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**NEWS RELEASE** **August 8, 2013**

# BLACKPEARL ANNOUNCES SECOND QUARTER 2013 FINANCIAL AND OPERATING RESULTS

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**CALGARY, ALBERTA – BlackPearl Resources Inc.** ("BlackPearl" or the "Company") (TSX:PXX) (NASDAQ OMX Stockholm:PXXS) is pleased to announce its financial and operating results for the three and six months ended June 30, 2013.

Second quarter highlights include:

- Oil and gas production for the quarter averaged 9,986 boe/day, a 10% increase compared to Q1;
- Cash flow from operations was $22.8 million, a 15% increase from a year earlier and a 127% increase compared to Q1 this year;
- Higher oil prices and narrower heavy oil differentials contributed to a 19% increase in revenues to $58.3 million compared to Q2 2012;
- Net earnings for the quarter were $2.6 million compared to $0.2 million in Q2 2012;
- At Blackrod, recent operating adjustments have resulted in solid SAGD pilot performance, June production was in excess of 600 barrels of oil per day. We have drilled the second pilot well pair and expect to begin steam injection later this year;
- At Blackrod, we acquired an additional 10 sections of oil sands acreage adjacent to our existing oil sands leases. Internal estimates indicate this acquisition could add 50 to 75 million barrels of contingent resources (best estimate) to the project;
- At Onion Lake, we received technical approval for the 12,000 bbl/day thermal project from the Saskatchewan government. Environmental approval from the federal government is expected shortly;
- At Mooney, we continue to achieve good operating performance from the ASP (Alkali, Surfactant, Polymer) flood. We expect to expand the flood area in 2014.

John Festival, President of BlackPearl, commenting on Q2 2013 activities, indicated that:

“Both operationally and financially we had a good second quarter. Increased oil production combined with higher realized heavy oil prices resulted in a significant improvement in revenues and cash flows compared to the first three months of the year.

We are pleased with the recent performance of the pilot at Blackrod. The pilot performance continues to demonstrate the project’s commerciality and we will continue to use the pilot to optimize our operating procedures as we advance our application for the first 20,000 barrel per day commercial phase through the regulatory approval process.

We are very close to receiving federal environmental approval for the Onion Lake thermal project. Previously we announced it is our intention to proceed with the Onion Lake project before we initiated the Blackrod development and we were planning a $350 million debt offering to finance the Onion Lake project. We elected to defer this financing as a result of the volatility in the debt markets in June. We will continue to monitor the debt markets and to review other financing options over the next few months."

## Property Review

### Blackrod SAGD Pilot Project

At Blackrod, we have seen very positive initial results from the first SAGD pilot well as a result of changes we made to the sand control system in the well earlier this year. During the month of June the pilot produced in excess of 600 barrels of oil per day. The June production volumes included some flush production and we expect production from the well will stabilize between 400 and 450 barrels of oil per day in July.

We drilled a second SAGD well pair at Blackrod during the first half of 2013. This well was drilled longer (950 metres) than the first well pair and deeper in the reservoir. The objective of the well is to continue testing alternative production techniques to optimize our operating procedures before we move forward with commercial development. We expect to initiate steam injection in the well later this year.

The regulatory approval process is continuing for the first 20,000 barrel per day commercial phase of the Blackrod SAGD project. The application and environmental impact assessment were filed in May 2012. Typically, it has taken 18 to 24 months to obtain regulatory approval for these projects.

During the second quarter we also acquired an additional 6,400 acres of oil sands acreage directly south and contiguous to our existing Blackrod lands. Our internal estimate suggests that the acquisition could add 50 to 75 million barrels of "best estimate" contingent resources to the Blackrod commercial project (see cautionary statement on contingent resources later in this release).

As indicated in previous news releases due to the much larger capital requirements for the first phase of commercial development at Blackrod and the challenging capital markets to raise funding for large projects we elected to initially proceed with development of the Onion Lake thermal project. We expect to advance the first phase of development at Blackrod after the Onion Lake thermal project is operating although we will consider options to accelerate the Blackrod development, which may include bringing on a joint venture partner to fund the initial phase of development of the project.

We have a 100% working interest in the Blackrod project and as at December 31, 2012 our independent reserves evaluator assigned 180 million barrels of probable reserves to the first phase of commercial development and a best-estimate recoverable contingent resource of 476 million barrels for the remainder of the project (see cautionary statement regarding contingent resources later in this release).

### Onion Lake

At Onion Lake, due to spring break-up, no new conventional drilling occurred in the second quarter; however, the 11 wells drilled in the first quarter were brought on production which increased our production from the area to approximately 5,000 barrels per day for the quarter. We are planning to drill an additional 20 to 25 wells during the second half of the year.

We are continuing to advance the Onion Lake thermal project through the regulatory review process. Both provincial and federal government approval is required before construction of the project can commence. During the second quarter we received technical approval for the project from the Saskatchewan government. We are waiting on environmental approval from the federal government, which is anticipated during the third quarter.

Also, during the second quarter we reached agreement with the Onion Lake First Nation ("OLFN") to exchange their working interest in the thermal project for a gross overriding royalty interest. As a result, BlackPearl now has a 100% working interest in the thermal project. The existing working interest participation by OLFN will continue for all primary production operations. We are continuing with detailed engineering design for the thermal project but ordering of equipment will be deferred until financing is in place for the project.

The Onion Lake thermal project is expected to have production capacity of about 12,000 barrels of oil per day with initial capital costs expected to be between $300 and $350 million. At December 31, 2012, the Company's independent reserves evaluator assigned 74 million barrels of "best estimate" contingent resources to the thermal project at Onion Lake.

Mooney

At Mooney, the ASP flood continues to perform in-line with our expectations. Production in the flood area was flat between Q1 and Q2 at 1,846 and 1,857 boe (barrels of oil equivalent) per day respectively. The southern portion of the reservoir is still being re-pressurized and we expect it will take several more months before we see a production response from the flood in these areas.

To date we have drilled 29 horizontal wells on the phase 2 expansion lands at Mooney. We are planning to drill an additional 5 wells on these lands later this year or early next year. The ASP flood will then be expanded to these lands in 2014.

**Production**

Oil and gas production averaged 9,986 boe per day in the second quarter of 2013, a 5% increase from the comparable quarter in 2012 and a 10% increase from our Q1 2013 production volumes. The increase in production is mainly attributable to higher production associated with the ASP flood at Mooney as well as additional drilling at Onion Lake during the first quarter.

| | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| (boe/day) | 2013 | 2012 | 2013 | 2012 |
| Onion Lake | 4,995 | 6,396 | 4,660 | 6,527 |
| Mooney | 3,692 | 2,288 | 3,791 | 2,157 |
| John Lake | 800 | 457 | 791 | 508 |
| Blackrod | 304 | 298 | 189 | 274 |
| Other | 195 | 32 | 108 | 64 |
| | 9,986 | 9,471 | 9,539 | 9,530 |

**Financial Results**

Oil and gas revenues increased 19% in the second quarter of 2013 to $58.3 million compared with $49.1 million in Q2 2012. The increase is attributable to a 5% increase in oil sales volumes and a 13% increase in our realized oil price in 2013.

The increase in our realized wellhead price reflects higher WTI reference oil prices in Q2 2013 compared with Q2 2012 (US$94.29/bbl vs US$93.44/bbl), as well as narrower heavy oil differentials (Cdn$19.36/bbl vs Cdn$23.08/bbl).

Operating costs were $20.90 per boe in Q2 2013 compared with $16.71 per boe in Q2 2012. The increase in operating costs in 2013 is primarily due to starting to expense injection and polymer costs associated with the ASP flood at Mooney. During the initial re-pressurization of the reservoir these costs were capitalized.

Transportation costs increased in the second quarter of 2013 compared to 2012 as a higher proportion of our production is now coming from the Mooney area where trucking distances to sales points are longer than in our other areas.

Cash flow from operations (before working capital adjustments) increased 15% in Q2 2013 to $22.8 million compared to $19.8 million in Q2 2012. The increase is primarily attributable to higher sales volumes and higher oil prices.

***Financial and Operating Highlights***

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| ($000, except where noted) | 2013 | 2012 | 2013 | 2012 |
| Daily production / sales volumes | | | | |
| Oil (bbl/d) [2] | 9,662 | 9,415 | 9,303 | 9,483 |
| Natural gas (mcf/d) | 1,942 | 334 | 1,414 | 284 |
| Combined (boe/d) [1] | 9,986 | 9,471 | 9,539 | 9,530 |
| Product pricing ($) | | | | |
| Crude oil - per bbl | 67.30 | 59.10 | 59.24 | 63.70 |
| Natural gas - per mcf | 3.59 | 1.94 | 3.46 | 2.06 |
| Combined - per boe | 66.20 | 58.82 | 58.50 | 63.44 |
| Revenue | | | | |
| Oil and gas revenue – gross | 58,322 | 49,099 | 98,993 | 106,875 |
| Royalties ($/boe) | 13.33 | 12.72 | 10.68 | 14.17 |
| Transportation costs ($/boe) | 3.32 | 2.82 | 3.45 | 2.47 |
| Operating costs ($/boe) | 20.90 | 16.71 | 21.93 | 18.18 |
| Net income (loss) for the period | 2,597 | 218 | (3,047) | 3,792 |
| Per share, basic and diluted | 0.01 | 0.00 | (0.01) | 0.01 |
| Cash flow from operating activities, before working capital adjustments | 22,823 | 19,765 | 32,862 | 44,130 |
| Capital expenditures | 27,315 | 32,453 | 46,416 | 75,922 |
| Working Capital, end of period | 4,055 | 9,604 | 4,055 | 9,604 |
| Long term debt | 25,000 | - | 25,000 | - |
| Shares outstanding, end of period | 296,122,308 | 285,318,179 | 296,122,308 | 285,318,179 |

*(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.*

*(2) includes production from the Blackrod SAGD pilot.*

## Outlook

We expect our oil and gas production to average between 9,000 to 10,000 boe/d for the year, unchanged from our Q1 update. Cash flow from operations for the year is anticipated to range between $65 to $70 million. This is slightly higher than our Q1 outlook as a result of using higher forecast oil prices in our Q2 update. Capital spending is anticipated to be between $95 to $100 million for the year, a decrease from the $125 to $140 million forecast in our Q1 update. The decrease in our planned capital expenditures reflects reduced spending on our thermal projects at Onion Lake and Blackrod. Engineering and design work will continue in the Onion Lake thermal project; however equipment orders will be deferred until additional financing is in place. During the second half of 2013, we also expect to drill 20 to 25 conventional heavy oil wells at Onion Lake and up to 10 additional horizontal wells at Mooney and other areas. It is expected that this capital program will be funded from anticipated cash flow from operations and the Company's credit facilities. We have not incorporated the potential of any additional financing for our thermal projects in our current guidance.

The 2013 second quarter report to shareholders, including the financial statements, management's discussion and analysis and notes to the financial statements are available on the Company's website (www.blackpearlresources.ca) or SEDAR (www.sedar.com).

## Non-GAAP Measures

This news release 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. 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.

