic and diluted loss per share	\$ (0.04)	\$ (0.05)	\$ (0.07)	\$ (0.14)
Weighted average number of common shares used in computing loss per share:				
basic and diluted <sup>(1)</sup>	268,047,459	240,973,284	265,068,845	224,356,482

See accompanying notes to consolidated financial statements

<sup>(1)</sup> 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 June 30		Six months ended June 30	
	2010	2009	2010	2009
<b>Operating activities</b>				
Net loss	\$ (10,276)	\$ (10,889)	\$ (18,329)	\$ (31,405)
Items not involving cash:				
Depletion, depreciation and accretion	23,635	19,628	45,984	41,732
Stock-based compensation	864	541	1,801	528
Future income tax (recovery)	-	(2,507)	-	(5,258)
Foreign exchange loss (gain)	(220)	684	(63)	230
Writedown of investments	-	556	-	556
Abandonment costs	(77)	(103)	(438)	(277)
	<u>13,926</u>	<u>7,910</u>	<u>28,955</u>	<u>6,106</u>
Changes in non-cash working capital balances related to operations	(11,604)	(11,301)	(6,199)	(37,331)
	<u>2,322</u>	<u>(3,391)</u>	<u>22,756</u>	<u>(31,225)</u>
<b>Financing activities</b>				
Proceeds on issue of common shares, net of costs	28,867	43,652	29,057	43,652
	<u>28,867</u>	<u>43,652</u>	<u>29,057</u>	<u>43,652</u>
<b>Investing activities</b>				
Additions to petroleum and natural gas properties	(5,687)	(932)	(37,870)	(4,079)
Proceeds from sale of petroleum and natural gas properties	13,849	-	19,238	-
Cash received on acquisition of BlackCore Resources Inc.	-	-	-	5,589
Changes in non-cash working capital from investing	6,360	2,763	4,362	17,567
	<u>14,522</u>	<u>1,831</u>	<u>(14,270)</u>	<u>19,077</u>
<b>Net increase in cash</b>	<b>45,711</b>	<b>42,092</b>	<b>37,543</b>	<b>31,504</b>
<b>Cash, beginning of period</b>	<b>48,184</b>	<b>13,471</b>	<b>56,352</b>	<b>24,059</b>
<b>Cash, end of period</b>	<b>\$ 93,895</b>	<b>\$ 55,563</b>	<b>\$ 93,895</b>	<b>\$ 55,563</b>
Supplementary Information				
Cash interest paid	\$ -	\$ 15	\$ 28	\$ 24
Cash taxes paid	\$ 53	\$ 67	\$ 99	\$ 72

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**

	June 30, 2010	December 31, 2009
MAV Notes (formerly Asset-backed commercial paper)	<b>\$1,284</b>	\$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. As at June 30, 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

			June 30, 2010
	Cost	Accumulated depreciation and depletion	Net book value
Petroleum and natural gas properties	\$662,602	(\$304,997)	\$357,605
Office equipment	3,141	(1,207)	1,934
	<b>\$665,743</b>	<b>(\$306,204)</b>	<b>\$359,539</b>

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
	<b>\$653,660</b>	<b>(\$260,948)</b>	<b>\$392,712</b>

The depletion and ceiling test calculations have excluded the cost of unproved properties of \$60.0 million (December 31, 2009 – \$33.6 million) and included future development costs of \$50.8 million (December 31, 2009 – \$63.6 million).

The Company performed the ceiling test calculations at June 30, 2010 to assess whether the carrying value of the petroleum and natural gas properties were recoverable. A write-down in the amount of \$0.4 million (December 31, 2009 - \$2.9 million) of the US assets has been included in depletion, depreciation and accretion in the Company's six months ended June 30, 2010 financial statements.

During the first six months of 2010, the Company sold a number of non-core properties for net proceeds of \$19.2 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 June 30, 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 June 30, 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, 2011.

## 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 \$28.7 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:

	Six months ended June 30, 2010	Year ended December 31, 2009
<b>Asset retirement obligation at beginning of period</b>	<b>\$ 25,435</b>	<b>\$ 20,064</b>
Liabilities acquired through acquisitions, net of dispositions	<b>(6,878)</b>	2,939
Liabilities incurred during the year	<b>330</b>	1,516
Actual remediation costs	<b>(438)</b>	(604)
Accretion	<b>728</b>	1,520
<b>Asset retirement obligation at end of period</b>	<b>\$ 19,177</b>	<b>\$ 25,435</b>

## 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	534,669	692
Shares issued for cash	10,350,000	30,015
Share issuance costs	-	(1,422)
Balance as at June 30, 2010	272,845,386	\$809,094

