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## THIRD QUARTER 2011 FINANCIAL AND OPERATING RESULTS

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Highlights for BlackPearl Resources Inc. ("BlackPearl" or the "Company") for the three and nine months ended September 30, 2011 include:

- Blackrod SAGD pilot has been steaming for over five months; oil production is at 200 bbls/day and is continuing to ramp-up;
- Polymer injection commenced in July on Phase One of our ASP flood at Mooney; heavy oil processing facility is under construction and we began drilling on Phase Two expansion lands;
- Thermal (SAGD) application has been filed for a 12,000 bbl/day project at Onion Lake; planning to build a heavy oil battery and pipeline;
- Successful drilling results achieved at John Lake and Zoller Lake;
- Oil production averaged 8,113 boe/day, a 22% increase compared to Q3 2010;
- Revenues increased 33% to \$44.6 million compared to Q3 in 2010;
- Cash flow from operations increased 34% to \$18.9 million compared with \$14.1 million in Q3 2010;
- Maintained a strong balance sheet with working capital of \$64.2 million and no debt after incurring capital expenditures of \$135.7 million in the first nine months of the year.

John Festival, President of BlackPearl, commenting on Q3 2011 activities, indicated that "We have made excellent progress advancing all three of our core properties in the third quarter.

At Blackrod, we are extremely pleased with the development of the SAGD pilot. All of our early milestones have been met and we are confident we will meet our commercial targets for our pilot in terms of steam-oil-ratio and peak oil production rate. Based on the consistent geology across our Blackrod lease, this pilot will be able to validate the entire project potential of over 70,000 barrels of oil per day.

At Onion Lake, we have slowed our conventional drilling program while waiting for enhanced oil recovery approval for our SAGD project at Onion Lake. We expect this approval within six months and we will continue with our conventional drilling at that time.

Our near term growth will continue with conventional horizontal drilling at our Mooney project, in preparation for our Phase Two polymer flood. While initially delayed by forest fires in the spring, Phase One of our polymer flood at Mooney is now operational and we anticipate initial response in the next six to twelve months.

In addition, we have advanced some of our non-core assets with successful drilling at John Lake, Zoller Lake and Salt Lake, which are currently producing over 750 barrels of oil per day. Our ability to sell these properties in the future and redeploying the capital into our core properties will reduce our requirement to raise capital and dilute our shareholders as we move towards our target of 30,000 barrels of oil per day in 2015."

## Property Review

### Blackrod SAGD Pilot Project

At Blackrod, we initiated steam injection in the SAGD well pair in June. In September, we installed a downhole pump in the lower horizontal well and commenced oil production. Oil production has been steadily increasing, with current production at over 200 barrels of oil per day. We anticipate in the next six to twelve months the well will reach its target production range of 500 – 800 barrels per day.

We are also continuing to work on our commercial development application and we are on target to file this application with regulatory authorities during the first quarter of 2012. Our original plan was to initially seek approval for a 40,000 barrel per day project, but we have since decided to file the application for an 80,000 barrel per day project to reflect the entire scope of the project. The first phase of the project will likely be 10,000 to 20,000 barrels per day.

The Blackrod leases have a recoverable contingent resource assigned to them in excess of 600 million barrels of oil and have the potential to support a development of over 80,000 barrels of oil per day.

### Onion Lake

Onion Lake is a conventional heavy oil property that also provides us with a significant thermal SAGD opportunity. In our last update we indicated that we were going to temporarily slow-down our conventional drilling program. This will allow us time to drill the horizontal wells that will be used when we transition to SAGD development. Drilling the horizontal wells before further conventional development occurs will reduce the risk associated with drilling in a partially depleted reservoir. We have filed an application with regulatory authorities for a 12,000 barrel per day SAGD project. Upon approval, expected in the first half of 2012, we will immediately commence drilling up to 14 horizontal wells which will be used as oil producers when SAGD operations begins. In addition, we plan to drill up to 10 conventional vertical wells before year-end in areas that will not impact future SAGD development.

Our focus at Onion Lake for the next few months is to optimize production from the wells drilled during the first half of the year as well as plan for the construction of a heavy oil treating facility and a 30 kilometre pipeline that would tie into an oil gathering system. Owning infrastructure in our core areas ensures we retain more control over the entire operation and are less reliant on third party facilities.

### Mooney

At Mooney, Phase One of the ASP (Alkali, Surfactant, Polymer) flood began in July, with the initial injection of chemicals and water. We encountered minor problems with some of the surface facilities during the start-up phase but these issues have been resolved and we have been continuously injecting for over three months. The objective is to initially re-pressurize the reservoir, after which we would expect to see response through increased oil production. It is expected to take six to twelve months to re-pressurize the reservoir and then an additional six to twelve months to reach peak production rates of between 3,000 and 4,000 barrels of oil per day. Construction of the heavy oil battery to handle increased fluid volumes is on-going and we expect to have the facility in operation by mid 2012.

As a result of the temporary slow-down in drilling at Onion Lake we have shifted some of our 2011 capital program to Mooney. We expect to drill up to 14 horizontal wells before year-end, 10 of which will be drilled on the Phase Two expansion lands. These wells will be produced conventionally until we add them to the ASP flood in the future.

### Non-core Areas

John Lake is a conventional heavy oil project located in the Cold Lake oil sands region. We have drilled three successful horizontal wells in the area during the last 12 months and plan to drill an additional five wells before year-end. Oil production from the area has increased to over 400 barrels per day. We believe the area has the potential to support a development of 40 to 50 horizontal wells. We own 100% of this project.

Zoller Lake, in central Saskatchewan, is a heavy oil prospect in the Birdbear formation. During the third quarter we drilled two successful horizontal wells, each producing over 100 barrels of oil per day. We are planning to drill up to four additional wells next year. We own 100% of this project.

## Production

Oil and gas production averaged 8,113 boe (barrels of oil equivalent) per day in the third quarter of 2011, a 22% increase from the comparable quarter in 2010. In addition, Q3 2011 production represented a 24% increase above Q2 2011 levels. The increase in production is mainly attributable to the 63 wells drilled at Onion Lake in the spring, the majority of which were put on production during Q3 2011. We still have 18 wells from this spring drilling program to bring on production. These wells will be brought on production when our thermal development plan receives regulatory approval which is expected in the first half of 2012.

In Q3 2011, we commenced ASP injection at Mooney and expect to see increased oil production in 6 to 12 months. Initially, production from Mooney will be lower than prior periods as we converted 22 producing oil wells to injectors as part of the ASP flood.

(boe/day)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Onion Lake	7,065	5,157	6,092	4,855
Mooney				
ASP flood area	175	788	274	880
Non-flood areas	334	102	408	124
John Lake	401	53	320	42
Other	138	546	135	930
	8,113	6,646	7,229	6,831

## Financial Results

Oil and gas revenues increased 33% in the third quarter of 2011 to \$44.6 million compared with \$33.4 million in Q3 2010. The increase was primarily attributable to a 22% increase in oil sales volumes and higher crude oil prices in 2011.

The higher wellhead price reflects stronger WTI oil prices in Q3 2011 compared with 2010 (US\$89.74/bbl vs US\$76.08/bbl), partially offset by an increase in heavy oil differentials (Cdn\$17.27/bbl vs Cdn\$15.66/bbl). The Canadian dollar was stronger in 2011 compared to the US dollar (0.98 in Q3 2011 compared with 1.039 in Q3 2010), which reduced the revenues we would otherwise receive.

Operating costs were \$18.31 per boe in Q3 2011, which is higher than previous quarters. The increase reflects bringing on a significant number of new wells at Onion Lake during Q3. These 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. In addition, although the incremental costs of initially re-pressurizing the reservoir at Mooney are being capitalized, the existing operating costs are continuing with lower production levels (since half the wells were converted to injectors), which contributes to higher operating costs on a per barrel basis.

The increase in oil production and higher wellhead prices resulted in cash flow from operations (before working capital adjustments) increasing 34% in Q3 to \$18.9 million compared to \$14.1 million for the same period in 2010.

## Financial and Operating Highlights

	Three months ended September 30		Six months ended September 30	
	2011	2010	2011	2010
Daily production / sales volumes <sup>(1)</sup>				
Oil (bbl/d)	8,028	6,166	7,033	6,208
Natural gas (mcf/d)	512	2,881	1,176	3,738
Combined (boe/d)	8,113	6,646	7,229	6,831
Product pricing (\$)				
Crude oil - per bbl	59.87	57.17	62.18	58.51
Natural gas - per mcf	4.10	3.52	3.91	4.26
Combined - per boe	59.70	54.66	61.46	55.83
(\$000's, except per share and boe amounts)				
Revenue				
Oil and gas revenue – gross	44,564	33,421	121,283	104,124
Royalties (\$/boe)	13.82	14.61	15.84	14.56
Transportation costs (\$/boe)	0.31	1.42	0.49	1.10
Operating costs (\$/boe)	18.31	13.57	17.80	15.10
Net income (loss) for the period	(51)	(1,443)	3,407	4,746
Per share, basic and diluted				
Basic	0.00	(0.01)	0.01	0.02
Diluted	0.00	(0.01)	0.01	0.02
Cash flow from operating activities, before working capital adjustments	18,924	14,136	49,355	43,091
Capital expenditures	40,499	19,926	135,660	57,796
Working Capital, end of period	64,167	92,006	64,167	92,006
Long term debt	-	-	-	-
Shares outstanding, end of period	284,732,011	272,900,553	284,732,011	272,900,553

*(1) Boe amounts are based on a conversion ratio of 6 mcf of gas to 1 barrel of oil. Boe's may be misleading, particularly if used in isolation. 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.*

## 2012 Guidance

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

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

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

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

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

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

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

## **BLACKPEARL RESOURCES INC.**

### **Management's Discussion and Analysis**

The following is Management's Discussion and Analysis (MD&A) of the operating and financial results of BlackPearl Resources Inc. ("BlackPearl" or "the Company") for the three and nine months ended September 30, 2011. These results are being compared with the three and nine month periods ended September 30, 2010. The MD&A should be read in conjunction with the Company's unaudited consolidated financial statements for the three and nine months ended September 30, 2011, together with the accompanying notes.