## Contingent Resources

This document makes reference to contingent resources. Contingent resources are defined in the COGE Handbook as those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters or a lack of markets. In the case of the contingent resources assigned to BlackPearl's three core projects the contingencies include the requirement for more evaluation drilling to better define the resource, the absence of submission of commercial SAGD development applications (for future phases of development at Blackrod), the likelihood of attaining regulatory approvals for commercial SAGD development (for our Onion Lake SAGD project), further establishment of increased oil production response from the ASP flood at Mooney and the uncertainty of the timing of production and development. There is no certainty that it will be commercially viable to produce any of the contingent resources. Best estimate (P50) is a classification of estimated resources described in the COGE Handbook as being considered to be the best estimate of the quantity that will be actually recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. If probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the best estimate. For further discussion regarding our contingent resources see our 2012 Annual Information Form available on the Company's website (www.blackpearlresources.ca) or SEDAR (www.sedar.com).

## Forward-Looking Statements

This news release 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", “anticipated”, "believe", “appears”, "plan", “target”, “continue”, “continuing”, "estimate", "expect", “hope”, "may", “intends”, “deferred”, "will", "project", “timing”, “in the event”, “move toward”, "should", “scheduled”, “outlook” or similar words suggesting future outcomes.

In particular, this document contains forward-looking statements pertaining to the determination of commercial production rates for the Blackrod project, anticipated timing for receipt of regulatory approval for the Blackrod commercial development application as well as the Onion Lake thermal development application, potential stabilized production of the Blackrod SAGD pilot well, anticipated timing of steam injection at the second well pair at Blackrod, anticipated additions to contingent resources from the recent acquisition of oil sands acreage at Blackrod, estimated timing for development of the first phase of the Blackrod SAGD project, drilling plans at Onion Lake and Mooney for the remainder of the year, anticipated productive capacity and capital costs of the Onion Lake thermal project, timing for additional production response from the ASP flood at Mooney as well as the expected timing to expand the flood and corporate guidance for 2013 included in the “Outlook” section of this release.

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

The forward-looking statements in this report reflect certain assumptions and expectations by management. The key assumptions that have been made in connection with these forward-looking statements include the continuation of current or, where applicable, assumed industry conditions, the continuation of existing tax, royalty and regulatory regimes, commodity price and cost assumptions, the continued availability of cash flow or financing on acceptable terms to fund the Company’s capital programs, the accuracy of the estimate of the Company’s reserves and resource volumes and that BlackPearl will conduct its operations in a manner consistent with past operations. 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 which could cause actual results to differ materially from those contained in forward-looking statements. 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 decommissioning 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.

Undue reliance should not be placed on these forward-looking statements. 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 assumptions, risks and factors is not exhaustive. There can be no assurance by the Company that actual results achieved will be the same in whole or in part as those set out in the forward-looking information. Furthermore, the forward-looking statements contained in this report are made as of the date hereof, and the 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.

## Other Supplementary Information

**1. List of directors and officers at August 8, 2013**

**a. Directors:**

John Craig
John Festival
Brian Edgar
Keith Hill
Vic Luhowy

**b. Officers:**

John Craig, Chairman
John Festival, President and Chief Executive Officer
Don Cook, Chief Financial Officer
Chris Hogue, Vice President Operations
Ed Sobel, Vice President Exploration
Diane Phillips, Corporate Secretary

**2. Financial Information**

The report for the quarter ending September 30, 2013 is expected to be published on or before November 15, 2013.

**3. Other Information**

Address (Corporate head office):
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Calgary, Alberta T2P 0X8
Canada
Telephone: +1.403.215.8313
Fax: +1.403.265.8324
Website: www.blackpearlresources.ca

The Canadian federal corporation number for the Company is 454611-3.

**For further information, please contact:**

John Festival - President and Chief Executive Officer, +1.403.215.8313
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**BLACKPEARL RESOURCES INC.**

**Management's Discussion and Analysis**

The following is Management's Discussion and Analysis (MD&A) of the operating and financial results of BlackPearl Resources Inc. ("BlackPearl" or "the Company") for the three and six months ended June 30, 2013. These results are being compared with the three and six months ended June 30, 2012. The MD&A should be read in conjunction with the Company's unaudited consolidated financial statements for the three and six months ended June 30, 2013, together with the accompanying notes and with the Company's annual MD&A for the year ended December 31, 2012.

All dollar amounts are referenced in thousands of Canadian dollars, except where otherwise noted. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as is required under Canadian generally accepted accounting principles (GAAP).

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

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

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

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 decommissioning costs incurred and changes in non-cash working capital related to operations, as well as cash flow per share (cash flow from operating activities before decommissioning costs incurred and changes in non-cash working capital related to operations divided by the average number of common shares outstanding for the period) and operating netback (production sales less royalties, production expenses and transportation costs, divided by total production for the period on a boe basis). 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. These terms do not have standardized meanings prescribed by GAAP and therefore may not be comparable with the calculation of similar measures by other entities. Consequently, these are referred to as non-GAAP measures.

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

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

The effective date of this MD&A is August 8, 2013.

## 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 Stockholm 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 – a conventional heavy oil property with the potential for a thermal EOR project;
- Mooney, Alberta – a conventional heavy oil property using horizontal drilling and ASP flooding; and
- Blackrod, Alberta – a bitumen property located in the Athabasca oil sands region using the SAGD recovery process.

These core properties provide the Company with a combination of short-term cash flow generation, medium-term reserves and production growth, and longer-term reserves and production growth on multi-phase low decline projects using the SAGD thermal recovery process. Under BlackPearl’s current business plan, management intends to sell the Company’s non-core assets to help fund development of the three core areas; however, additional work may be undertaken on non-core assets prior to bringing them to market.

## 2013 SIGNIFICANT EVENTS

- Capital expenditures during the first half of 2013 were $46.4 million, with approximately $21.6 million spent at Blackrod, $7.6 million at Onion Lake, $6.6 million spent at Mooney, $4.2 million at John Lake, $1.5 million at the Onion Lake EOR project and $4.9 million in other areas. The focus of the 2013 capital program to date has been the drilling of a second SAGD pilot well pair and preliminary commercial engineering designs at Blackrod, preliminary commercial engineering designs at the Onion Lake EOR project, chemical costs at Mooney related to the continuing ASP Phase 1 flood, as well as drilling 11 conventional heavy oil wells at Onion Lake, three horizontal wells at John Lake and a well at Salt Lake.

- Oil and gas sales during the first half of 2013 were $99.0 million and cash flow from operations was $32.9 million. For the six months ended June 30, 2013, the Company incurred a net loss of $3.0 million.

- The Company did not undertake any equity issuances in the first half of 2013; however, 356,500 common shares were issued pursuant to the exercise of stock options during the period which generated net proceeds of $0.5 million for the Company.

- At June 30, 2013, BlackPearl had working capital of $4.1 million and long-term debt of $25.0 million with $90.0 million available to be drawn under the Company’s credit facilities.

- On April 15, 2013, BlackPearl acquired additional oil sands acreage in the Blackrod area. In addition to the acquisition of this acreage, we acquired some minor natural gas production as well as pipelines and other facilities which will be used in the commercial development of the Blackrod area. Total cost of the acquisition was $4.9 million. Internal estimates indicate this acquisition could add 50 to 75 million barrels of contingent resources (best estimate) to the Blackrod project (see cautionary statement regarding contingent resources at the end of this MD&A).

- BlackPearl reached an agreement with Onion Lake Energy (OLE), a company owned by the Onion Lake Cree First Nation, to exchange its working interest in the Onion Lake EOR project for a gross overriding royalty. The existing working interest participation by OLE will continue for all primary production operations.

- BlackPearl determined, due to the volatility in the debt capital markets, to defer the establishment of our proposed US$350 million second-lien senior secured term loan facility that was to be used for the development of the Onion Lake EOR project. The Company will re-evaluate its financing options when capital markets stabilize. Construction of the Onion Lake EOR project will be deferred until financing is established; however, engineering and certain long lead planning will continue.

## SELECTED QUARTERLY INFORMATION

| | 2013 | | 2012 | | | | 2011 | |
|---|---|---|---|---|---|---|---|---|
| ($000s, except where noted) | **Jun 30** | **Mar 31** | **Dec 31** | **Sept. 30** | Jun 30 | Mar. 31 | Dec. 31 | Sept. 30 |
| Production (boe/d) [2] | **9,986** | **9,087** | **9,067** | **9,340** | 9,471 | 9,581 | 8,735 | 8,113 |
| Oil and gas sales | **58,322** | **40,671** | **47,569** | **50,081** | 49,099 | 57,776 | 58,160 | 44,564 |
| Oil and gas sales ($/boe) | **66.20** | **50.13** | **58.45** | **60.34** | 58.82 | 67.98 | 73.88 | 59.70 |
| Production costs | **18,413** | **18,702** | **14,563** | **14,104** | 13,950 | 16,684 | 14,014 | 13,665 |
| Production costs ($/boe) | **20.90** | **23.05** | **17.89** | **16.99** | 16.71 | 19.63 | 17.80 | 18.31 |
| Net income (loss) | **2,597** | **(5,644)** | **(4,277)** | **530** | 218 | 3,574 | 15,504 | (51) |
| Per share, basic and diluted ($) | **0.01** | **(0.02)** | **(0.01)** | **0.00** | 0.00 | 0.01 | 0.05 | 0.00 |
| Capital expenditures | **27,315** | **19,101** | **34,635** | **28,991** | 32,453 | 43,469 | 56,974 | 40,499 |
| Cash flow from operations [1] | **22,823** | **10,039** | **17,684** | **20,781** | 19,765 | 24,365 | 27,791 | 19,137 |
| Per share, basic ($) | **0.08** | **0.03** | **0.06** | **0.07** | 0.07 | 0.09 | 0.10 | 0.07 |
| Per share, diluted ($) | **0.08** | **0.03** | **0.06** | **0.07** | 0.07 | 0.08 | 0.09 | 0.07 |
| Total assets (end of period) | **647,839** | **613,738** | **620,725** | **612,083** | 608,610 | 608,546 | 606,521 | 573,536 |
| Weighted average shares outstanding, basic (000s) | **296,113** | **296,052** | **288,760** | **285,344** | 285,272 | 285,122 | 284,389 | 284,353 |
| Weighted average shares outstanding, diluted (000s) | **299,693** | **300,768** | **294,525** | **299,148** | 299,863 | 300,796 | 300,103 | 284,353 |

*(1) Cash flow from operations is a non-GAAP measure that represents cash flow from operating activities before decommissioning costs incurred and changes in non-cash working capital related to operations. Cash flow from operations and cash flow from operations per share do not have standardized meanings prescribed by Canadian GAAP and therefore may not be comparable to similar measures used by other companies. Management uses these non-GAAP measurements for its own performance measures and to provide its shareholders and investors with a measurement of the Company's efficiency and its ability to fund a portion of its growth expenditures.*

*(2) Includes production from the Blackrod SAGD pilot.*

Fluctuations in quarterly oil and gas sales and net income (loss) over the last eight quarters are primarily attributable to the volatility in crude oil prices and changes in sales volumes from new drilling activity. The increased production in the second half of 2011, and the first half of 2012, is a result of new production from Onion Lake wells drilled in the first half of 2011 as well as new drilling at Mooney and John Lake in Q4 2011. Production increased throughout 2012 and continued in Q1 2013 at Mooney due to the initial response from the ASP flood. Decreased production in Q3 2012 through Q1 2013 was primarily a result of natural declines from some of the highest cumulative production wells at Onion Lake. Increased production in Q2 2013 is a result of wells drilled at Onion Lake in the first quarter of 2013. Production costs have increased in 2013 as the Company has begun to expense injection and polymer costs related to the ASP flood at Mooney. Prior to 2013 these costs were being capitalized while the reservoir was being repressurized. A significant deferred tax recovery contributed to the increase in net income in Q4 2011.