### (c) Warrants Outstanding:

The following summarizes warrants outstanding as at June 30, 2010:

	Number of warrants	Weighted average exercise price per share
Outstanding at December 31, 2009 and June 30, 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 June 30, 2010:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price (\$)</b>
Outstanding at December 31, 2009	13,454,333	1.60
Granted	330,000	2.64
Exercised	(534,669)	0.87
Forfeited	(294,165)	2.43
Outstanding at June 30, 2010	12,955,499	1.64

Options outstanding and exercisable as at June 30, 2010 are summarized below:

<b>Options Outstanding</b>				<b>Options Exercisable</b>		
<b>Range of Exercise Prices (\$)</b>	<b>Number of Options</b>	<b>Weighted-Average Exercise Price (\$)</b>	<b>Weighted-Average Life (Years)</b>	<b>Number of Options</b>	<b>Weighted-Average Exercise Price (\$)</b>	<b>Weighted-Average Life (Years)</b>
0.40 – 1.50	6,845,499	0.72	3.55	3,009,674	0.73	3.59
1.51 – 3.00	5,137,000	2.26	4.00	688,000	2.40	2.58
3.01 – 4.50	144,000	3.38	2.35	96,000	3.38	2.35
4.51 – 5.15	829,000	5.10	1.53	814,000	5.10	1.52
	12,955,499	1.64	3.58	4,607,674	1.81	3.05

#### (e) Stock Based Compensation

Stock-based compensation of \$1,801,000, net of recoveries of \$67,000, has been recorded in the Consolidated Statements of Operations and Deficit for the six-month period ended June 30, 2010 (2009 – expense of \$528,000). 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:

	<b>June 30, 2010</b>
Weighted average fair value of stock options granted (per option)	<b>\$1.45</b>
Expected life of stock options (years)	<b>3.00</b>
Volatility (weighted average)	<b>85%</b>
Risk-free rate of return (weighted average)	<b>1.87%</b>
Expected dividend yield	<b>0%</b>

## (f) Contributed Surplus Continuity

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

	June 30, 2010	December 31, 2009
Balance, beginning of the period	\$ 15,444	\$ 11,895
Stock-based compensation	1,868	2,751
Recovery of expense on forfeited stock options	(67)	(1,290)
Warrants issued on BlackCore acquisition	-	2,200
Transferred to share capital on exercise of stock options	(227)	(112)
Balance, end of period	\$ 17,018	\$ 15,444

## 8. COMMITMENTS AND CONTINGENCIES

- (a) The Company has a seven-year operating lease for office space as at June 30, 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	\$549	\$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 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 June 30, 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 June 30, 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 June 30, 2010 and December 31, 2009:

	Classification	June 30, 2010		December 31, 2009	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	Held-for-trading (i)	\$93,895	\$93,895	\$56,352	\$56,352
Accounts receivable	Loans and receivables (i)	11,893	11,893	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)	(12,580)	(12,580)	(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 June 30, 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 the sixth-month period 2010 by approximately \$926,000. 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 June 30, 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 June 30, 2010, the Company has not entered into any fixed rate contracts. As at June 30, 2010, the Company held US\$2,546,000 in cash and short-term deposits and other net working capital items of US\$2,130,000.

As at June 30, 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 \$185,000 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 June 30, 2010, over 95% of total accounts receivables are for revenue accruals. Receivables from joint venture partners arise when the Company conducts joint operations on behalf of its partners and invoices them for their share of costs. To mitigate the risk of non-payment from joint venture partners the Company can require partners to pay certain costs in advance as well as the Company has the ability to withhold production from partners in the event of non-payment. As at June 30, 2010, accounts receivable includes an allowance for doubtful accounts of \$818,000 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 June 30, 2010, the Company held \$93.9 million in cash at various major financial institutions throughout Canada and the USA, as well as \$1.3 million in investments. At June 30, 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 June 30, 2010, the Company had an undrawn \$25 million credit facility, and a positive working capital position of \$97.5 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:

	<b>&lt;6 Months</b>	<b>6 months -1 Year</b>	<b>1-2 Years</b>
Accounts payable and accrued liabilities	\$12,580	-	-

(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 \$30 million of additional equity during the first six months of 2010 (See note 7(b)). 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 10.7:1 at June 30, 2010 and is in compliance with these covenants.

## 10. COMPARATIVE FIGURES

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

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**John L. Festival**  
Director, President and Chief Executive Officer

**Keith C. Hill**  
Chairman, Director  
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**Victor Luhowy**  
Director  
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**CERTIFIED ADVISOR ON FIRST NORTH**  
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The report for the period ending  
September 30, 2010 will be published  
on or before November 14,, 2010