All dollar amounts are referenced in thousands of Canadian dollars, except where otherwise noted. The consolidated financial statements, formerly prepared under Canadian GAAP, have been prepared in accordance with International Financial Reporting Standards (IFRS), as is required for Canadian public entities with year ends beginning on or after January 1, 2011.

Throughout this MD&A the calculation of barrels of oil equivalent (boe) is based on a conversion rate of six thousand cubic feet (mcf) of natural gas to one barrel of oil. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalence conversion method primarily applicable at the burner tip and is not intended to represent a value equivalence at the wellhead.

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

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

This report includes terms commonly used in the oil and natural gas industry, such as cash flow and cash flow from operations which represent cash flow from operating activities expressed before changes in non-cash working capital, as well as cash flow per share and operating netback. These terms are used by the Company to analyze operating performance, leverage and liquidity and to provide shareholders and investors with additional information to measure the Company's performance and efficiency and its ability to fund a portion of its future activities and to service any long-term debt if incurred in the future. These terms do not have standardized meanings prescribed by GAAP and therefore may not be comparable with the calculation of similar measures by other entities. Consequently, these are referred to as non-GAAP measures.

Additional information relating to the Company, including its Annual Information Form, is available on SEDAR at [www.sedar.com](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 November 9, 2011.

## OVERVIEW

BlackPearl is a Canadian-based oil and natural gas company whose common shares are traded on the Toronto Stock Exchange (TSX) under the symbol “PXX”. The Corporation’s Swedish Depository Receipts trade on the NASDAQ OMX First North market under the symbol “PXXS”. BlackPearl’s primary focus is on heavy oil and oil sands projects in Western Canada.

BlackPearl’s current core properties are:

- Onion Lake, Saskatchewan – conventional heavy oil and, in the future, thermal SAGD recovery;
- Mooney, Alberta – conventional heavy oil using horizontal drilling and polymer flooding; and
- Blackrod, Alberta – heavy oil/bitumen using the SAGD recovery process.

Through continuous investment by the Company in drilling wells, delineating resources and constructing surface facilities, these core properties provide the Company with a combination of short-term cash flow generation, medium-term reserves and production growth, and long-term reserves growth on multi-phase low decline projects using thermal recovery processes.

Under BlackPearl’s current business plan, management intends to sell the Company’s non-core assets. In the first three quarters of 2011, the Company disposed of properties containing minimal reserves. Additional non-core asset sales are planned; however, additional work will be undertaken on these remaining properties prior to bringing them to market. As a result, the Company does not anticipate any additional significant property dispositions in 2011.

## 2011 SIGNIFICANT EVENTS

- Capital expenditures during the first three quarters of 2011 were \$135.7 million, with approximately \$27 million spent at Blackrod, \$65 million at Onion Lake and \$41 million at Mooney. The focus of the 2011 capital program to date was to complete the SAGD pilot facilities at Blackrod, complete the first phase of the polymer facilities at Mooney and continue conventional drilling at Onion Lake.
- Oil and gas sales during the first three quarters of 2011 were \$121.3 million and cash flow from operations was \$49.4 million. Net income was \$3.4 million for the nine months ended September 30, 2011.
- In 2011, BlackPearl completed non-core asset sales for proceeds of \$2.6 million. The assets sold included natural gas properties in southern Alberta as well as the polymer pilot facilities used at Mooney.
- The Company has not undertaken any equity issuances in 2011; however, 1,516,624 common shares have been issued pursuant to the exercise of stock options and warrants during the nine months ended September 30, 2011.
- At September 30, 2011, BlackPearl had working capital of \$64.2 million and no long-term debt.

## SELECTED QUARTERLY INFORMATION

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

(1) Information for 2009 has been presented in accordance with previous Canadian GAAP and has not been restated to IFRS.

(2) Cash flow from operations is a non-GAAP measure. It represents cash flow from operating activities before changes in working capital.

Fluctuations in quarterly revenues and net earnings over the last eight quarters are due primarily to the volatility in oil and natural gas prices and changes in sales volumes due to production growth through successful drilling activity, principally in the Onion Lake area. Decreased production in Q3 2010 and Q1 2011 was primarily a result of asset dispositions during the last fifteen months. The increased production in Q3 2011 is a result of new production from Onion Lake wells drilled in the first half of 2011. Fluctuations in quarterly net income in 2010 and 2011 are primarily a result of gains and losses recorded on property dispositions during those periods. The continued improvement in heavy oil prices led to a significant increase in BlackPearl's capital program in 2011.

## BUSINESS ENVIRONMENT

### Commodity Prices

	2011			2010			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Average Crude Oil Prices							
West Texas Intermediate (WTI) (US\$/bbl)	<b>89.74</b>	102.50	93.95	85.10	76.08	78.03	78.71
Western Canadian Select (WCS) (Cdn\$/bbl)	<b>70.98</b>	82.09	70.19	67.86	62.91	65.78	72.51
Differential – WCS/WTI (Cdn\$/bbl)	<b>17.27</b>	17.63	22.74	18.19	15.66	14.43	9.43
Differential – WCS/WTI (%)	<b>19.6%</b>	17.8%	24.5%	21.1%	19.8%	18.0%	11.5%
Average Natural Gas Prices							
AECO gas (Cdn\$/GJ)	<b>3.44</b>	3.54	3.58	3.39	3.52	3.66	5.06
Foreign Exchange (Cdn\$ to US\$)	<b>1.020</b>	1.033	1.014	0.987	0.962	0.973	0.961

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

The majority of BlackPearl's production revenues are derived from the sale of heavy oil, which receives a lower price than light oil due to increased processing requirements for heavy oil. The difference between the reference price of light oil and the reference price of heavy oil is commonly referred to as the light/heavy differential. The differential can be volatile due to supply and demand, refinery margins, seasonal fluctuations and transportation issues. The differential averaged 19.6% in Q3 2011, which was an increase from the second quarter 2011 (17.8%), but was consistent with the differential experienced in Q3 2010.

Oil prices in Canada are also affected by the Canada/U.S. dollar exchange rate since the WTI reference price of oil is in U.S. dollars. During the third quarter 2011, the Canadian dollar weakened slightly against the U.S. dollar, averaging Cdn\$0.980 to US\$1 compared with Cdn\$0.968 to US\$1 in the second quarter 2011. The weakening of the Canadian dollar partially offsets the decreased WTI benchmark pricing experienced during the third quarter of 2011.

In Q3 2011, natural gas prices decreased slightly from Q2 2011. As a result of asset dispositions during 2010, BlackPearl's natural gas production currently represents only about 2% of total production and therefore changes in natural gas prices have a minor impact on the Company's current operations.

## Oil and Natural Gas Production, Pricing and Revenue

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

<sup>(1)</sup> Natural gas production converted at 6:1 (for boe figures)

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

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

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

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

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

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

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

### *Royalties*

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

Royalties increased by 15% from \$8.9 million in the third quarter 2010 to \$10.3 million in Q3 2011. The increase reflects higher revenues during 2011. The decrease in royalty expense from Q2 to Q3 2011 is a result of a significant one-time royalty adjustment that was calculated in the Company's favour that pertained to previous periods. Generally, royalty rates in western Canada vary based on volumes produced by individual wells, prices received and the area the production is derived from. Production from Onion Lake is not eligible for any of the new drilling incentives and therefore the royalty rate is higher than other areas with active drilling programs.

### *Production Costs*

	2011		2010		Nine months ended September 30	
	Q3	Q2	Q3	Q3	2011	2010
Production costs (\$000s)	<b>13,665</b>	10,337	8,297		<b>35,124</b>	28,154
Per boe (\$)	<b>18.31</b>	17.36	13.57		<b>17.80</b>	15.10

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

### *Transportation Costs*

	2011		2010	Nine months ended September 30	
	Q3	Q2	Q3	2011	2010
	Transportation costs (\$000s)	<b>231</b>	273	867	<b>961</b>
Per boe (\$)	<b>0.31</b>	0.46	1.42	<b>0.49</b>	1.10

Transportation costs are incurred to move marketable crude oil and natural gas to their selling points. Changes in transportation costs, on a boe basis, are generally related to moving crude oil to different sales points to capture better marketing opportunities, or as a result of production being shipped as emulsion rather than clean marketable oil. Costs related to trucking emulsion are classified as production expenses rather than transportation costs. In an effort to reduce chemical and other costs incurred to eliminate water and other impurities from produced oil, in Q3 2011, more of the Onion Lake production was shipped as emulsion and therefore our transportation costs to ship clean oil was lower.