## BUSINESS ENVIRONMENT

### Commodity Prices

| | YTD | | 2013 | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Average Crude Oil Prices | | | | | | | | |
| West Texas Intermediate (WTI) (US$/bbl) | 94.31 | 98.16 | 94.29 | 94.34 | 88.51 | 92.17 | 93.44 | 102.88 |
| Western Canadian Select (WCS) (Cdn$/bbl) | 69.82 | 76.45 | 76.68 | 62.96 | 69.43 | 70.02 | 71.29 | 81.61 |
| Differential – WCS/WTI (US$/bbl) | 25.66 | 22.13 | 19.36 | 31.95 | 18.46 | 21.71 | 23.08 | 21.44 |
| Differential - WCS/WTI (%) | 27.2% | 22.3% | 20.6% | 33.8% | 20.8% | 23.6% | 24.5% | 20.8% |
| Average Natural Gas Prices | | | | | | | | |
| AECO gas (Cdn$/GJ) | 3.16 | 2.06 | 3.40 | 2.92 | 2.90 | 2.08 | 1.74 | 2.39 |
| Foreign Exchange (Cdn$ to US$) | 0.984 | 0.994 | 0.977 | 0.991 | 1.009 | 1.005 | 0.990 | 0.999 |

Crude oil prices are based on demand for oil which is generally tied to global economic growth, but is also influenced by other factors such as political instability, market uncertainty, weather conditions, infrastructure constraints and government regulations. Crude oil in North America is commonly priced relative to the price of WTI oil, a light sweet crude with API gravity of about 40 degrees. Virtually all of BlackPearl's production is heavy oil and bitumen and is typically priced relative to Western Canadian Select oil prices, which have an average gravity of about 20.5 degrees API.

WCS oil prices are generally lower than WTI oil prices due to the higher cost of refining a barrel of heavy oil compared to light oil. This difference between the reference price for light oil and heavy oil is commonly referred to as the light to heavy differential.

During the first six months of 2013 oil prices were lower than for the same period in 2012. WTI oil prices averaged US$94.31 per barrel in 2013 compared to US$98.16 per barrel in 2012. The WCS heavy oil price averaged $69.82 per barrel during the first half of 2013 compared to $76.45 per barrel in 2012. Increasing crude oil production in Canada and the US has outstripped expansion in pipeline infrastructure and, together with refinery outages and turnarounds, contributed to the decrease in the oil prices in the first half of 2013.

During the second quarter of 2013, the light to heavy oil differential narrowed compared to 2012, resulting in higher heavy oil prices for producers. The light to heavy oil differential was $US19.36 per barrel in Q2 2013 compared to US$23.08 per barrel in 2012. The narrow differential resulted in WCS oil prices averaging $76.68 per barrel in Q2 2013 compared to $71.29 per barrel in Q2 2012.The improvement in heavy oil prices and the narrower differential in Q2 has been attributed to, US Midwest refinery modifications, pipeline additions to the US Gulf Coast, as well as a significant increase in rail shipments of oil. One of the key advantages of transporting by rail is the flexibility to reach markets that are otherwise inaccessible by pipelines and the ability to adjust delivery points much more rapidly than with pipelines.

In addition to rail expansion, additional pipeline capacity will be required to transport the expected increase in crude oil production. The US government is continuing to review the new application from TransCanada Pipelines to build the Keystone XL pipeline. The Keystone XL pipeline is intended to transport over 800,000 bbls/d from Canada and the northern US to the refinery hubs in the US Gulf Coast region. A decision by the US government is expected later this year. Canada is also evaluating pipeline proposals that would ship additional oil to the west and east coasts for export.

Natural gas prices increased in Q2 2013 averaging $3.40/GJ compared to $1.74/GJ in Q2 2012. BlackPearl produces very little natural gas and therefore prices do not have a significant impact on our current oil and gas sales. However, we do consume gas in our Blackrod pilot operations and as we move toward commercial development of our two thermal projects the cost of gas will have a significant impact on our cost structure.

Changes in the value of the Canadian dollar relative to the US dollar impacts our revenues and cash flows as our oil sales price is determined by US benchmark prices. The Canadian dollar weakened against the US dollar in 2013 which has had a positive impact on our revenues and cash flows. The exchange rate between the Canadian dollar

and the US dollar averaged Cdn$1 = US$0.984 during the first six months of 2013 compared to Cdn$1 = US$1.005 as of December 31, 2012. The Canadian dollar has continued to weaken into Q3 2013 with the average exchange rate for the month of July being Cdn$1 = US$0.960.

***Oil and Gas Production, Oil and Gas Pricing and Oil and Gas Sales***

| | **2013** | | 2012 | Six months ended June 30 | |
|---|---|---|---|---|---|
| | **Q2** | Q1 | Q2 | **2013** | 2012 |
| Daily production/sales volumes [(1)] | | | | | |
| Oil (bbls/d) | **9,358** | 8,868 | 9,117 | **9,114** | 9,209 |
| Natural gas (Mcf/d) | **1,942** | 879 | 334 | **1,414** | 284 |
| Combined (boe/d) | **9,682** | 9,014 | 9,173 | **9,350** | 9,256 |
| Bitumen – Blackrod (bbls/d) | **304** | 73 | 298 | **189** | 274 |
| Total production (boe/d) | **9,986** | 9,087 | 9,471 | **9,539** | 9,530 |
| Product pricing | | | | | |
| Oil ($/bbl) | **67.30** | 50.64 | 59.10 | **59.24** | 63.70 |
| Natural gas ($/Mcf) | **3.59** | 3.18 | 1.94 | **3.46** | 2.06 |
| Combined ($/boe) | **66.20** | 50.13 | 58.82 | **58.50** | 63.44 |
| Sales ($000s) | | | | | |
| Oil and gas sales – gross | **58,322** | 40,671 | 49,099 | **98,993** | 106,875 |
| Royalties | **(11,742)** | (6,331) | (10,621) | **(18,073)** | (23,876) |
| Oil and gas sales - net | **46,580** | 34,340 | 38,478 | **80,920** | 82,999 |

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

Oil and natural gas sales increased 19% in the second quarter of 2013 to $58.3 million from $49.1 million in the same period in 2012. The increase in oil and gas sales is attributable to a 13% increase in average sales prices received in Q2 2013 compared to Q2 2012 and a 5% increase in daily sales volumes to 9,986 boe/d in Q2 2013 compared to 9,471 boe/d in Q2 2012. Our average wellhead oil price received in the second quarter of 2013 increased to $67.30 per barrel compared to $59.10 per barrel in the same period in 2012. The higher wellhead prices in the second quarter of 2013 reflect the general increase in prices in the crude oil markets and lower heavy oil differentials compared to the same period in 2012.

The increase in production is primarily a result of the positive production response from the first phase of the ASP flood at Mooney. As a result of re-pressurization of the reservoir, production increased to 1,857 boe/d in the second quarter of 2013 compared to 732 boe/d in the same period in 2012. We anticipate continuing positive response from the ASP flood with peak production rates over 3,000 boe/d in the next few months.

The increase in production from Mooney was partially offset by the decrease in production at Onion Lake which is primarily a result of natural production declines from some of our highest cumulative production wells. It is our intention to continue to drill conventional wells at Onion Lake to further delineate and develop the field in new areas until we transition to our planned 12,000 bbls/d thermal development.

Oil and gas production in Q2 2013 was 10% higher than Q1 2013 production. The increase is primarily attributable to increased production at Onion Lake as a result of drilling 11 conventional heavy oil wells in the area during the first quarter of 2013.

On a boe basis, 97% of the Company’s oil and natural gas production in the second quarter of 2013 was heavy oil. The Onion Lake area accounted for 50% and the Mooney area accounted for 37% of total production in the second quarter of 2013.

| | 2013 | | 2012 | Six months ended June 30 | |
|---|---|---|---|---|---|
| Production by Area (boe/d) | **Q2** | Q1 | Q2 | **2013** | 2012 |
| Onion Lake | **4,995** | 4,322 | 6,396 | **4,660** | 6,527 |
| Mooney | **3,692** | 3,892 | 2,288 | **3,791** | 2,157 |
| John Lake | **800** | 781 | 457 | **791** | 508 |
| Other | **195** | 19 | 32 | **108** | 64 |
| Blackrod | **304** | 73 | 298 | **189** | 274 |
| Total production | **9,986** | 9,087 | 9,471 | **9,539** | 9,530 |

BlackPearl did not enter into any oil price hedging arrangements during the first half of 2013. In the future, as we enter the next phase of development with our thermal projects at Blackrod and Onion Lake we may consider hedging some of our existing production to protect cash flows during the construction period of these projects.

In 2011, BlackPearl commenced operations of its SAGD pilot project at Blackrod. The pilot includes a single horizontal well pair and associated steam and water handling facilities. The pilot is being undertaken to provide operating data to design the commercial development of the Blackrod lands. All sales and expenses from the pilot are being recorded as an adjustment to the capitalized costs of the project until the technical feasibility and commercial viability of the project is established. Technical feasibility and commercial viability are confirmed when reserves are recognized, regulatory approval has been obtained and our Board of Directors has sanctioned the development. As of June 30, 2013, BlackPearl has not received regulatory approval for the commercial Blackrod project. During the second quarter of 2013, the net revenues capitalized were a loss of $0.2 million ($2.2 million for the six months ended June 30, 2013). A second pilot well pair was drilled during the first quarter of 2013. Steam injection in this well pair is expected to begin in the third quarter with oil production anticipated in six to twelve months after initial steam injection.

***Royalties***

| | 2013 | | 2012 | Six months ended June 30 | |
|---|---|---|---|---|---|
| | **Q2** | Q1 | Q2 | **2013** | 2012 |
| Royalties ($000s) | **11,742** | 6,331 | 10,621 | **18,073** | 23,876 |
| Per boe ($) | **13.33** | 7.80 | 12.72 | **10.68** | 14.17 |
| As a percentage of oil and gas sales | **20%** | 16% | 22% | **18%** | 22% |

BlackPearl makes royalty payments to the owners of the mineral rights on the lands we have leased. Most of the payments are to provincial governments or, in the case of our Onion Lake area production, to the Onion Lake First Nation. Royalties per boe increased 5% in the second quarter of 2013 to $13.33 per boe from $12.72 per boe in the same period in 2012. The increase in royalties per boe compared to the second quarter of 2012 is attributable to higher wellhead prices in 2013. The decrease in royalties as a percentage of oil and gas sales in 2013 compared to 2012 is due to an increase in the proportion of our production that is coming from the Mooney field, which has lower royalties due to the royalty incentive programs established for EOR projects in Alberta.

***Transportation Costs***

| | 2013 | | 2012 | Six months ended June 30 | |
|---|---|---|---|---|---|
| | **Q2** | Q1 | Q2 | **2013** | 2012 |
| Transportation costs ($000s) | **2,928** | 2,917 | 2,354 | **5,845** | 4,156 |
| Per boe ($) | **3.32** | 3.60 | 2.82 | **3.45** | 2.47 |

Transportation costs are incurred to move marketable crude oil and natural gas to their selling points. Transportation costs increased by 24% in the second quarter of 2013 to $2.9 million from $2.4 million in the same period in 2012. Increased production volumes from the Mooney area is the main contributor to the increase in transportation costs.

Trucking distances are considerably longer from our Mooney field to sale delivery points than any of our other producing areas.

BlackPearl transports some of its Onion Lake and Mooney crude oil volumes by rail to the Gulf Coast and West Coast to avoid pipeline bottlenecks, particularly in the US mid-continent, and improve our sales prices for our oil. Although shipping by rail is more expensive than shipping by pipeline, the improved sales price for our oil more than offsets the increase in transportation costs. Currently, BlackPearl is railing between 3,000 and 3,500 bbls/d of oil.

***Production Costs***

| | **2013** | | 2012 | Six months ended June 30 | |
|---|---|---|---|---|---|
| | **Q2** | Q1 | Q2 | **2013** | 2012 |
| Production costs ($000s) | **18,413** | 18,702 | 13,950 | **37,115** | 30,634 |
| Per boe ($) | **20.90** | 23.05 | 16.71 | **21.93** | 18.18 |

Production costs increased by 32% in the second quarter of 2013 to $18.4 million from $14.0 million in the same period in 2012. On a per boe basis, production costs increased 25% in the second quarter of 2013 to $20.90 per boe from $16.71 per boe in the same period in 2012.

The increase in production costs is primarily attributable to injection and polymer costs associated with the ASP flood at Mooney. Prior to 2013, these costs were capitalized while the reservoir was being re-pressurized. Starting in 2013, these costs are being expensed. Other chemical costs (such as alkaline and surfactant) associated with the ASP flood will continue to be capitalized until we see a response from those chemicals, likely later in 2013. For the first six months of 2013, $4.2 million of chemical costs have been capitalized.

***Operating Netback (1)***

| | **2013** | | 2012 | Six months ended June 30 | |
|---|---|---|---|---|---|
| ($/boe) | **Q2** | Q1 | Q2 | **2013** | 2012 |
| Sales | **66.20** | 50.13 | 58.82 | **58.50** | 63.44 |
| Royalties | **13.33** | 7.80 | 12.72 | **10.68** | 14.17 |
| Transportation costs | **3.32** | 3.60 | 2.82 | **3.45** | 2.47 |
| Production costs | **20.90** | 23.05 | 16.71 | **21.93** | 18.18 |
| Netback per boe | **28.65** | 15.68 | 26.57 | **22.44** | 28.62 |

*(1) Operating Netback is a non-GAAP measure. Operating netback does not have a standardized meaning prescribed by GAAP and, therefore, may not be comparable to similar measures used by other companies in the oil and gas industry.*

Operating netback is the cash margin we receive from each barrel of oil equivalent sold. Operating netback increased 8% in the second quarter of 2013 to $28.65 per boe from $26.57 per boe in the same period in 2012. The change is primarily attributable to the increase in realized crude oil prices, partially offset by higher production and transportation costs in the second quarter of 2013 compared to the same period in 2012.

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

| | **2013** | | 2012 | Six months ended June 30 | |
|---|---|---|---|---|---|
| ($000s, except per boe) | **Q2** | Q1 | Q2 | **2013** | 2012 |
| Gross G&A expense | **2,456** | 3,123 | 2,516 | **5,579** | 4,981 |
| Operator recoveries | **(356)** | (499) | (516) | **(855)** | (1,150) |
| Net G&A expense | **2,100** | 2,624 | 2,000 | **4,724** | 3,831 |
| Per boe ($) | **2.38** | 3.23 | 2.40 | **2.79** | 2.27 |

General and administrative expenses consist primarily of salaries and wages of employees, office rent, computer services, legal, accounting and consulting fees. Net G&A expenses increased by 5% in the second quarter of 2013 to $2.1 million from $2.0 million in the same period in 2012. The increase is attributable to reduced overhead recoveries as a result of lower capital expenditures in Q2 2013 compared to Q2 2012.

***Finance Costs***

| | **2013** | | 2012 | Six months ended June 30 | |
|---|---|---|---|---|---|
| ($000s) | **Q2** | Q1 | Q2 | **2013** | 2012 |
| Gross interest and financing charges | **419** | 183 | 456 | **602** | 505 |
| Capitalized interest and financing charges | **(82)** | (105) | - | **(187)** | - |
| Net interest and financing charges | **337** | 78 | 456 | **415** | 505 |
| Accretion of decommissioning liabilities | **239** | 206 | 192 | **445** | 381 |
| Total finance costs | **576** | 284 | 648 | **860** | 886 |

Interest and financing charges for the second quarter of 2013 are a result of higher average borrowings under our credit facilities during 2013. During the same period of 2012, interest and financing charges consisted of initial costs incurred related to the expansion of our credit facilities from $25 million to $115 million.

During the second quarter of 2013, $0.1 million of interest costs were capitalized to exploration and evaluation assets based on capital spent at Blackrod during the period which was financed from advances on the Company's credit facilities.

***Stock-Based Compensation***

| | **2013** | | 2012 | Six months ended June 30 | |
|---|---|---|---|---|---|
| ($000s, except per boe) | **Q2** | Q1 | Q2 | **2013** | 2012 |
| Gross stock-based compensation | **996** | 1,022 | 1,623 | **2,018** | 3,309 |
| Capitalized stock-based compensation | **(180)** | (58) | - | **(238)** | - |
| Net stock-based compensation | **816** | 964 | 1,623 | **1,780** | 3,309 |
| Per boe ($) | **0.93** | 1.19 | 1.94 | **1.05** | 1.96 |

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 decrease in stock-based compensation expense in the second quarter of 2013 compared to the same period in 2012 reflects a lower option value assigned to each grant of options. In the second quarter of 2013, 14,000 options were exercised.

During the second quarter of 2013, $0.1 million of stock-based compensation costs were capitalized to exploration and evaluation assets. These costs relate to options granted to staff directly related with the exploration and evaluation activities at Blackrod. In addition, during the second quarter of 2013, $0.1 million of stock-based compensation costs were capitalized to property, plant and equipment related to options granted to staff directly related with the development activities at the Onion Lake EOR project.

*Depletion and Depreciation*

| | 2013 | | 2012 | Six months ended June 30 | |
|---|---|---|---|---|---|
| | **Q2** | Q1 | Q2 | **2013** | 2012 |
| Depletion and depreciation ($000s) | **18,096** | 16,044 | 17,207 | **34,140** | 35,298 |
| Per boe ($) | **20.54** | 19.78 | 20.61 | **20.17** | 20.95 |

The Company's properties are depleted on a unit of production basis based on estimated proven plus probable reserves. Depletion and depreciation expense increased 5% in the second quarter of 2013 to $18.1 million from $17.2 million in the same period in 2012. The increase is attributable to the increase in production between Q2 2013 compared to Q2 2012 as depletion and depreciation per boe is comparable between the two quarters.

*Interest Income*

| | 2013 | | 2012 | Six months ended June 30 | |
|---|---|---|---|---|---|
| | **Q2** | Q1 | Q2 | **2013** | 2012 |
| Interest income ($000s) | **4** | 8 | 95 | **12** | 244 |

Interest income consists of interest earned on excess cash held by the Company. Interest income has decreased as a result of lower average cash balances maintained by the Company in the second quarter of 2013 compared to the same period in 2012.

*Income Taxes*

| | 2013 | | 2012 | Six months ended June 30 | |
|---|---|---|---|---|---|
| ($000s) | **Q2** | Q1 | Q2 | **2013** | 2012 |
| Current income and other tax (recoveries) | **17** | 6 | - | **23** | (51) |
| Deferred income tax (recovery) | **1,041** | (1,553) | 640 | **(512)** | 2,181 |
| Total income tax (recovery) | **1,058** | (1,547) | 640 | **(489)** | 2,130 |

BlackPearl did not pay cash income taxes in the second quarter of 2013 and does not expect to pay income taxes during the remainder of 2013 as we expect to have sufficient tax pools to shelter expected income. Our effective tax rate in the second quarter of 2013 was 28.6%.

## RESULTS OF OPERATIONS

| | 2013 | | 2012 | Six months ended June 30 | |
|---|---|---|---|---|---|
| | **Q2** | Q1 | Q2 | **2013** | 2012 |
| Net income (loss) ($000s) | **2,597** | (5,644) | 218 | **(3,047)** | 3,792 |
| Per share, basic ($) | **0.01** | (0.02) | 0.00 | **(0.01)** | 0.01 |
| Per share, diluted ($) | **0.01** | (0.02) | 0.00 | **(0.01)** | 0.01 |

For the quarter ended June 30, 2013, the Company generated net income of $2.6 million compared to net income of $0.2 million in the same period in 2012. The increase in income in the second quarter of 2013 is primarily a result of an increase in heavy oil prices and higher daily sales volumes.

| | 2013 | | 2012 | Six months ended June 30 | |
|---|---|---|---|---|---|
| | **Q2** | Q1 | Q2 | **2013** | 2012 |
| Cash flow from operations (1) ($000s) | **22,823** | 10,039 | 19,765 | **32,862** | 44,130 |
| Per share, basic ($) | **0.08** | 0.03 | 0.07 | **0.11** | 0.16 |
| Per share, diluted ($) | **0.08** | 0.03 | 0.07 | **0.11** | 0.15 |

*(1) Cash flow from operations is a non-GAAP measure. It represents cash flow from operating activities before decommissioning costs incurred and changes in non-cash working capital related to operations.*

Cash flow from operations increased by 15% in the second quarter of 2013 to $22.8 million from $19.8 million in the same period in 2013. The increase in cash flow from operations was primarily due to the increase in realized crude oil prices and higher daily sales volumes in the second quarter of 2013 compared to the same period in 2012.

## NON-GAAP MEASURES

The following table reconciles non-GAAP measurement "Cash flow from operations" to "Cash flows from operating activities", the nearest GAAP measure. "Cash flow from operations" excludes decommissioning costs incurred and changes in non-cash working capital related to operations, while the GAAP measurement, "Cash flows from operating activities" includes these items.

| | 2013 | | 2012 | Six months ended June 30 | |
|---|---|---|---|---|---|
| ($000s) | **Q2** | Q1 | Q2 | **2013** | 2012 |
| Cash flows from operating activities | **20,592** | 3,244 | 13,649 | **23,836** | 34,405 |
| Add: | | | | | |
| Decommissioning costs incurred | **84** | 329 | 215 | **413** | 781 |
| Changes in non-cash working capital related to operations | **2,147** | 6,466 | 5,901 | **8,613** | 8,944 |
| Cash flow from operations | **22,823** | 10,039 | 19,765 | **32,862** | 44,130 |

## LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2013, the Company had working capital of $4.1 million and long-term debt of $25.0 million.