### *Operating Netback*

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

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

### *General and Administrative Expenses (G&A)*

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

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

### *Stock-Based Compensation*

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

Stock-based compensation costs are non-cash charges which reflect the estimated value of stock options granted. The Company uses the fair value method of accounting for stock options granted to directors, officers, employees and consultants whereby the fair value of all stock options granted is recorded as a charge to operations over the period from the grant date to the vesting date of the option. The fair value of common share options granted is estimated on the date of grant using the Black-Scholes options pricing model. The increase in stock-based compensation expense in Q3 2011, compared with the same period in 2010, reflects additional options previously granted as well as a higher option value assigned to each grant of options. In the third quarter 2011, 137,333 options were exercised.

### *Depletion and Depreciation*

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

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

### *Interest Income*

	2011		2010	Nine months ended September 30	
	Q3	Q2	Q3	2011	2010
Interest income (\$000s)	<b>273</b>	474	246	<b>1,205</b>	427

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

**Other Income**

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

Other income in 2010 consists mainly of net cash received as part of a drilling incentive program offered by the Alberta government to encourage drilling activity within the province. These drilling credits received were acquired from third parties that did not have sufficient production to utilize the credits. No credits were purchased in 2011. The program expired on March 31, 2011.

**Income Taxes**

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

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

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

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

During 2010 and 2011, BlackPearl recorded gains on the disposition of certain petroleum and natural gas properties in southern Alberta as well as the polymer pilot facilities in the Mooney area. The Company expects to sell more of its non-core assets over the next 12 to 24 months.

## RESULTS OF OPERATIONS

(\$000s, except where noted)

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

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

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

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

## LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2011, BlackPearl had working capital of \$64.2 million compared to \$144.0 million at December 31, 2010. The decrease is mainly a result of operating cash inflows of \$49.4 million, offset by \$135.7 million in capital expenditures.

In addition to its working capital, BlackPearl also has an undrawn \$25 million credit facility. The amount available under the credit facility is based on the value of oil and natural gas reserves. BlackPearl renewed its existing credit facility during Q2 2011 and the next review of the Company's credit facility is scheduled to be completed by May 29, 2012. The only financial covenant in the facility is to maintain a working capital ratio of 1:1 at the end of each fiscal quarter. Working capital ratio is defined as current assets plus unutilized credit under the credit facility compared to current liabilities. The Company had a working capital ratio of 3.4:1 at September 30, 2011 and was in compliance with these covenants throughout the third quarter 2011.

The Company expects capital spending for the remainder of 2011 to be between \$35 and \$45 million. This will be financed from working capital and operating cash flows. The Company does not expect to utilize its credit facility to fund this program other than to issue letters of credit periodically to secure delivery of goods and services. At September 30, 2011, there is a \$3 million letter of credit outstanding against the facility. The Company can adjust its capital program if required to maintain its financial flexibility.

On a longer-term basis, the December 31, 2010 oil and natural gas reserves evaluation and contingent resource study, prepared by Sproule Unconventional Limited, indicates that the Company will require significant capital investment to fully develop the Company's existing properties. The Company will likely require additional external financing to fund this capital investment; however, the Company has not determined the amount or structure of this financing. This requirement for additional funding will likely occur when the Company initiates commercial development of one of its thermal projects at Blackrod and/or Onion Lake. This financing decision is expected to be made sometime in 2012.

## CAPITAL EXPENDITURES

BlackPearl's capital program is focused on heavy oil opportunities. During the nine months ended 2011, capital spending was higher than in the same period in 2010, totaling \$135.7 million, an increase from the \$57.8 million spent in 2010. The focus of the 2011 capital program has been to complete the SAGD pilot facilities at Blackrod, complete the first phase of the polymer facilities at Mooney and drill 76 conventional heavy oil wells at Onion Lake. In addition, in 2011 we completed drilling 10 delineation wells at Blackrod to support the commercial development application which is expected to be submitted in Q1 2012. During the first nine months of 2011 the Company completed the sale of certain minor oil and natural gas properties for proceeds of \$2.6 million.

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

## CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

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

(\$000s)	2011	2012	2013	2014	2015	Thereafter
Operating leases <sup>(1)</sup>	317	1,248	1,364	1,626	1,626	1,320
Electrical service agreement <sup>(2)</sup>	1,506	2,969	-	-	-	-
	1,823	4,217	1,364	1,626	1,626	1,320

(1) Relates to a lease for office premises, including estimated operating costs (net of sublease recoveries). The Company's office lease was executed jointly with another party. Under the terms of the lease, BlackPearl and the other party are joint and severally liable for the obligations pursuant to the lease. Accordingly, if the other party or any of the subtenants of a portion of the space are unable to fulfill their lease obligation, BlackPearl would be required to pay a maximum additional \$18.7 million (including an estimate for operating costs) over the next 60 months.

(2) Relates to a commitment for the installation of electrical services at the Mooney ASP facility.

These obligations are expected to be funded from operating cash flow.

The Company also has ongoing obligations related to the abandonment and reclamation of well sites and facilities which have reached the end of their economic lives. Remediation programs are undertaken regularly in accordance with applicable legislative requirements.

## **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The financial instruments on the Company's balance sheet include cash and cash equivalents, accounts receivable, investments in MAV notes and accounts payable. The Company manages its risk through its policies and processes, but generally has not used derivative financial instruments to manage these risks.

The carrying value of cash, accounts receivable and accounts payable approximates their fair value due to the short-term nature of these instruments. The fair value of the investment in MAV notes has been determined by a cash flow model considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments.

The risks associated with these financial instruments include commodity price risk, foreign currency exchange risk, credit risk, interest rate risk and liquidity risk which are more fully discussed in note 10 of the Interim Financial Statements.

## **OFF-BALANCE-SHEET ARRANGEMENTS**

The Company has no off-balance-sheet arrangements.

## **RELATED-PARTY TRANSACTIONS**

There were no related-party transactions during Q3 2011.

## **OUTSTANDING SHARE DATA**

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

## **PROPOSED TRANSACTIONS**

As of November 9, 2011, the Company does not have any significant pending transactions.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of the interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingencies. Such estimates primarily relate to unsettled transactions and events as of the date of the interim consolidated financial statements. These estimates are subject to measurement uncertainty. Actual results could differ from and affect the results reported in these interim consolidated financial statements.

Fair values of oil and gas properties, depletion and depreciation and amounts used in impairment calculations are based on estimates of crude oil and natural gas reserves, oil and gas prices and future costs required to develop those reserves. By nature, estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact of differences between actual and estimated amounts on the consolidated financial statements of future periods could be material.

Petroleum and natural gas properties, exploration and evaluation assets and other corporate assets are aggregated into cash-generating-units (CGUs) based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company's CGUs is subject to management's judgment.

The decision to transfer exploration and evaluation assets to property, plant and equipment is based on management's determination of an area's technical feasibility and commercial viability.

The calculation of decommissioning liabilities includes estimates of the future costs to settle the decommissioning liability, the timing of the cash flows to settle the liability, the risk-free rate and the future inflation rates. The impact

of differences between actual and estimated costs, timing and inflation on the consolidated financial statements of future periods may be material.

The estimated fair value of the Company's financial assets and liabilities, are by their nature, subject to measurement uncertainty.

The calculation of income taxes requires judgment in applying tax laws and regulations, estimating the timing of the reversals of temporary differences, and estimating the realizability of future tax assets. These estimates impact current and future income tax assets and liabilities, and current and future income tax expense (recovery).

The calculation of stock-based compensation requires estimates of volatility, forfeiture rates and market prices surrounding the issuance of stock options. These estimates impact stock-based compensation expense and contributed surplus.

Contingencies are resolved only when one or more events transpire. As a result, the assessment of contingencies inherently involves estimating the outcome of future events.

## **RISKS AND UNCERTAINTIES**

Please refer to the Company's 2010 MD&A and the 2010 Annual Information Form for a discussion of the risks and uncertainties associated with the Company's activities. There have been no significant changes in these risks and uncertainties during the first nine months of 2011.

## **ENVIRONMENTAL RISKS**

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Compliance with such legislation can require significant expenditures and a breach could result in the imposition of fines and penalties, some of which could be material. Senior management continually assesses new and existing regulatory requirements and environmental risks and determines the impact these risks might have on the Company, as well as the appropriate actions necessary to manage those risks. These assessments and the resulting policy decisions are discussed quarterly with the Board of Directors which evaluates the performance and effectiveness of the Company's environmental policies and programs.

The Company's environmental responsibilities includes removing property, plant and equipment as well as reclaiming land and property to its original state, subsequent to the completion of oil and natural gas extraction activities. This requirement results in a decommissioning liability that provides current recognition of estimated expenditures that will be incurred in the future. The Company's decommissioning liabilities are discussed in further detail under "Critical Accounting Estimates" above, as well as in note 7 to the Company's Interim Consolidated Financial Statements.