At June 30, 2013, the Company had drawn $25.0 million under the credit facilities and had issued letters of credit in the amount of $20,000; leaving $90.0 million available to be drawn under the credit facilities. The amount available under these facilities ("Borrowing Base") is re-determined by the lenders at least twice a year and is primarily based on our oil and gas reserves, forecast commodity prices, the current economic environment and other factors as determined by the lenders. The most recent credit facility review occurred in May 2013 and the aggregate borrowing base determined by the lenders remained unchanged at $115 million. The next scheduled Borrowing Base redetermination is to occur by November 30, 2013. In the event the lenders elected not to renew the credit facility during the credit facility review any amounts outstanding on the facilities would be due and payable in full by May 30, 2015.

Pursuant to the terms of the credit agreement, the only financial covenant in the credit facility is to maintain a working capital ratio of 1:1 at the end of each fiscal quarter. Working capital as defined in the lending agreement is current assets, from the Company's consolidated balance sheet, plus any undrawn amount on the credit facilities compared to current liabilities from the Company's consolidated balance sheet. BlackPearl was in compliance with this covenant throughout the first half of 2013. The credit facilities are secured by a floating charge debenture and a general securities agreement.

We expect to fund the ongoing development of our conventional heavy oil projects at Mooney, Onion Lake and other minor project areas from cash flow from operations and amounts available under the credit facility. We are also able to scale back our capital expenditure program on these projects relatively easily if circumstances warrant it.

During the second quarter the Company announced its intention to pursue a US$350 million second-lien senior secured term loan facility to fund development of the Onion Lake EOR project. Due to the recent volatility in the debt capital markets, the Company subsequently elected to defer establishment of this facility. The Company will re-evaluate this financing option and all other financing options for the development of our two thermal projects at Blackrod and Onion Lake. We have not completed detailed third party engineering cost estimates for these projects but our internal estimates suggest the first 20,000 bbl/d phase at Blackrod will likely cost $750 to $800 million, and the 12,000 bbl/d phase at Onion Lake will cost between $300 and $350 million. Timing of development of these thermal projects is dependent on additional financing. Financing options the Company will continue to evaluate include issuance of debt and equity, non-core asset sales, joint venture arrangements or potentially selling one of our three core properties.

## CAPITAL EXPENDITURES

During the quarter ended June 30, 2013, capital spending was $27.3 million, a decrease from $32.5 million during the same period in 2012. The main components of the capital spending during the quarter ended June 30, 2013 was the drilling of a second SAGD pilot well pair and preliminary commercial engineering designs at Blackrod, preliminary commercial engineering designs at the Onion Lake EOR project, chemical costs at Mooney related to the continuing ASP Phase 1 flood, drilling 15 conventional heavy oil wells including 11 wells at Onion Lake and three wells at John Lake and the acquisition of additional oil sands acreage in the Blackrod area along with some minor natural gas production as well as pipelines and other facilities which will be used in the commercial development of the Blackrod area.

| | **2013** | | 2012 | Six months ended June 30 | |
|---|---|---|---|---|---|
| ($000s) | **Q2** | Q1 | Q2 | **2013** | 2012 |
| Land | **610** | 73 | 182 | **683** | 384 |
| Seismic | **52** | 898 | 105 | **950** | 414 |
| Drilling and completion | **11,280** | 14,041 | 17,087 | **25,321** | 42,371 |
| Equipment | **10,498** | 3,889 | 15,073 | **14,387** | 29,732 |
| Other | **11** | 7 | 6 | **18** | 21 |
| Total | **22,451** | 18,908 | 32,453 | **41,359** | 72,922 |
| Property acquisitions | **4,864** | 193 | - | **5,057** | 3,000 |
| Total capital expenditures | **27,315** | 19,101 | 32,453 | **46,416** | 75,922 |
| Property dispositions | **-** | - | - | **-** | - |
| Net capital expenditures | **27,315** | 19,101 | 32,453 | **46,416** | 75,922 |

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Company has a number of financial obligations in the ordinary course of business. The following table summarizes the contractual obligations and commitments of the Company outstanding as at June 30, 2013. These obligations are expected to be funded from operating cash flow.

| ($000s) | 2013 | 2014 | 2015 | 2016 | 2017 | Thereafter |
|---|---|---|---|---|---|---|
| Operating leases [1] | $ 976 | $ 1,800 | $ 1,687 | $ 1,231 | $ - | $ - |
| Electrical service agreements [2] | 475 | 1,003 | 1,003 | 520 | 119 | 2,345 |
| Decommissioning liabilities [3] | 570 | 750 | 826 | 1,709 | 301 | 46,044 |
| Long-term debt [4] | - | - | 25,000 | - | - | - |
| | $ 2,021 | $ 3,553 | $ 28,516 | $ 3,460 | $ 420 | $ 48,389 |

*(1) The Company has 39 months remaining on an operating lease for office space as at June 30, 2013. 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 $9.5 million (including an estimate for operating costs) over the next 39 months.*

*(2) The Company entered into certain long-term agreements to have electricity supplied to one of our processing facilities.*

(3) *The Company also has ongoing obligations related to the decommissioning of well sites and facilities which have reached the end of their economic lives. The undiscounted estimated obligations associated with the retirement of the Company's oil and gas properties were $50.2 million as at June 30, 2013. Decommissioning programs are undertaken regularly in accordance with applicable legislative requirements.*

(4) *The credit facilities have no fixed terms of repayment, based on the existing terms of the Company's credit facilities the first possible mandatory repayment date may come in 2015 assuming the facility is not extended during the next scheduled facility review in May 2014. At this time management expects the facility will be extended.*

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments include cash and cash equivalents, trade and other receivables, deposits within prepaid expenses and deposits, accounts payable and accrued liabilities and long-term debt. The carrying value of these instruments approximates their fair value due to the short-term nature of the instruments. The Company manages its risk through its policies and processes, but generally has not used derivative financial instruments to manage these risks.

The risks associated with these financial instruments including foreign currency risk, credit risk, interest rate risk, liquidity risk and commodity price risk have not materially changed from December 31, 2012.

## OFF-BALANCE-SHEET ARRANGEMENTS

The Company has no off-balance-sheet arrangements. We do utilize operating leases in our normal course of business as disclosed under contractual obligations and commitments.

## RELATED-PARTY TRANSACTIONS

There were no related-party transactions during the first half of 2013.

## OUTSTANDING SHARE DATA

As at August 8, 2013, the Company had 296,222,308 common shares outstanding and 18,754,166 stock options outstanding under its stock-based compensation program.

## OUTSTANDING LONG-TERM DEBT DATA

As at August 8, 2013, the Company had advances of $20,000,000 drawn under the credit facilities and had issued letters of credit in the amount of $20,000; leaving $94,980,000 available under the credit facilities.

## PROPOSED TRANSACTIONS

As of August 8, 2013, 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, sales, 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. Further information on the Company's critical accounting estimates can be found in the notes to the annual consolidated financial statements and annual MD&A for the year ended December 31, 2012. There have been no changes to the Company's critical accounting estimates as of June 30, 2013.

## NEW ACCOUNTING STANDARDS

The Company has adopted the following new and amended standards effective as of January 1, 2013. The following new standards and amendments have been adopted in these interim financial statements.

*IFRS 10: Consolidated Financial Statements* - replaces the guidance on control and consolidation in *IAS 27, Consolidated and Separate Financial Statements*, and *SIC-12, Consolidation – Special Purpose Entities.* IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27. The Company assessed its consolidation conclusion on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of our subsidiaries.

*IFRS 11: Joint Arrangements* – supersedes *IAS 31, Interests in Joint Ventures,* and requires joint arrangements to be classified as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in *IAS 28, Investments in Associates and Joint Ventures.* The Corporation classified its joint arrangements as joint operations in accordance with IFRS 11 on January 1, 2013 and concluded that the adoption of the standard did not result in any changes in the accounting for its joint arrangements.

*IFRS 12: Disclosure of Interests in Other Entities* – 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. IFRS 12 required minimal disclosure changes in the Company`s financial statements as of January 1, 2013.

*IFRS 13: Fair Value Measurement* – provides a single framework for measuring fair value and the disclosure requirements about those measurements. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. IFRS 13 required minimal disclosure changes in the Company`s financial statements as of January 1, 2013.

*IAS 27: Separate Financial Statements* – amendments were made to IAS 27 to conform to changes made in *IFRS 10, Consolidated Financial Statements.* The standard retained its guidance for separate financial statements. Amendments to IAS 27 required minimal disclosure changes in the Company`s financial statements as of January 1, 2013.

*IAS 28: Investments in Associates and Joint Ventures* – describes the application of the equity method to investments in joint ventures in addition to associates. IFRS 28 had minimal impact on the Company`s financial statements as of January 1, 2013 as the Company has no joint ventures or associates that will be accounted for under the equity method.

*IFRS 7: Financial Instruments: Disclosures* – amendments relating to disclosure requirements for the offsetting of financial assets and liabilities when offsetting is permitted under IFRS. Amendments to IFRS 7 required minimal disclosure changes in the Company`s financial statements as of January 1, 2013.

*IFRS 19: Employee Benefits* –amendments including fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. Amendments to IFRS 19 required minimal disclosure changes in the Company`s financial statements as of January 1, 2013.

## ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

In May 2013, the IASB released an amendment to IAS 36, *"Impairment of Assets"*. This amendment requires entities to disclose the recoverable amount of impaired Cash Generating Units ("CGU"). The amendment is effective January 1, 2014. Early adoption is permitted.

A description of other standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the Consolidated Financial Statements and annual MD&A for the year ended December 31, 2012.

**RISKS AND UNCERTAINTIES**

Please refer to the Company's annual MD&A and Annual Information Form for the year ended December 31, 2012 for a discussion of the risks and uncertainties associated with the Company activities. There have been no significant changes in these risks and uncertainties during the first half of 2013.