In 2010, the Company received all required environmental and regulatory approvals for the Blackrod SAGD pilot, the polymer flood at Mooney and the 2011 Onion Lake drilling program.

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Effective January 1, 2011, International Financial Reporting Standards ("IFRS") have replaced Canadian GAAP for publicly accountable enterprises. BlackPearl has adopted IFRS for the interim and annual periods beginning on January 1, 2011, including comparative information pertaining to 2010.

Information regarding the Company's accounting policies and transition to IFRS can be found in notes 2, 3 and 12 to the Interim Consolidated Financial Statements. Significant items to note upon transition include:

- *Depletion and depreciation* - Under IFRS, depletion of P&NG properties is calculated at a unit-of-account level using proved and probable reserves as the basis, as opposed to using only proved reserves as was

required practice under Canadian GAAP. This has resulted in significantly lower depletion under IFRS than under Canadian GAAP.

- *Decommissioning liabilities* - Under IFRS, the assumptions used in calculating decommissioning liabilities are to be analyzed at each balance sheet date and updated to reflect current market conditions when appropriate. Due to the change recorded on January 1, 2010, resulting from the use of the risk-free rate as opposed to the credit-adjusted risk-free rate, the amount of accretion recorded under IFRS is lower than that recorded under Canadian GAAP. In addition, the Company has chosen to show accretion separately on its financial statements as opposed to including with depletion and depreciation, as was common practice under Canadian GAAP.
- *Gains and losses on dispositions* - During 2010, the Company disposed of a number of non-core petroleum and natural gas properties. Under Canadian GAAP, the proceeds of these dispositions were credited to the Company's full-cost asset pool and no gain or loss was recorded unless the disposition had an effect of 20% or more on the Company's depletion rate. Under IFRS, a gain or loss is calculated on every property, exploration and evaluation project or asset disposed of by the Company.
- *Transition adjustments* - At January 1, 2010, the assumptions used to calculate decommissioning liabilities were altered to reflect current market conditions, as required under IFRS. The change resulted in an increase to the liability of \$7.5 million.

## CONTROL CERTIFICATION

### *Disclosure Controls and Procedures and Internal Controls of Financial Reporting*

Management reported on its disclosure controls and procedures and the design of its internal controls over financial reporting in the year end 2010 MD&A. There has been no material change to the Company's disclosure controls or procedures or to the design of internal controls over financial reporting since that time.

## OUTLOOK

BlackPearl has updated its 2011 guidance as follows:

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

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

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

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

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

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

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

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

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

## **FORWARD-LOOKING STATEMENTS**

This report contains certain forward-looking statements and forward-looking information (collectively referred to as "**forward-looking statements**") within the meaning of applicable Canadian securities laws. All statements other than statements of historical fact are forward-looking statements. Forward-looking information typically contains statements with words such as "anticipate", "believe", "plan", "continuous", "estimate", "expect", "may", "will", "project", "should", "outlook" or similar words suggesting future outcomes. In particular, this report contains forward-looking statements pertaining to our business plans and strategies; capital expenditure and drilling programs; methods, ability and timing to finance capital expenditure programs; anticipated oil and gas production levels; future oil and gas prices and their impact on BlackPearl; future costs including operating and administrative costs and royalty rates; future cash flows and net income; future asset dispositions and corporate guidance for 2011 and 2012.

In addition, statements relating to "reserves" or "resources" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and resources described exist in the quantities predicted or estimated and can be profitably produced in the future.

Undue reliance should not be placed on forward-looking statements, which are inherently uncertain, are based on estimates and assumptions, and are subject to known and unknown risks and uncertainties (both general and specific) that contribute to the possibility that the future events or circumstances contemplated by the forward-looking statements will not occur. There can be no assurance that the plans, intentions or expectations upon which forward-looking statements are based will be realized. Actual results will differ, and the difference may be material and adverse to the Corporation and its shareholders.

With respect to forward-looking statements contained in this report, management has made assumptions regarding future production levels; future oil and gas prices; future operating costs; timing and amount of capital expenditures; the ability to obtain financing on acceptable terms; availability of skilled labour and drilling and related equipment; general economic and financial market conditions; continuation of existing tax and regulatory regimes; and the

ability to market oil and natural gas successfully to current and new customers. A description of some of the assumptions used for 2011 and 2012 guidance are located in “Outlook” above. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

By their very nature, forward-looking statements involve inherent risks and uncertainties (both general and specific) and risks that the goals or figures contained in forward-looking statements will not be achieved. These factors include, but are not limited to, risks associated with fluctuations in market prices for crude oil, natural gas and diluent, general economic, market and business conditions, substantial capital requirements, uncertainties inherent in estimating quantities of reserves and resources, extent of, and cost of compliance with, government laws and regulations and the effect of changes in such laws and regulations from time to time, the need to obtain regulatory approvals on projects before development commences, environmental risks and hazards and the cost of compliance with environmental regulations, aboriginal claims, inherent risks and hazards with operations such as fire, explosion, blowouts, mechanical or pipe failure, cratering, oil spills, vandalism and other dangerous conditions, potential cost overruns, variations in foreign exchange rates, diluent supply shortages, competition for capital, equipment, new leases, pipeline capacity and skilled personnel, uncertainties inherent in the SAGD bitumen and Alkali Surfactant Polymer recovery processes, credit risks associated with counterparties, the failure of the Company or the holder of licenses, leases and permits to meet requirements of such licenses, leases and permits, reliance on third parties for pipelines and other infrastructure, changes in royalty regimes, failure to accurately estimate abandonment and reclamation costs, inaccurate estimates and assumptions by management, effectiveness of internal controls, the potential lack of available drilling equipment and other restrictions, failure to obtain or keep key personnel, title deficiencies with the Company’s assets, geo-political risks, risks that the Company does not have adequate insurance coverage, risk of litigation and risks arising from future acquisition activities. Further information regarding these risk factors may be found under “Risk Factors” in the Annual Information Form. Readers are cautioned that these factors and risks are difficult to predict and that the assumptions used in the preparation of such information, although considered reasonably accurate at the time of preparation, may prove to be incorrect. Accordingly, readers are cautioned that the actual results achieved will vary from the information provided herein and the variations could be material. Readers are also cautioned that the foregoing list of factors is not exhaustive. Consequently, there is no representation by the Corporation that actual results achieved will be the same in whole or in part as those set out in the forward-looking information. Furthermore, the forward-looking statements contained in this report are made as of the date hereof, and the Corporation does not undertake any obligation, except as required by applicable securities legislation, to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

**BLACKPEARL RESOURCES INC.**

<b>Consolidated Balance Sheets</b>				
<b>(unaudited)</b>				
<b>(Cdn\$ in thousands)</b>	<b>Note</b>	<b>September 30, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
<b>Assets</b>				
Current assets				
Cash and cash equivalents		\$ 81,201	\$ 169,596	\$ 56,352
Accounts receivable		17,081	19,551	11,977
Income and other taxes receivable		-	2,083	4,817
Prepaid expenses and deposits		1,172	883	1,167
		<u>99,454</u>	<u>192,113</u>	<u>74,313</u>
Investments		1,839	1,839	1,284
Exploration and evaluation assets	(4)	101,603	74,606	30,270
Property, plant and equipment	(5)	370,640	303,852	362,442
		\$ <u>573,536</u>	\$ <u>572,410</u>	\$ <u>468,309</u>
<b>Liabilities</b>				
Current liabilities				
Accounts payable and accrued liabilities		\$ 35,287	\$ 48,081	\$ 16,318
Decommissioning liabilities	(7)	26,073	23,794	32,970
		<u>61,360</u>	<u>71,875</u>	<u>49,288</u>
<b>Shareholders' equity</b>				
Share capital	(8)	862,978	857,812	779,809
Contributed surplus		22,109	19,041	15,444
Deficit		(372,911)	(376,318)	(376,232)
		<u>512,176</u>	<u>500,535</u>	<u>419,021</u>
		\$ <u>573,536</u>	\$ <u>572,410</u>	\$ <u>468,309</u>

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

**BLACKPEARL RESOURCES INC.**

<b>Consolidated Statements of Income</b>					
<b>(unaudited)</b>					
<b>(Cdn\$ in thousands, except for per share amounts)</b>					
	Note	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
		<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Revenue</b>					
Oil and gas sales		\$ 44,564	\$ 33,421	\$ 121,283	\$ 104,124
Royalties		(10,315)	(8,931)	(31,257)	(27,149)
		<u>34,249</u>	<u>24,490</u>	<u>90,026</u>	<u>76,975</u>
<b>Expenses</b>					
Production		13,665	8,297	35,124	28,154
Transportation		231	867	961	2,044
General and administrative		1,318	1,418	5,179	4,676
Depletion and depreciation		17,706	14,950	44,828	43,596
Accretion of decommissioning liabilities		254	240	682	779
Stock-based compensation	(8)	1,706	944	4,725	2,745
Interest and bank charges		11	47	122	65
Foreign currency exchange loss (gain)		(318)	175	(171)	112
		<u>34,573</u>	<u>26,938</u>	<u>91,450</u>	<u>82,171</u>
<b>Other income</b>					
Interest income		273	246	1,205	427
Other income		-	291	-	1,443
Gain on disposition of petroleum and natural gas properties	(5)	-	491	3,545	8,210
		<u>273</u>	<u>1,028</u>	<u>4,750</u>	<u>10,080</u>
Income (loss) before income taxes		<u>(51)</u>	<u>(1,420)</u>	<u>3,326</u>	<u>4,884</u>
<b>Income taxes</b>					
Current income tax (recovery)		-	23	(81)	138
		<u>-</u>	<u>23</u>	<u>(81)</u>	<u>138</u>
<b>Net income (loss) for the period</b>		<u>\$ (51)</u>	<u>\$ (1,443)</u>	<u>\$ 3,407</u>	<u>\$ 4,746</u>
<b>Earnings (loss) per common share</b>					
Basic		\$ 0.00	\$ (0.01)	\$ 0.01	\$ 0.02

*See accompanying notes to consolidated financial statements*

BLACKPEARL RESOURCES INC.

**Consolidated Statements of Changes in Equity**  
**(unaudited)**

(Cdn\$ in thousands)

**Nine months ended September 30, 2011**

	<b>Share Capital</b>	<b>Contributed Surplus</b>	<b>Deficit</b>	<b>Total Equity</b>
<b>Balance - January 1, 2011</b>	\$ 857,812	\$ 19,041	\$ (376,318)	\$ 500,535
Net income for the period	-	-	3,407	3,407
Stock-based compensation	-	4,725	-	4,725
Shares issued on exercise of stock options and warrants	3,509	-	-	3,509
Transfer to share capital on exercise of stock options and warrants	1,657	(1,657)	-	-
<b>Balance - September 30, 2011</b>	<b>\$ 862,978</b>	<b>\$ 22,109</b>	<b>\$ (372,911)</b>	<b>\$ 512,176</b>

**Nine months ended September 30, 2010**

	<b>Share Capital</b>	<b>Contributed Surplus</b>	<b>Deficit</b>	<b>Total Equity</b>
<b>Balance - January 1, 2010</b>	\$ 779,809	\$ 15,444	\$ (376,232)	\$ 419,021
Net income for the period	-	-	4,746	4,746
Shares issued on equity offering	28,593	-	-	28,593
Stock-based compensation	-	2,745	-	2,745
Shares issued on exercise of stock options and warrants	498	-	-	498
Transfer to share capital on exercise of stock options and warrants	250	(250)	-	-
<b>Balance - September 30, 2010</b>	<b>\$ 809,150</b>	<b>\$ 17,939</b>	<b>\$ (371,486)</b>	<b>\$ 455,603</b>

See accompanying notes to consolidated financial statements

**BLACKPEARL RESOURCES INC.**

<b>Consolidated Statements of Cash Flows</b>				
<b>(unaudited)</b>				
<b>(Cdn\$ in thousands)</b>	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Operating activities</b>				
Net income (loss) for the period	\$ (51)	\$ (1,443)	\$ 3,407	\$ 4,746
Items not involving cash:				
Depletion and depreciation	17,706	14,950	44,828	43,596
Accretion of decommissioning liabilities	254	240	682	779
Stock-based compensation	1,706	944	4,725	2,745
Foreign exchange loss (gain)	(479)	95	(332)	32
Gain on disposal of petroleum and natural gas properties	-	(491)	(3,545)	(8,210)
Abandonment costs incurred	(212)	(159)	(410)	(597)
	<u>18,924</u>	<u>14,136</u>	<u>49,355</u>	<u>43,091</u>
Changes in non-cash working capital related to operations	(12,290)	1,349	(13,390)	(4,850)
	<u>6,634</u>	<u>15,485</u>	<u>35,965</u>	<u>38,241</u>
<b>Financing activities</b>				
Proceeds on issue of common shares, net of costs	394	34	3,509	29,091
	<u>394</u>	<u>34</u>	<u>3,509</u>	<u>29,091</u>
<b>Investing activities</b>				
Capital expenditures	(40,499)	(19,926)	(135,660)	(57,796)
Proceeds from sale of petroleum and natural gas properties	-	416	2,600	19,654
Changes in non-cash working capital from investing	4,774	12,077	5,030	16,439
	<u>(35,725)</u>	<u>(7,433)</u>	<u>(128,030)</u>	<u>(21,703)</u>
Effect of exchange rate changes on cash and cash equivalents	161	80	161	80
<b>Increase (decrease) in cash and cash equivalents</b>	<u>(28,536)</u>	<u>8,166</u>	<u>(88,395)</u>	<u>45,709</u>
<b>Cash and cash equivalents, beginning of period</b>	<u>109,737</u>	<u>93,895</u>	<u>169,596</u>	<u>56,352</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 81,201</u>	<u>\$ 102,061</u>	<u>\$ 81,201</u>	<u>\$ 102,061</u>

*See accompanying notes to consolidated financial statements*

**BLACKPEARL RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
(tabular amounts in thousands of Cdn\$, except as noted)  
(unaudited)

**1. GENERAL INFORMATION**

BlackPearl Resources Inc. (collectively with its subsidiaries, the “Company” or “BlackPearl”) is engaged in the business of oil and gas exploration, development and production in North America. The Company is listed and traded on the TSX Exchange under the trading symbol “PXX”. The Company’s Swedish Depository Receipts trade on the NASDAQ OMX First North market under the symbol “PXXS”. BlackPearl is incorporated and located in Canada. The address of its registered office is 700, 444 – 7<sup>th</sup> Avenue SW, Calgary, Alberta, T2P 0X8.

**2. BASIS OF PRESENTATION AND ADOPTION OF IFRS**

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these condensed consolidated financial statements. In these financial statements, the term “old Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

These condensed consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 (Interim Financial Reporting) and IFRS 1 (First-time Adoption of IFRS). Subject to certain transition elections disclosed in note 12, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect.

The policies applied in these condensed interim Consolidated Financial Statements are based on IFRS issued and outstanding as of November 9, 2011, the date they were approved and authorized for issuance by the Board of Directors (“the Board”). Any subsequent changes to IFRS that are given effect in the Company’s annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the Company’s old Canadian GAAP annual financial statements for the year ended December 31, 2010. Note 12 discloses IFRS information for the year ended December 31, 2010 not provided in the 2010 annual financial statements.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies used in the preparation of these consolidated interim financial statements are described below.

**Basis of measurement**

The consolidated balance sheet has been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value.

**Consolidation**

The balance sheet of the Company consolidates the accounts of BlackPearl and its subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are those entities (including special purpose entities) which BlackPearl controls by having the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is obtained by BlackPearl and are de-consolidated from the date that control ceases.

**Joint operations**

A portion of the Company's activities are conducted jointly with others through joint ventures. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

**Significant Accounting Estimates**

The preparation of the interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingencies. Such estimates primarily relate to unsettled transactions and events as of the date of the interim consolidated financial statements. These estimates are subject to measurement uncertainty. Actual results could differ from and affect the results reported in these interim consolidated financial statements.

Fair values of oil and gas properties, depletion and depreciation and amounts used in impairment calculations are based on estimates of crude oil and natural gas reserves, oil and gas prices and future costs required to develop those reserves. By nature, estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact of differences between actual and estimated amounts on the consolidated financial statements of future periods could be material.

Petroleum and natural gas properties, exploration and evaluation assets and other corporate assets are aggregated into cash-generating-units (CGUs) based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company's CGUs is subject to management's judgment.

The decision to transfer exploration and evaluation assets to property, plant and equipment is based on management's determination of an area's technical feasibility and commercial viability based on proved and probable reserves.

The calculation of decommissioning liabilities includes estimates of the future costs to settle the liability, the timing of the cash flows to settle the liability, the risk-free rate and the future inflation rates. The impact of differences between actual and estimated costs, timing and inflation on the consolidated financial statements of future periods may be material.

The estimated fair value of the Company's financial assets and liabilities, are by their nature, subject to measurement uncertainty.

The calculation of income taxes requires judgment in applying tax laws and regulations, estimating the timing of the reversals of temporary differences, and estimating the realizability of future tax assets. These estimates impact current and future income tax assets and liabilities, and current and future income tax expense (recovery).

The calculation of stock-based compensation requires estimates of volatility, forfeiture rates and market prices surrounding the issuance of stock options. These estimates impact stock-based compensation expense and contributed surplus.

Contingencies are resolved only when one or more events transpire. As a result, the assessment of contingencies inherently involves estimating the outcome of future events.

### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

### **Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities are recognized on the consolidated balance sheet at the time the Company becomes a party to the contractual provisions. Upon initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods is dependent on the classification of the financial instrument. These instruments will be classified into one of the following five categories: fair value through profit or loss, held-to-maturity, loans and receivables, available-for-sale or financial liabilities at amortized cost.