**CONTROL CERTIFICATION**

Management reported on its disclosure controls and procedures and the design of its internal controls over financial reporting in the annual MD&A for the year ended December 31, 2012. 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

| 2013 Guidance | Initial Guidance | February Update | Q1 Update | Q2 Update |
|---|---|---|---|---|
| Production (boe/d) | | | | |
| Annual average | 10-500 – 11,000 | 9,000 – 10,000 | 9,000 – 10,000 | 9,000 – 10,000 |
| Exit | 11,000 – 12,000 | 10,000 – 10,500 | 10,000 – 10,500 | 10,000 – 10,500 |
| Cashflow from operations ($millions) | 75 - 85 | 50 – 60 | 50 – 60 | 65 – 70 |
| Capital expenditures ($millions) | 140 - 160 | 125 – 140 | 125 – 140 | 95 – 100 |
| Year-end debt ($millions) | 80 - 90 | 80 – 90 | 80 – 90 | 25 – 30 |
| Year-end working capital ($millions) | 0 - 5 | 0 – 5 | 0 – 5 | 0 – 5 |
| Pricing Assumptions (annual average) | | | | |
| Crude oil - WTI | US$88 | US$95 | US$90 | US$95 |
| Light/heavy differential | US$18 | US$27 | US$22 | US$22 |
| Foreign Exchange (Cdn$ to US$) | 1.00 | 1.00 | 1.00 | 1.00 |

We expect our oil and gas production to average between 9,000 to 10,000 boe/d, unchanged from our Q1 update. Cash flow from operations for the year is anticipated to range between $65 to $70 million. This is slightly higher than our Q1 outlook as a result of using higher forecast oil prices in our Q2 update. Capital spending is expected to be between $95 to $100 million for the year, a decrease from the $125 to $140 million forecast in our Q1 update. The decrease in our planned capital expenditures reflects reduced spending on our thermal projects at Onion Lake and Blackrod. Engineering and design work will continue in the Onion Lake thermal project; however equipment orders will be deferred until additional financing is in place. During the second half of 2013, we also expect to drill 20 to 25 conventional heavy oil wells at Onion Lake and up to 10 additional horizontal wells at Mooney and other areas.

It is expected that this capital program will be funded from anticipated cash flow from operations and the Company's credit facilities. We have a lot of flexibility in our capital program and can adjust capital spending if required. As previously indicated we are evaluating financing options for our thermal projects. We have not incorporated the potential for this financing in our current guidance.

## 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", “anticipated”, "believe", “appears”, "plan", “potential”, “target”, “continue”, “continuing”, "estimate", “forecast”, “likely”, "expect", “expected”, “hope”, "may", “intends”, “intended”, “intention”, “deferred”, "will", "project", “timing”, “in the event”, “move toward”, “re-evaluate”, "should", “scheduled”, “outlook” or similar words suggesting future outcomes.

In particular, but without limiting the foregoing, this report contains forward-looking statements pertaining to our business plans and strategies; capital expenditure and drilling programs including the estimated capital costs for the first phase of thermal development at Blackrod and the thermal project at Onion Lake; methods, sources and timing to finance capital expenditure programs, particularly for the thermal projects at Blackrod and Onion Lake; anticipated oil and gas production levels; anticipated use of the acquired natural gas production, pipelines and other facilities in the commercial development of the Blackrod area; anticipated timing of a production response from the Mooney ASP flood and expected peak production volumes from the flood; anticipated timing for establishing a chemical response (alkaline and surfactant) from the ASP flood at Mooney; anticipated timing of steam injection at the second pilot well pair at Blackrod and the expected timing of associated production; expected future oil and gas prices and their impact on BlackPearl; expected future gas prices and their impact on costs related to our thermal

projects; potential to enter into oil price hedging arrangements in the future; future costs including operating and administrative costs and royalty rates; future cash flows and net income; anticipated future asset dispositions, expected cash taxes to be paid in 2013, estimated capital costs for the development of the Blackrod and Onion Lake thermal projects and corporate guidance for 2013 included in the "Outlook" section of this report.

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.

The forward-looking statements in this report reflect certain assumptions and expectations by management. The key assumptions that have been made in connection with these forward-looking statements include the continuation of current or, where applicable, assumed industry conditions, the continuation of existing tax, royalty and regulatory regimes, commodity price and cost assumptions, the continued availability of cash flow or financing on acceptable terms to fund the Company's capital programs, the accuracy of the estimate of the Company's reserves and resource volumes and that BlackPearl will conduct its operations in a manner consistent with past operations. 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 which could cause actual results to differ materially from those contained in forward-looking statements. 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 decommissioning 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.

Undue reliance should not be placed on these forward-looking statements. 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 assumptions, risks and factors is not exhaustive. There can be no assurance by the Company that actual results achieved will be the same in whole or in part as those set out in the forward-looking information. Furthermore, the forward-looking statements contained in this report are made as of the date hereof, and the 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.

**CAUTIONARY STATEMENT ON CONTINGENT RESOURCES**

This document makes reference to contingent resources. Contingent resources are defined in the COGE Handbook as those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters or a lack of markets. In the case of the contingent resources assigned to BlackPearl's three core projects the contingencies include the requirement for more evaluation drilling to better define the resource, the absence of submission of commercial SAGD development applications (for future phases of development at Blackrod), the likelihood of attaining regulatory approvals for commercial SAGD development (for our Onion Lake SAGD project), further establishment of increased oil production response from the ASP flood at Mooney and the uncertainty of the timing of production and development. There is no certainty that it will be commercially viable to produce any of the contingent resources. Best estimate (P50) is a classification of estimated resources described in the COGE Handbook as being considered to be the best estimate of the quantity that will be actually recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. If probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the best estimate. Please refer to our Annual Information Form for a more detailed discussion of these contingencies.

## Consolidated Balance Sheets

| (unaudited)<br>(Cdn$ in thousands) | Note | June 30, 2013 | December 31, 2012 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | | **$ 9,373** | $ 16,977 |
| Trade and other receivables | 4 | **25,307** | 16,708 |
| Inventory | | **698** | - |
| Prepaid expenses and deposits | | **2,558** | 878 |
| | | **37,936** | 34,563 |
| Deferred tax assets | | **4,654** | 4,142 |
| Exploration and evaluation assets | 5 | **156,503** | 134,721 |
| Property, plant and equipment | 6 | **448,746** | 447,299 |
| | | **$ 647,839** | $ 620,725 |
| **Liabilities** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 8 | **$ 33,881** | $ 42,351 |
| Long-term debt | 9 | **25,000** | - |
| Decommissioning liabilities | 10 | **44,464** | 33,372 |
| | | **103,345** | 75,723 |
| **Shareholders' equity** | | | |
| Share capital | 11 | **877,190** | 876,400 |
| Contributed surplus | | **28,511** | 26,762 |
| Deficit | | **(361,207)** | (358,160) |
| | | **544,494** | 545,002 |
| | | **$ 647,839** | $ 620,725 |

Commitments and contingencies (note 12)

*See accompanying notes to consolidated financial statements*

**Consolidated Statements of Comprehensive Income**

| (unaudited)<br>(Cdn$ in thousands, except for per share amounts) | Note | Three months ended June 30<br>**2013** | <br>2012 | Six months ended June 30<br>**2013** | <br>2012 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Oil and gas sales | | **$ 58,322** | $ 49,099 | **$ 98,993** | $ 106,875 |
| Royalties | | **(11,742)** | (10,621) | **(18,073)** | (23,876) |
| | | **46,580** | 38,478 | **80,920** | 82,999 |
| **Expenses** | | | | | |
| Production | | **18,413** | 13,950 | **37,115** | 30,634 |
| Transportation | | **2,928** | 2,354 | **5,845** | 4,156 |
| General and administrative | | **2,100** | 2,000 | **4,724** | 3,831 |
| Depletion and depreciation | | **18,096** | 17,207 | **34,140** | 35,298 |
| Finance costs | 14 | **576** | 648 | **860** | 886 |
| Stock-based compensation | 11 | **816** | 1,623 | **1,780** | 3,309 |
| Foreign currency exchange loss | | **-** | (67) | **4** | (1) |
| | | **42,929** | 37,715 | **84,468** | 78,113 |
| **Other income** | | | | | |
| Interest income | | **4** | 95 | **12** | 244 |
| Gain on disposition of investment in MAV II Notes | | **-** | - | **-** | 792 |
| | | **4** | 95 | **12** | 1,036 |
| Income (loss) before income taxes | | **3,655** | 858 | **(3,536)** | 5,922 |
| **Income taxes** | | | | | |
| Current income tax (recovery) | | **17** | - | **23** | (51) |
| Deferred income tax (recovery) | | **1,041** | 640 | **(512)** | 2,181 |
| | | **1,058** | 640 | **(489)** | 2,130 |
| **Net comprehensive income (loss) for the period** | | **$ 2,597** | $ 218 | **$ (3,047)** | $ 3,792 |
| Income (loss) per share | 11 | | | | |
| Basic | | **$ 0.01** | $ 0.00 | **$ (0.01)** | $ 0.01 |
| Diluted | | **$ 0.01** | $ 0.00 | **$ (0.01)** | $ 0.01 |

*See accompanying notes to consolidated financial statements*

**Consolidated Statements of Changes in Equity**

**(unaudited)**
**(Cdn$ in thousands)**

| | Six months ended June 30, 2013 | | | |
|---|---|---|---|---|
| | **Share Capital** | **Contributed Surplus** | **Deficit** | **Total Equity** |
| **Balance - January 1, 2013** | $ 876,400 | $ 26,762 | $ (358,160) | $ 545,002 |
| Net and comprehensive loss for the period | - | - | (3,047) | (3,047) |
| Stock-based compensation | - | 2,018 | - | 2,018 |
| Shares issued on exercise of stock options | 521 | - | - | 521 |
| Transfer to share capital on exercise of stock options | 269 | (269) | - | - |
| **Balance - June 30, 2013** | $ **877,190** | $ **28,511** | $ **(361,207)** | $ **544,494** |

| | Six months ended June 30, 2012 | | | |
|---|---|---|---|---|
| | **Share Capital** | **Contributed Surplus** | **Deficit** | **Total Equity** |
| **Balance - January 1, 2012** | $ 864,633 | $ 23,694 | $ (358,205) | $ 530,122 |
| Net and comprehensive income for the period | - | - | 3,792 | 3,792 |
| Stock-based compensation | - | 3,309 | - | 3,309 |
| Shares issued on exercise of stock options | 727 | - | - | 727 |
| Transfer to share capital on exercise of stock options | 367 | (367) | - | - |
| **Balance - June 30, 2012** | $ 865,727 | $ 26,636 | $ (354,413) | $ 537,950 |

*See accompanying notes to consolidated financial statements*

**Consolidated Statements of Cash Flows**

| (unaudited) | | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|---|
| (Cdn$ in thousands) | Note | **2013** | 2012 | **2013** | 2012 |
| **Operating activities** | | | | | |
| Net income (loss) for the period | | **$ 2,597** | $ 218 | **$ (3,047)** | $ 3,792 |
| Items not involving cash: | | | | | |
| Depletion and depreciation | | **18,096** | 17,207 | **34,140** | 35,298 |
| Accretion of decommissioning liabilities | 14 | **239** | 192 | **445** | 382 |
| Stock-based compensation | 11 | **816** | 1,623 | **1,780** | 3,309 |
| Foreign exchange loss (gain) | | **34** | (115) | **56** | (40) |
| Deferred income taxes (recovery) | | **1,041** | 640 | **(512)** | 2,181 |
| Gain on disposition of investment in MAV II Notes | | **-** | - | **-** | (792) |
| Decommissioning costs incurred | | **(84)** | (215) | **(413)** | (781) |
| Changes in non-cash working capital related to operations | 14 | **(2,147)** | (5,901) | **(8,613)** | (8,944) |
| Cash flow from operating activities | | **20,592** | 13,649 | **23,836** | 34,405 |
| **Financing activities** | | | | | |
| Proceeds on issue of long-term debt | | **13,085** | - | **25,000** | - |
| Proceeds on issue of common shares, net of costs | | **24** | 294 | **521** | 727 |
| Cash flow from financing activities | | **13,109** | 294 | **25,521** | 727 |
| **Investing activities** | | | | | |
| Capital expenditures - exploration and evaluation assets | | **(10,365)** | (7,677) | **(21,454)** | (16,128) |
| Capital expenditures - property, plant and equipment | | **(16,771)** | (24,776) | **(24,617)** | (59,794) |
| Proceeds from disposition of investment in MAV II Notes | | **-** | - | **-** | 3,587 |
| Changes in non-cash working capital related to investing | 14 | **1,970** | 3,859 | **(10,838)** | 7,354 |
| Cash flow from investing activities | | **(25,166)** | (28,594) | **(56,909)** | (64,981) |
| Effect of exchange rate changes on cash and cash equivalents held in foreign currency | | **(34)** | 48 | **(52)** | 39 |
| **Increase (decrease) in cash and cash equivalents** | | **8,501** | (14,603) | **(7,604)** | (29,810) |
| **Cash and cash equivalents, beginning of period** | | **872** | 44,465 | **16,977** | 59,672 |
| **Cash and cash equivalents, end of period** | | **$ 9,373** | $ 29,862 | **$ 9,373** | $ 29,862 |

*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’s primary focus is on heavy oil and oil sands projects in Western Canada. 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 Stockholm market under the symbol “PXXS”. BlackPearl is incorporated and located in Canada. The address of its registered office is 700, 444 – 7th Avenue SW, Calgary, Alberta, T2P 0X8.