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

Financial assets and liabilities at fair value through profit or loss are either 'held-for-trading' or have been 'designated at fair value through profit or loss'. In both cases the financial assets and liabilities are measured at fair value with changes in fair value recognized in net income. The Company's investment in MAV notes are classified as held-for-trading. Cash and cash equivalents are designated at fair value through profit or loss.

ii) Held-to-maturity

Held-to-maturity investments are measured at amortized cost at the settlement date using the effective interest method of amortization.

iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, these assets are measured at amortized cost at the settlement date using the effective interest method of amortization. Accounts receivable and income tax receivable are classified as loans and receivables.

iv) Available-for-sale

Available-for-sale financial assets are instruments that are classified in this category or not classified in any other category. They are measured at fair value at the settlement date, with changes in the fair value recognized in other comprehensive income.

v) Financial liabilities at amortized cost

These financial liabilities are measured at amortized cost at the settlement date using the effective interest method of amortization. Accounts payable and accrued liabilities are classified as financial liabilities at amortized cost.

The Company has no financial instruments that give rise to other comprehensive income. Instruments are classified as current if they are assumed to be settled within one year, otherwise they are classified as non-current. The Company will assess at each reporting period whether there is any objective evidence that a financial asset, other than those measured at fair value, is impaired. When assessing impairment, the carrying value of financial assets carried at amortized cost is compared to the present value of estimated future cash flows, discounted using the instrument's original effective interest rate.

### **Exploration and evaluation costs**

All costs directly associated with petroleum and natural gas reserves are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. These costs include costs to acquire acreage and exploration rights, geological and geophysical costs, asset retirement costs, exploration and evaluation drilling, sampling and appraisals. Costs incurred prior to acquiring the legal rights to explore an area are charged directly to net earnings as exploration and evaluation expense.

When an area is determined to be technically feasible and commercially viable, the accumulated costs are transferred to property, plant and equipment. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to net earnings as exploration and evaluation expense.

### **Property, plant and equipment**

All costs directly associated with the development of petroleum and natural gas reserves are capitalized on an area by area basis. Development costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include proved property acquisitions, development drilling, completion, gathering and infrastructure, decommissioning costs and transfers of exploration and evaluation assets. Borrowing costs incurred during the construction of these assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use.

Costs accumulated within each area are depleted using the unit-of-production method based on proved and probable reserves using estimated future prices and costs. Costs subject to depletion include estimated future costs to be incurred in developing proved and probable reserves.

For property dispositions, a gain or loss is recognized in net earnings. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured. Where the exchange is measured at fair value, a gain or loss is recognized in net earnings.

Corporate assets consist primarily of office equipment and leasehold improvements and are stated at cost less accumulated depreciation. Depreciation of these corporate assets is calculated using the declining-balance method.

### **Impairment of non-financial assets**

The carrying value of the Company's non-financial assets is reviewed at each reporting date for indicators that the carrying value of an asset or CGU may not be recoverable. These indicators include, but are not limited to, extended decreases in prices or margins for oil and gas commodities or products, a significant downward revision in estimated reserves or an upward revision in future development costs. If indicators of impairment exist, the recoverable amount of the asset or CGU is estimated. If the carrying value of the asset or CGU exceeds the recoverable amount, the asset or CGU is written down with an impairment recognized in net earnings.

Exploration and evaluation costs and property, plant and equipment costs are aggregated into CGUs based on their ability to generate largely independent cash flows. The recoverable amount of an asset or CGU is the greater of its fair value less costs to sell and its value in use. Fair value less cost to sell is determined to be the amount for which the asset could be sold in an arm's length transaction, less the costs of disposal. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU.

Reversals of impairments are recognized when there has been a subsequent increase in the recoverable amount. In this event, the carrying amount of the asset or CGU is increased to its revised recoverable amount with an impairment reversal recognized in net earnings. The recoverable amount is limited to the original carrying amount less depletion and depreciation as if no impairment had been recognized for the asset or CGU for prior periods.

**Decommissioning liabilities**

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

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

**Share-based payments**

Obligations for issuance of common shares under the Company's stock-based compensation plan are accrued over the vesting period using fair values. Fair values are determined at issuance using the Black-Scholes option-pricing model, taking into account a nominal forfeiture rate, and are recognized as stock-based compensation with a corresponding credit to contributed surplus.

**Contingencies**

When a contingency is substantiated by confirming events, can be reliably measured and will likely result in an economic outflow, a liability is recognized in the consolidated financial statements as the best estimate required to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the consolidated financial statements.

**Income tax**

Income tax expense is comprised of current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current. Tax on income in interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.

**Revenue**

Revenue is recognized when it is probable that the economic benefits will flow to the Company and delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. These criteria are generally met at the time the product is shipped and delivered to the customer and, depending on the delivery conditions, title and risk have passed to the customer and acceptance of the product, when contractually required, has been obtained. Revenue is measured based on the price specified in the sales contract.

## **Share capital**

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

## **Earnings per share**

Basic earnings per share (“EPS”) is calculated by dividing the net earnings (loss) for the period attributable to equity owners of BlackPearl by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. BlackPearl’s potentially dilutive common shares comprise stock options and warrants granted to employees and directors.

## **Accounting standards issued but not yet applied**

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

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

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

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

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

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

#### 4. EXPLORATION & EVALUATION ASSETS

Cost	
At January 1, 2010	\$ 30,270
Expenditures	44,123
Change in asset retirement cost	214
At December 31, 2010	74,606
Expenditures	24,976
Change in asset retirement cost	2,021
At September 30, 2011	\$ 101,603

The Company's exploration and evaluation assets consist entirely of costs pertaining to the Blackrod SAGD project in northern Alberta. During the first nine months of 2011 no costs were considered to be impaired. The net operating revenues of the Blackrod SAGD pilot are being capitalized until technical feasibility or commercial viability is determined.

#### 5. PROPERTY, PLANT AND EQUIPMENT

	Petroleum and natural gas properties	Corporate	Total
<b>Cost</b>			
At January 1, 2010	\$ 620,474	\$ 2,916	\$ 623,390
Capital expenditures	51,454	252	51,706
Change in asset retirement cost	(9,458)	-	(9,458)
Disposals	(88,698)	-	(88,698)
At December 31, 2010	573,772	3,168	576,940
Capital expenditures	110,571	113	110,684
Change in asset retirement cost	(10)	-	(10)
Disposals	(3,823)	-	(3,823)
At September 30, 2011	\$ 680,510	\$ 3,281	\$ 683,791
<b>Accumulated depletion and depreciation</b>			
At January 1, 2010	\$ 259,903	\$ 1,045	\$ 260,948
Depletion and depreciation	57,092	318	57,410
Disposals	(45,270)	-	(45,270)
At December 31, 2010	271,725	1,363	273,088
Depletion and depreciation	44,607	221	44,828
Disposals	(4,765)	-	(4,765)
At September 30, 2011	\$ 311,567	\$ 1,584	\$ 313,151
<b>Net book value</b>			
January 1, 2010	\$ 360,571	\$ 1,871	\$ 362,442
December 31, 2010	\$ 302,047	\$ 1,805	\$ 303,852
September 30, 2011	\$ 368,943	\$ 1,697	\$ 370,640

During the nine months ended September 30, 2011, BlackPearl disposed of a number of petroleum and natural gas properties. The Company received proceeds of \$2.6 million (\$19.7 million – 2010) and recorded a gain on disposition of \$3.5 million (\$8.2 million – 2010) on the September 30, 2011 financial statements.

## 6. CREDIT FACILITY

The Company has a 364-day extendible term credit facility with a Canadian financial institution in the amount of \$25 million. The Company may borrow, repay and re-borrow advances with the aggregate outstanding amount not to exceed the total credit facility. The facility bears interest, at the Company's option at either the institution's prime rate or at banker's acceptance or LIBOR loan rates, plus applicable margins, which varies depending on the Company's working capital ratio. At September 30, 2011, a prime rate based drawdown would be at the institution's prime rate plus 0.75%. The Company also incurs a standby fee for undrawn amounts. The facility is secured by a fixed and floating charge on the assets of the Company and is secured by a general securities agreement. At September 30, 2011, there were no advances outstanding under this facility, however, there is a \$3 million letter of credit outstanding against the facility.

The facility is subject to annual reviews. The next scheduled review is to be completed by May 29, 2012. The maturity date of the credit facility is May 29, 2012 and should the lender decide not to renew the facility, any debts outstanding must be repaid by May 28, 2013.

## 7. DECOMMISSIONING LIABILITIES

The Company's decommissioning liability results from ownership interest in oil and gas assets, including well sites, gathering systems, batteries and processing facilities. The total undiscounted amount of the estimated cash flows required to settle the liability is approximately \$29.3 million (\$27.3 million – December 31, 2010) . The fair value of the decommissioning liability was calculated using an inflation factor of 2% and discounted using a risk-free rate of 3.75% (3.75% - December 31, 2010). These liabilities will be settled at the end of the useful lives of the underlying assets which are currently expected to extend up to 27 years, with the majority of costs expected to be incurred between 2011 and 2024. Settlement of the liability is expected to be funded from general corporate funds at the time of retirement.