### 2. BASIS OF PREPARATION

These condensed unaudited interim consolidated financial statements for the three and six months ended June 30, 2013 have been prepared in accordance with IAS 34, Interim Financial Reporting under International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and have been prepared following the same accounting policies and method of computation as the annual consolidated financial statements for the year ended December 31, 2012 except for standards applicable for the first time and new standards and amendments effective for the first time from January 1, 2013 as disclosed in note 3 and income taxes. Income taxes on earnings or loss in the interim periods are accrued using the income tax rate that would be applicable to the expected total annual earnings or loss.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of August 8, 2013, the date they were approved and authorized for issuance by the Company’s 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 ended December 31, 2013 could result in restatement of these interim consolidated financial statements.

The disclosures provided below are incremental to those included with the annual consolidated financial statements. Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2012 which have been prepared in accordance with IFRS as issued by the IASB.

### 3. SIGNIFICANT ACCOUNTING POLICES

**Inventory**

Inventory is carried at the lower of cost and net realizable value. Inventory consists of polymer chemicals which are accounted for on a weighted average basis. Cost includes all cost incurred in the normal course of business in bringing polymer chemicals to its present location and condition. Net realizable value of polymer chemicals is based on current market prices as at the date of the consolidated balance sheet.

**New standards and amendments effective for the first time from January 1, 2013**

Certain pronouncements were issued that are mandatory for accounting periods beginning before or on January 1, 2013. The following new standards and amendments have been adopted in these interim financial statements.

*IFRS 10: Consolidated Financial Statements* - replaces the guidance on control and consolidation in *IAS 27, Consolidated and Separate Financial Statements*, and *SIC-12, Consolidation – Special Purpose Entities.* IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27. The Company assessed its consolidation conclusion on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of our subsidiaries.

*IFRS 11: Joint Arrangements* – supersedes *IAS 31, Interests in Joint Ventures,* and requires joint arrangements to be classified as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in *IAS 28, Investments in Associates and Joint Ventures.* The Corporation classified its joint arrangements as joint operations in accordance with IFRS 11 on January 1, 2013 and concluded that the adoption of the standard did not result in any changes in the accounting for its joint arrangements.

*IFRS 12: Disclosure of Interests in Other Entities* – 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. IFRS 12 required minimal disclosure changes in the Company`s financial statements as of January 1, 2013.

*IFRS 13: Fair Value Measurement* – provides a single framework for measuring fair value and the disclosure requirements about those measurements. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. IFRS 13 required minimal disclosure changes in the Company`s financial statements as of January 1, 2013.

*IAS 27: Separate Financial Statements* – amendments were made to IAS 27 to conform to changes made in *IFRS 10, Consolidated Financial Statements.* The standard retained its guidance for separate financial statements. Amendments to IAS 27 required minimal disclosure changes in the Company`s financial statements as of January 1, 2013.

*IAS 28: Investments in Associates and Joint Ventures* – describes the application of the equity method to investments in joint ventures in addition to associates. IFRS 28 had minimal impact on the Company`s financial statements as of January 1, 2013 as the Company has no joint ventures or associates that will be accounted for under the equity method.

*IFRS 7: Financial Instruments: Disclosures* – amendments relating to disclosure requirements for the offsetting of financial assets and liabilities when offsetting is permitted under IFRS. Amendments to IFRS 7 required minimal disclosure changes in the Company`s financial statements as of January 1, 2013.

*IFRS 19: Employee Benefits* –amendments including fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. Amendments to IFRS 19 required minimal disclosure changes in the Company`s financial statements as of January 1, 2013.

**Accounting standards issued but not yet applied**

In May 2013, the IASB released an amendment to IAS 36, *"Impairment of Assets"*. This amendment requires entities to disclose the recoverable amount of impaired Cash Generating Units ("CGU"). The amendment is effective January 1, 2014. Early adoption is permitted.

## 4. TRADE AND OTHER RECEIVABLES

| | **Six months ended June 30, 2013** | Year ended December 31, 2012 |
|---|---|---|
| Trade accounts receivable | **$ 21,470** | $ 13,405 |
| Receivables from joint venture partners | **875** | 866 |
| Allowance for doubtful accounts | **(815)** | (815) |
| Net accounts receivable | **21,530** | 13,456 |
| Royalty reimbursement from enhanced oil recovery incentive programs | **3,444** | 3,082 |
| Other receivables | **333** | 170 |
| | **$ 25,307** | $ 16,708 |

## 5. EXPLORATION AND EVALUATION ASSETS

| | |
|---|---|
| At January 1, 2012 | $ 106,450 |
| Expenditures | 27,483 |
| Capitalized stock-based compensation | 374 |
| Change in decommissioning provision | 414 |
| At December 31, 2012 | 134,721 |
| Expenditures | 19,360 |
| Acquisition | 2,094 |
| Capitalized stock-based compensation | 148 |
| Change in decommissioning provision | 180 |
| At June 30, 2013 | $ 156,503 |

The Company's exploration and evaluation assets consist entirely of costs pertaining to the Blackrod SAGD project in northern Alberta. These assets are not subject to depletion or depreciation but they are reviewed for possible impairment. During the first six months of 2013, no costs were considered to be impaired.

The net revenues of the Blackrod SAGD pilot are being capitalized until the decision to transfer exploration and evaluation assets to property, plant and equipment is determined. During the six months ended June 30, 2013, the Company capitalized net revenues totaling a loss of $2.2 million (2012 - $1.7 million). The Company capitalized interest and financing charges of $0.2 million (2012 - $Nil) during the six months ended June 30, 2013 related to the development of exploration and evaluation assets. The Company did not capitalize any general and administrative costs in respect to exploration activities during the six months ended June 30, 2013 (2012 - $Nil).

## 6. PROPERTY, PLANT AND EQUIPMENT

| | Petroleum and natural gas properties | Corporate | Total |
|---|---|---|---|
| **Cost** | | | |
| At January 1, 2012 | $ 733,683 | $ 3,300 | $ 736,983 |
| Capital expenditures | 111,639 | 52 | 111,691 |
| Change in decommissioning provision | 2,786 | - | 2,786 |
| At December 31, 2012 | 848,108 | 3,352 | 851,460 |
| Capital expenditures | 21,636 | 18 | 21,654 |
| Acquisitions | 2,963 | - | 2,963 |
| Capitalized stock-based compensation | 90 | - | 90 |
| Decommissioning provision acquired | 6,589 | - | 6,589 |
| Change in decommissioning provision | 4,291 | - | 4,291 |
| At June 30, 2013 | $ 883,677 | $ 3,370 | $ 887,047 |
| | | | |
| **Accumulated depletion and depreciation** | | | |
| At January 1, 2012 | $ 327,932 | $ 1,653 | $ 329,585 |
| Depletion and depreciation | 69,324 | 252 | 69,576 |
| Impairment | 5,000 | - | 5,000 |
| At December 31, 2012 | 402,256 | 1,905 | 404,161 |
| Depletion and depreciation | 34,032 | 108 | 34,140 |
| At June 30, 2013 | $ 436,288 | $ 2,013 | $ 438,301 |
| | | | |
| **Net book value** | | | |
| December 31, 2012 | $ 445,852 | $ 1,447 | $ 447,299 |
| June 30, 2013 | $ 447,389 | $ 1,357 | $ 448,746 |

The Company did not capitalize any general and administrative or interest and financing costs related to development activities during the six months ended June 30, 2013 (2012 - $Nil).

The Company performed impairment review tests at June 30, 2013 for any indication of impairment, no costs were considered to be impaired and no impairment was recorded during the six months ended June 30, 2013 (2012 - $Nil).

## 7. PROPERTY ACQUISITION

The Company completed a minor property acquisition during the six months ended June 30, 2013 for net cash considerations of $4.9 million ($2.8 million allocated to property, plant and equipment and $2.1 million allocated to exploration and evaluation assets). Decommissioning liabilities acquired as part of the property acquisition were $6.6 million. This property acquisition was completed with full tax pools and no working capital or debt obligations were assumed.

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | **Six months ended June 30, 2013** | Year ended December 31, 2012 |
|---|---|---|
| Trade payables and accrued liabilities | **$ 32,266** | $ 41,681 |
| Payables to joint venture partners | **833** | 483 |
| Other taxes payable | **438** | - |
| Other payables | **344** | 187 |
| | **$ 33,881** | $ 42,351 |

Trade payables are non-interest bearing and are normally settled on a 30 to 60 day term.

## 9. LONG-TERM DEBT

| | **Six months ended June 30, 2013** | Year ended December 31, 2012 |
|---|---|---|
| Revolving line of credit | **$ 25,000** | - |
| Operating line of credit | **-** | - |
| | **$ 25,000** | $ |

The Company's credit facilities as of June 30, 2013 consist of a $105 million syndicated revolving line of credit provided by a syndicate of three lending institutions and a non-syndicated operating line of credit of $10 million. The facilities are secured by a floating charge debenture and a general securities agreement on the assets of the Company. The amount available under these facilities ("Borrowing Base") is re-determined at least twice a year and is primarily based on the Company's oil and gas reserves, forecast commodity prices, the current economic environment and other factors as determined by the syndicate of lending institutions. The next scheduled Borrowing Base redetermination is to occur by November 30, 2013. The facilities are also subject to annual reviews by the lenders and the next scheduled review is to be completed by May 31, 2014. In the event the lenders elected not to renew the credit facility during the annual review, any amounts outstanding on the facilities would be due and payable in full by May 30, 2015.