Changes to the decommissioning liability were as follows:

	<b>Nine months ended</b>		<b>Year ended</b>	
	<b>September 30, 2011</b>		<b>December 31, 2010</b>	
<b>Asset retirement obligation, beginning of period</b>	\$	<b>23,794</b>	\$	32,970
New liabilities recognized		<b>7,197</b>		1,515
Reduction in liabilities due to asset dispositions		<b>(5,186)</b>		(10,759)
Remediation costs incurred		<b>(410)</b>		(905)
Liabilities settled		<b>(4)</b>		(35)
Accretion		<b>682</b>		1,008
<b>Asset retirement obligation, end of period</b>	\$	<b>26,073</b>	\$	23,794

## 8. SHARE CAPITAL

### (a) Authorized

The Company is authorized to issue an unlimited number of common shares.

<b>(b) Common Shares Issued</b>	<b>Number of Shares</b>	<b>Attributed Value</b>
Balance as at January 1, 2010	261,960,717	\$779,809
Shares issued from treasury	20,350,000	80,015
Shares issued on exercise of stock options	904,670	800
Transferred from contributed surplus on exercise of stock options	-	400
Share issuance costs	-	(3,211)
Balance as at December 31, 2010	283,215,387	857,812
Shares issued on exercise of warrants	355,124	213
Shares issued on exercise of stock options	1,161,500	3,296
Transferred from contributed surplus on exercise of stock options and warrants	-	1,657
Balance as at September 30, 2011	284,732,011	\$862,978

### (c) Warrants Outstanding

The following summarizes warrants outstanding as at September 30, 2011:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price (\$)</b>
Outstanding at January 1 and December 31, 2010	10,000,320	0.60
Granted	-	-
Exercised	(355,124)	0.60
Outstanding at September 30, 2011	9,645,196	0.60

The Company has 9,645,196 warrants outstanding as a result of the acquisition of BlackCore Resources Inc. in 2009. Each warrant allows the holder to acquire, on or before January 13, 2013, one common share of the Company at \$0.60.

### (d) Stock Options Outstanding

The Company has a stock option plan (the "Plan") available to directors, officers, employees and certain consultants of the Company and its subsidiaries. Under the Plan, the number of common shares to be reserved and authorized for issuance pursuant to options granted under the Plan cannot exceed 10% of the total number of issued and outstanding shares in the Company. The term and the vesting period of any options granted are determined at the discretion of the board of directors. The maximum term for options granted is ten years. The exercise price of the option cannot be less than the five-day volume weighted average trading price of the common shares immediately preceding the day the option is granted.

The following summarizes stock options outstanding as at September 30, 2011:

	Number of Options	Weighted Average Exercise Price (\$)
Outstanding at January 1, 2010	13,454,333	1.60
Granted	2,786,500	4.74
Exercised	(904,670)	0.89
Forfeited	(366,165)	2.95
Outstanding at December 31, 2010	14,969,998	2.20
Granted	520,000	6.99
Exercised	(1,161,500)	2.84
Outstanding at September 30, 2011	14,328,498	2.32

Options outstanding and exercisable as at September 30, 2011 are summarized below:

Range of Exercise Prices (\$)	Options Outstanding			Options Exercisable		
	Number of Options	Weighted-Average Exercise Price (\$)	Weighted-Average Remaining Life (Years)	Number of Options	Weighted-Average Exercise Price (\$)	Weighted-Average Remaining Life (Years)
0.40 – 1.50	6,215,000	0.73	2.28	4,698,001	0.74	2.31
1.51 – 3.00	4,640,998	2.25	2.78	2,034,345	2.26	2.28
3.01 – 4.50	219,000	3.27	2.06	169,000	3.33	1.51
4.51 – 6.00	2,733,500	5.08	3.65	352,000	5.05	0.33
6.01 – 7.66	520,000	6.99	4.67	-	-	-
	14,328,498	2.32	2.79	7,253,346	1.43	2.18

#### (e) Stock Based Compensation

Stock-based compensation of \$4,725,000 has been recorded in the consolidated statements of income for the nine months ended September 30, 2011 (2010 – \$2,745,000). The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option pricing model. 520,000 options were granted during the nine months ended September 30, 2011. The fair value of these options was estimated using the following weighted average assumptions: risk-free rate of 1.93%, volatility of 79.83%, expected term of 3 years and a market share price of \$6.99. There were no forfeitures during the 9 months ended September 30, 2011.

#### 9. COMMITMENTS AND CONTINGENCIES

	2011	2012	2013	2014	2015	Thereafter
Operating leases <sup>(1)</sup>	\$ 317	\$ 1,248	\$ 1,364	\$ 1,626	\$ 1,626	\$ 1,320
Electrical service agreement <sup>(2)</sup>	1,506	2,969	-	-	-	-
	\$ 1,823	\$ 4,217	\$ 1,364	\$ 1,626	\$ 1,626	\$ 1,320

(1) The Company has 60 months remaining on an operating lease for office space as at September 30, 2011. The Company's office lease was executed jointly with another party. Under the terms of the lease, BlackPearl and the other party are joint and severally liable for the obligations pursuant to the lease. Accordingly, if the other party or any of the subtenants of a portion of the space are unable to fulfill their lease obligation, BlackPearl would be required to pay a maximum additional \$18.7 million (including an estimate for operating costs) over the next 60 months.

- (2) The Company entered into an agreement whereby an electrical service connection will be installed at a facility over the next two years.

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments as at September 30, 2011 include cash and cash equivalents, accounts receivable, certain investments and accounts payable and accrued liabilities. The Company manages its risk through its policies and processes, but the Company generally has not used derivative financial instruments to manage these risks.

### (a) Fair value of financial instruments

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

- (i) The carrying value of cash and cash equivalents approximates their fair value amounts due to the short-term nature of the instruments.
- (ii) The fair value of the investment in MAV notes have been measured in accordance with a three level hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:
  - a. Level 1: fair value is based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
  - b. Level 2: fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices); and
  - c. Level 3: fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The investment in MAV notes have been valued using Level 3 of the hierarchy. The fair value of the investment is determined by a cash flow model considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments.

### (b) Commodity price risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in the price of oil and natural gas. Commodity prices are impacted by world economic events that affect supply and demand, which are generally beyond the Company's control. Changes in crude oil prices may significantly affect the Company's results of operations, cash generated from operating activities, capital spending and the Company's ability to meet its obligations. The majority of the Company's production is sold under short-term contracts, consequently BlackPearl is at risk to near term price movements. The Company manages this risk by constantly monitoring commodity prices and factoring them into operational decisions, such as contracting or expanding its capital expenditures program. Natural gas currently represents less than 5% of the Company's total production and, as a result, any fluctuation in natural gas prices would have a nominal effect on current activities. As at September 30, 2011, the Company did not use derivative financial instruments to manage its exposure to this risk.

### (c) Foreign currency exchange risk

The Company is exposed to risks arising from fluctuations in foreign currency exchange rates and the volatility of those rates. This exposure primarily relates to: (i) prices received for its crude oil and natural gas are primarily determined in reference to U.S. dollars; (ii) certain expenditure commitments, deposits, accounts receivable, and accounts payable which are denominated in U.S. dollars; and to a lesser extent (iii) its operations in the United States. The Company manages this risk by monitoring foreign exchange rates and evaluating their effects on using Canadian or U.S. vendors as well as timing of transactions. As at September 30, 2011, the Company has not entered

into any fixed rate contracts to mitigate its currency risks. As at September 30, 2011, the Company held US\$3,330,000 in cash and short-term deposits.

As at September 30, 2011, if exchange rates to convert from US dollars to Canadian dollars had been \$0.10 lower with all other variables held constant, after tax earnings for the period would have been approximately \$326,000 higher (\$310,000 – 2010). An equal opposite impact would have occurred to net earnings had exchange rates been \$0.10 higher.

#### (d) Credit Risk

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

The Company's accounts receivable are primarily with oil and gas marketers and joint venture partners. Receivables from oil and gas marketers are generally collected on the 25th day of the month following production. The Company attempts to mitigate this risk by assessing the financial strength of its counterpart and entering into relationships with larger purchasers with established credit history. During 2011, the Company has not experienced any collection issues with its marketers. At September 30, 2011, over 91 percent of total accounts receivables are for revenue accruals. Receivables from joint venture partners arise when the Company conducts joint operations on behalf of its partners and invoices them for their share of costs. To mitigate the risk of non-payment from joint venture partners the Company can require partners to pay certain costs in advance as well as the Company has the ability to withhold production from partners in the event of non-payment. As at September 30, 2011, accounts receivable includes an allowance for doubtful accounts of \$815,000 from joint interest partners.

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

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

As at September 30, 2011, the Company held \$81.2 million in cash at various major financial institutions throughout Canada and the USA, as well as \$1.8 million in investments. At September 30, 2011, three Canadian financial institutions held approximately 99 percent of our cash and short-term deposits. Cash balances in excess of the Company's day-to-day requirements are invested in short-term deposits of less than 30 days.

#### (e) Interest Rate Risk

Interest rate risk refers to the risk that a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk in relation to interest expense on its revolving credit facility due to the floating interest rate charged on advances. At this time, the Company is not drawn on this facility and, as a result, the Company considers this risk to be limited. In addition, the Company is exposed to interest rate risk on its excess cash balances and certain investments. As at September 30, 2011, if interest rates had been 1 percent higher with all other variables held constant, after tax earnings for the period would have been approximately \$613,000 higher.

#### (f) Liquidity Risk

Liquidity risk is the risk the Company is unable to meet its financial obligations as they come due. The Company uses operating cash flows, credit facilities and equity offerings to fund its capital requirements.

The Company manages this risk by maintaining a balance sheet with minimal use of long-term debt. As at September 30, 2011, the Company had an undrawn \$25 million credit facility, and working capital of \$64.2 million (\$144.0 million – 2010). The Company believes it has sufficient funding from these sources to meet its foreseeable obligations. The maturity dates for the Company's financial liabilities are as follows:

	<6 Months	6 months -1 Year	1-2 Years
Accounts payable and accrued liabilities	\$35,287	-	-

(g) Capital Management

The Company defines capital as working capital, total debt and equity. The current capital management strategy is designed to minimize the use of long-term debt and maintain positive working capital. This strategy should provide the financial flexibility to fund the Company's capital program and profitable growth opportunities. The unutilized \$25 million credit facility capacity provides additional liquidity to the Company. This structure can be adjusted as a result of changes in economic conditions or risks associated with its oil and gas assets. In order to maintain or adjust its capital structure, the Company may from time to time issue additional common shares. In addition, the Company's credit facilities are based on its petroleum and natural gas reserves whose values are impacted by, among other things, global commodity prices. The Company will adjust its capital spending if access to external capital sources is unavailable. In order to manage the balance in the Company's capital structure, some of the financial tests that BlackPearl considers are debt-to-equity ratios, debt-to-cash-flow from operating activities and interest coverage tests. To facilitate the management and control of these ratios, the Company prepares annual operating and capital budgets. These budgets are generally updated quarterly, or more frequently if circumstances change. In order to improve its financial flexibility, the Company raised \$80 million of additional equity during 2010 (See note 8(b)). These funds will be used to fund exploration and development programs over the next 12 - 18 months.

Financial covenants associated with the Company's credit facility are reviewed regularly and controls are in place to maintain compliance with these covenants. The only financial covenant in the Company's credit facility is to maintain a working capital ratio of 1:1 at the end of each fiscal quarter. Working capital ratio is defined as current assets plus unutilized credit under the credit facility compared to current liabilities. The Company had a working capital ratio of 3.4:1 at September 30, 2011 and is in compliance with these covenants.

## 11. SUPPLEMENTARY INFORMATION

(a) The following table summarizes the cash interest and taxes paid for the period ended:

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Cash interest paid	\$ 11	\$ -	\$ 122	\$ 28
Cash taxes paid (refund)	\$ -	\$ 23	\$ (81)	\$ 122

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

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Weighted average common shares outstanding				
Basic	284,353,380	272,858,853	283,836,343	267,694,050
Diluted	284,353,380	273,858,853	301,446,783	273,010,860

## 12. TRANSITION TO IFRS

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

- (i) Transition elections
- (ii) Reconciliation of equity and comprehensive income as previously reported under old Canadian GAAP to IFRS
- (iii) Explanatory notes
- (iv) Adjustments to the statement of cash flows

### (i) Transition elections

IFRS generally requires first-time adopters to retrospectively apply all IFRS standards and interpretations currently in effect. However, IFRS 1 provides certain exceptions and exemptions to this general principle. The Company has applied the following transition exceptions and exemptions to full retrospective application of IFRS:

- Deemed cost of property, plant and equipment – Under old Canadian GAAP, the Company followed full cost accounting for its oil and gas activities. IFRS 1 allows companies that followed full cost accounting to measure its oil and gas assets at the same value as measured under old Canadian GAAP. BlackPearl has elected to utilize this exemption. The Company has allocated the property, plant and equipment amount recognized under old Canadian GAAP as at January 1, 2010 to the assets at the CGU level using reserve values calculated using discounted net cash flows. There is no change in the overall net book value of our property, plant and equipment and no IFRS impairment at January 1, 2010. Subsequent to the allocation being performed, each CGU was assessed for impairment at January 1, 2010 and the Company determined that no write-down was required.
- Changes in decommissioning liabilities – Under old Canadian GAAP, decommissioning liabilities were estimated and discounted using a credit-adjusted risk-free rate. Common practice under IFRS, however, is to discount the estimated liability at the risk-free rate. Upon adoption of IFRS, companies are required to determine what the change would be in each decommissioning liability each reporting period since the liability was incurred and make corresponding adjustments to the liability and PPE at the transition date. However, IFRS 1 allows companies that followed full cost accounting to measure decommissioning liabilities at the date of transition to IFRS and recognize any difference between that amount, and the amount previously recognized under old Canadian GAAP, directly into retained earnings. The Company has utilized this exemption.
- Business combinations – Upon transition to IFRS, a company must adjust its accounting for business combinations carried out prior to transition to comply with IFRS. IFRS 1 provides an exemption which allows companies to carry forward their old Canadian GAAP accounting for business combinations prior to the transition date. The Company has utilized this exemption.
- Share-based payments – Upon transition to IFRS, a company must adjust its accounting for grants of shares, options or other equity instruments, made prior to transition, in order to comply with the standards under IFRS. IFRS 1 provides an exemption that allows first-time adopters to not apply standards for share-based payments under IFRS for equity instruments that were granted prior to November 7, 2002 and to equity instruments that were granted after November 7, 2002 that have vested prior to transition to IFRS. The Company has elected to utilize this exemption. It should be noted that, for unvested stock options at the date of transition, the assumptions used to estimate the value of these options has not changed from the assumptions used under old Canadian GAAP and, as a result, no adjustment is required upon transition to IFRS.

**(ii) Reconciliation of equity and comprehensive income as previously reported under old Canadian GAAP to IFRS**

	Note (iii)	At December 31 2010	At September 30 2010	At January 1 2010
<b>Equity under old Canadian GAAP</b>		476,884	431,022	426,556
Change in depletion	(a)	31,866	24,686	-
Change in accretion	(b)	363	(779)	-
Gain (loss) on disposition of petroleum and natural gas properties	(c)	(1,043)	8,210	-
Decommissioning liability revaluation	(d)	(7,535)	(7,535)	(7,535)
<b>Equity under IFRS</b>		<b>500,535</b>	<b>455,604</b>	<b>419,021</b>

	Note (iii)	Year ended December 31, 2010	Nine months ended September 30, 2010	Three months ended September 30, 2010
<b>Comprehensive loss under old Canadian GAAP</b>		(31,272)	(27,371)	(9,042)
Change in depletion	(a)	31,866	24,686	7,348
Change in accretion	(b)	363	(779)	(240)
Gain (loss) on disposal of petroleum and natural gas properties	(c)	(1,043)	8,210	491
<b>Comprehensive income (loss) under IFRS</b>		<b>(86)</b>	<b>4,746</b>	<b>(1,443)</b>

**(iii) Explanatory notes**

- (a) Under IFRS, depletion of petroleum and natural gas properties is calculated at a unit-of-account level using proved and probable reserves as the basis, as opposed to using only proved reserves as was required practice under old Canadian GAAP. This has resulted in significantly lower depletion under IFRS than under old Canadian GAAP.
- (b) Under IFRS, the assumptions used in calculating decommissioning liabilities are to be analyzed at each balance sheet date and updated to reflect current market conditions when appropriate. Due to the change recorded on January 1, 2010 (as explained in (d) below), the amount of accretion recorded under IFRS is lower than that recorded under old Canadian GAAP. In addition, the Company has chosen to show accretion separately on its financial statements as opposed to including with depletion and depreciation, as was common practice under old Canadian GAAP.
- (c) During 2010, the Company disposed of a number of non-core petroleum and natural gas properties. Under old Canadian GAAP, the proceeds of these dispositions were credited to the Company's full-cost asset pool and no gain or loss was recorded unless the disposition had an effect of 20% or more on the Company's depletion rate. Under IFRS, a gain or loss is calculated on properties or assets disposed of by the Company.
- (d) At January 1, 2010, the assumptions used to calculate the asset retirement obligation were altered to reflect current market conditions, as required under IFRS. The change resulted in an increase to the liability of \$7.5 million. As discussed in (i) above, BlackPearl is utilizing the exemption under IFRS 1 which permits any adjustment resulting from a change in assumptions upon adoption can be recorded directly to retained earnings.

**(iv) Adjustments to the statement of cash flows**

The transition from old Canadian GAAP to IFRS had no significant impact on cash flows generated by the Company except that, under IFRS, cash flows relating to interest are classified as either operating, investing or financing in a consistent manner each period. Given that the Company currently has no long-term debt and all interest earned is on cash and cash equivalents, all interest is classified as operating. Under old Canadian GAAP, cash flows relating to interest payments were also classified as operating.

## DIRECTORS

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### STOCK EXCHANGE LISTING

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

**COMPANY REGISTRATION NUMBER**  
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**CERTIFIED ADVISOR ON FIRST NORTH**  
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The report for the period ending  
December 31, 2011 will be published  
on or before February 28, 2012