At June 30, 2013, the Company had advances of $25.0 million drawn under the credit facilities and had issued letters of credit in the amount of $20,000; leaving $90.0 million available to be drawn under the credit facilities. The effective interest rate on the Company's borrowings under its bank facility for the period ended June 30, 2013 was 4.5% (2012 – Nil), which includes interest incurred on balances outstanding during the period as well as standby fees on the undrawn amounts of the facilities.

Pursuant to the terms of the credit agreement, the Company is required to maintain a working capital ratio of 1:1 at the end of each fiscal quarter. Working capital as defined in the lending agreement is current assets, as indicated on the Company's consolidated balance sheet, plus any undrawn amount on the credit facilities, compared to current liabilities from the Company's consolidated balance sheet. The Company had a working capital ratio of 3.8:1 at June 30, 2013 (2012 - 4.1:1) and is in compliance with this covenant at June 30, 2013.

## 10. DECOMMISSIONING LIABILITIES

The Company's decommissioning liability is an estimate of the reclamation and abandonment costs arising from the Company's 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 $50.2 million (December 31, 2012 - $39.7 million). The estimated net present value of the decommissioning liability was calculated using an inflation factor of 2% (December 31, 2012 - 2%) and discounted using a risk-free rate of 2.25% (December 31, 2012 - 2.25%). Settlement of the liability, which may extend up to 40 years in the future, is expected to be funded from general corporate funds at the time of retirement.

Changes to the decommissioning liability were as follows:

| | **Six months ended June 30, 2013** | Year ended December 31, 2012 |
|---|---|---|
| **Decommissioning liability, beginning of period** | **$ 33,372** | $ 30,420 |
| New liabilities recognized | **945** | 3,214 |
| Liabilities acquired | **6,589** | - |
| Reduction in liabilities due to asset dispositions | **(14)** | (14) |
| Decommissioning costs incurred | **(413)** | (989) |
| Change in estimated future cash flows | **3,540** | - |
| Accretion expense | **445** | 741 |
| **Decommissioning liability, end of period** | **$ 44,464** | $ 33,372 |

## 11. SHARE CAPITAL

### (a) Authorized

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

### (b) Common Shares Issued

| | **Number of Shares** | **Attributed Value** |
|---|---|---|
| Balance as at January 1, 2012 | 284,802,011 | $ 864,633 |
| Shares issued on exercise of warrants | 9,645,196 | 5,787 |
| Shares issued on exercise of stock options | 1,318,601 | 2,658 |
| Transferred from contributed surplus on exercise of stock options and warrants | - | 3,322 |
| Balance as at December 31, 2012 | 295,765,808 | 876,400 |
| Shares issued on exercise of stock options | 356,500 | 521 |
| Transferred from contributed surplus on exercise of stock options | - | 269 |
| Balance as at June 30, 2013 | 296,122,308 | $ 877,190 |

### (c) 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. The maximum term for options granted is ten years; however, all of the options granted by the Company have a term of five years or less and vest at a rate of one third on each of the three anniversaries from the date of the grant. 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:

| | Number of Options | Weighted Average Exercise Price ($) |
|---|---|---|
| Outstanding at January 1, 2012 | 16,528,665 | 2.68 |
| Granted | 3,079,500 | 3.73 |
| Exercised | (1,318,601) | 2.02 |
| Forfeited | (728,665) | 5.06 |
| Expired | (177,900) | 3.80 |
| Outstanding at December 31, 2012 | 17,382,999 | 2.81 |
| Granted | 3,015,500 | 2.48 |
| Exercised | (356,500) | 1.46 |
| Forfeited | (838,665) | 3.98 |
| Outstanding at June 30, 2013 | 19,203,334 | 2.73 |

Options outstanding and exercisable as at June 30, 2013 are summarized below:

| | **Options Outstanding** | | | **Options Exercisable** | | |
|---|---|---|---|---|---|---|
| **Range of Exercise Prices ($)** | **Number of Options** | **Weighted-Average Exercise Price ($)** | **Weighted-Average Remaining Life (Years)** | **Number of Options** | **Weighted-Average Exercise Price ($)** | **Weighted-Average Remaining Life (Years)** |
| 0.50 – 1.50 | 5,648,500 | 0.73 | 0.53 | 5,648,500 | 0.73 | 0.53 |
| 1.51 – 3.00 | 6,232,999 | 2.33 | 2.86 | 3,416,833 | 2.22 | 1.36 |
| 3.01 – 4.50 | 2,488,500 | 3.64 | 3.99 | 576,525 | 3.80 | 3.73 |
| 4.51 – 6.00 | 4,518,335 | 5.00 | 2.90 | 2,303,538 | 5.02 | 2.75 |
| 6.01 – 7.66 | 315,000 | 6.91 | 2.94 | 160,001 | 7.07 | 2.91 |
| | 19,203,334 | 2.73 | 2.33 | 12,105,397 | 2.19 | 1.37 |

The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option pricing model. During the six months ended June 30, 2013, 3,015,500 options were granted (2012 – 2,224,500).

The fair value of the options granted was estimated using the following weighted average assumptions:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| Assumptions | **2013** | 2012 | **2013** | 2012 |
| Risk free interest rate (%) | **-** | 1.3 | **1.1** | 1.2 |
| Expected life (years) | **-** | 3.2 | **3.5** | 3.2 |
| Expected volatility (%) | **-** | 54.5 | **49.3** | 55.1 |
| Forfeiture rate (%) | **-** | 14.7 | **14.2** | 14.7 |
| Weighted average fair value of options | - | $ 1.49 | $ **0.91** | $ 1.53 |

**(d) Stock-based Compensation**

For the six months ended June 30, 2013, gross stock-based compensation of $2,377,000 (2012 - $3,581,000) consists of $148,000 capitalized to exploration and evaluation assets (2012 - $Nil), $90,000 capitalized to property, plant and equipment (2012 - $Nil) and $1,780,000 (2012 - $3,309,000), net of recoveries of $359,000 (2012 - $272,000), has been recorded in the consolidated statements of comprehensive income.

**(e) Income (loss) per Share**

Basic income (loss) per share amounts are calculated by dividing net comprehensive income (loss) for the period by the weighted average number of common shares outstanding during the period.

The following table shows the calculation of basic and diluted income (loss) per share for the periods ended:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Net comprehensive income (loss) | **2,597** | $ 218 | **(3,047)** | $ 3,792 |
| Weighted average number of common shares – basic (000s) | **296,113** | 285,272 | **296,083** | 285,197 |
| Dilutive effect: | | | | |
| Outstanding options (000s) | **3,580** | 6,471 | **4,097** | 6,905 |
| Outstanding warrants (000s) | **-** | 8,120 | **-** | 8,274 |
| Weighted average number of common shares – diluted (000s) | **299,693** | 299,863 | **300,180** | 300,376 |
| Basic income (loss) per share | **$ 0.01** | $ 0.00 | **$ (0.01)** | $ 0.01 |
| Diluted income (loss) per share | **$ 0.01** | $ 0.00 | **$ (0.01)** | $ 0.01 |

For the six months ended June 30, 2013, the Company used an average market price of $2.33 (2012 - $4.13) per share to calculate the dilutive effect of stock options. For the six months ended June 30, 2013, 9,650,890 options were anti-dilutive (2012 – 6,062,097) and were not included in the calculation of diluted net income (loss) per share.

## 12. COMMITMENTS AND CONTINGENCIES

| | 2013 | 2014 | 2015 | 2016 | 2017 | Thereafter |
|---|---|---|---|---|---|---|
| Operating leases [1] | $ 976 | $ 1,800 | $ 1,687 | $ 1,231 | $ - | $ - |
| Electrical service agreements [2] | 475 | 1,003 | 1,003 | 520 | 119 | 2,345 |
| | $ 1,451 | $ 2,803 | $ 2,690 | $ 1,751 | $ 119 | $ 2,345 |

(1) The Company has 39 months remaining on an operating lease for office space as at June 30, 2013. 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 amount of $9.5 million (including an estimate for operating costs) over the next 39 months.

(2) The Company entered into certain long-term agreements to acquire electricity for one of its processing facilities.

## 13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments as at June 30, 2013 include cash and cash equivalents, trade and other receivables, deposits within prepaid expenses and deposits, accounts payable and accrued liabilities and long-term debt. The Company manages its risk through its policies and procedures, but the Company generally has not used derivative financial instruments to manage these risks.

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. At June 30, 2013, the Company held no financial assets or liabilities that are subject to valuation using the fair value hierarchy.

The following table shows the Company's financial instruments carrying and fair values by classification:

| | **As at June 30, 2013** | | As at December 31, 2012 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| **Financial Assets** | | | | |
| *Loans and receivables:* | | | | |
| Cash and cash equivalents | **$ 9,373** | **$ 9,373** | $ 16,977 | $ 16,977 |
| Trade and other receivables | **$ 25,307** | **$ 25,307** | $ 16,708 | $ 16,708 |
| Prepaid expenses and deposits | **$ 392** | **$ 392** | $ 376 | $ 376 |
| **Financial liabilities** | | | | |
| *Financial liabilities at amortized cost:* | | | | |
| Accounts payable and accrued liabilities | **$ 33,881** | **$ 33,881** | $ 42,351 | $ 42,351 |
| Long-term debt | **$ 25,000** | **$ 25,000** | - | - |

The risks associated with these financial instruments including credit risk, liquidity risk, interest rate risk, foreign currency exchange risk and commodity price risk have not changed from December 31, 2012.

## 14. SUPPLEMENTARY INFORMATION

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

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Cash interest paid | **$ 419** | $ 456 | **$ 602** | $ 504 |
| Cash taxes paid (refund) | **$ 17** | $ - | **$ 23** | $ (51) |

(b) The following table summarizes finance costs included on the statement of comprehensive income:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Gross interest and financing charges | **$ 419** | $ 456 | **$ 602** | $ 504 |
| Capitalized interest and financing charges | **(82)** | - | **(187)** | - |
| Net interest and financing charges | **337** | 456 | **415** | 504 |
| Accretion of decommissioning liabilities | **239** | 192 | **445** | 382 |
| Finance costs | **$ 576** | $ 648 | **$ 860** | $ 886 |

(c) The following table reconciles the changes in non-cash working capital as disclosed in the consolidated statements of cash flows:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Changes in non-cash working capital: | | | | |
| Trade and other receivables | **$ (4,740)** | $ 792 | **$ (8,599)** | $ 5,940 |
| Inventory | **(224)** | - | **(698)** | - |
| Prepaid expenses and deposits | **(1,883)** | (658) | **(1,680)** | (567) |
| Accounts payable and accrued liabilities | **6,670** | (2,176) | **(8,474)** | (6,963) |
| Change in working capital | **$ (177)** | $ (2,042) | **$ (19,451)** | $ (1,590) |
| Relating to: | | | | |
| Operating activities | **$ (2,147)** | $ (5,901) | **$ (8,613)** | $ (8,944) |
| Investing activities | **1,970** | 3,859 | **(10,838)** | 7,354 |
| Change in non-cash working capital | **$ (177)** | $ (2,042) | **$ (19,451)** | $ (1,590) |