BLACKPEARL RESOURCES INC.

Consolidated Balance Sheets

(unaudited) (Cdn$ in thousands)	Note		September 30, 2016		December 31, 2015
Assets					
Current assets					
Cash and cash equivalents	4	**$**	**3,528**	$	2,300
Trade and other receivables	5		**11,670**		10,801
Inventory			**88**		605
Prepaid expenses and deposits			**1,300**		1,283
Fair value of risk management assets	13		**326**		10,548
			16,912		25,537
Exploration and evaluation assets	6		**170,491**		169,493
Property, plant and equipment	7		**585,803**		613,314
		$	**773,206**	$	808,344
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	8	**$**	**12,883**	$	13,939
Current portion of decommissioning liabilities	9		**645**		535
			13,528		14,474
Fair value of risk management liabilities	13		**609**		1,223
Decommissioning liabilities	9		**68,911**		66,392
Long-term debt	10		**67,000**		88,000
			150,048		170,089
Shareholders' equity					
Share capital	11		**970,142**		970,134
Contributed surplus			**42,406**		39,800
Deficit			**(389,390)**		(371,679)
			623,158		638,255
		$	**773,206**	$	808,344

Commitments and contingencies (note 12)

See accompanying notes to consolidated financial statements

BLACKPEARL RESOURCES INC.

Consolidated Statements of Comprehensive Income (Loss)

(unaudited) **(Cdn$ in thousands, except for per share amounts)**	Note	**Three months ended September 30, 2016**	Three months ended September 30, 2015	**Nine months ended September 30, 2016**	Nine months ended September 30, 2015
Revenue					
Oil and gas sales		**$ 32,367**	$ 20,814	**$ 73,706**	$ 73,641
Royalties		**(4,111)**	(4,004)	**(9,269)**	(12,578)
Net oil and gas revenue		**28,256**	16,810	**64,437**	61,063
Gain on risk management contracts	13	**1,599**	19,766	**608**	13,812
		29,855	36,576	**65,045**	74,875
Expenses					
Production		**11,590**	12,248	**32,246**	41,598
Transportation		**2,013**	595	**5,339**	2,176
General and administrative		**1,614**	1,700	**5,313**	5,856
Depletion and depreciation	7	**11,984**	12,360	**33,389**	39,078
Finance costs	14	**1,343**	568	**3,823**	1,778
Stock-based compensation	11	**767**	1,301	**2,608**	4,110
Foreign currency exchange loss (gain)		**(12)**	(37)	**40**	(95)
		29,299	28,735	**82,758**	94,501
Other income					
Interest income		**-**	4	**2**	50
Income (loss) before income taxes		**556**	7,845	**(17,711)**	(19,576)
Income taxes					
Deferred income tax (recovery)		**-**	2,443	**-**	(3,955)
Net and comprehensive income (loss) for the period		**$ 556**	$ 5,402	**$ (17,711)**	$ (15,621)
Income (loss) per share					
Basic	11	**$ 0.00**	$ 0.01	**$ (0.05)**	$ (0.05)
Diluted	11	**$ 0.00**	$ 0.01	**$ (0.05)**	$ (0.05)

See accompanying notes to consolidated financial statements

BLACKPEARL RESOURCES INC.

Consolidated Statements of Changes in Equity

(unaudited)
(Cdn$ in thousands)

	Nine months ended September 30, 2016			
	Share Capital	**Contributed Surplus**	**Deficit**	**Total Equity**
Balance - January 1, 2016	$ 970,134	$ 39,800	$ (371,679)	$ 638,255
Net and comprehensive loss for the period	-	-	(17,711)	(17,711)
Stock-based compensation	-	2,608	-	2,608
Shares issued on exercise of stock options	6	-	-	6
Transfer to share capital on exercise of stock options	2	(2)	-	-
Balance - September 30, 2016	**$ 970,142**	**$ 42,406**	**$ (389,390)**	**$ 623,158**

	Nine months ended September 30, 2015			
	Share Capital	**Contributed Surplus**	**Deficit**	**Total Equity**
Balance - January 1, 2015	$ 970,134	$ 33,788	$ (324,886)	$ 679,036
Net and comprehensive loss for the period	-	-	(15,621)	(15,621)
Stock-based compensation	-	4,256	-	4,256
Balance - September 30, 2015	$ 970,134	$ 38,044	$ (340,507)	$ 667,671

See accompanying notes to consolidated financial statements

BLACKPEARL RESOURCES INC.

Consolidated Statements of Cash Flows

(unaudited) **(Cdn$ in thousands)**	Note	**Three months ended September 30, 2016**	Three months ended September 30, 2015	**Nine months ended September 30, 2016**	Nine months ended September 30, 2015
Operating activities					
Net and comprehensive income (loss) for the period		**$ 556**	$ 5,402	**$ (17,711)**	$ (15,621)
Items not involving cash:					
Depletion and depreciation	7	**11,984**	12,360	**33,389**	39,078
Accretion of decommissioning liabilities	14	**357**	431	**1,084**	1,276
Stock-based compensation	11	**767**	1,301	**2,608**	4,110
Foreign exchange loss		**-**	45	**-**	95
Deferred income tax (recovery)		**-**	2,443	**-**	(3,955)
Unrealized loss (gain) on risk management contracts	13	**538**	(11,826)	**9,607**	13,081
Decommissioning costs incurred	9	**(38)**	(117)	**(554)**	(379)
Changes in non-cash working capital	14	**2,277**	4,177	**(1,011)**	12,480
Cash flow from operating activities		**16,441**	14,216	**27,412**	50,165
Financing activities					
Proceeds on issue of common shares, net of costs		**-**	-	**6**	-
Proceeds on issue of long-term debt		**-**	3,000	**-**	68,000
Repayment of long-term debt		**(13,000)**	-	**(21,000)**	-
Cash flow from (used in) financing activities		**(13,000)**	3,000	**(20,994)**	68,000
Investing activities					
Capital expenditures - exploration and evaluation assets	6	**(9)**	(415)	**(936)**	(2,962)
Capital expenditures - property, plant and equipment	7	**(1,744)**	(7,408)	**(3,839)**	(63,735)
Changes in non-cash working capital	14	**960**	(10,573)	**(455)**	(49,633)
Cash flow used in investing activities		**(793)**	(18,396)	**(5,230)**	(116,330)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency		**(12)**	(82)	**40**	(190)
Increase (decrease) in cash and cash equivalents		**2,636**	(1,262)	**1,228**	1,645
Cash and cash equivalents, beginning of period		**892**	5,825	**2,300**	2,918
Cash and cash equivalents, end of period		**$ 3,528**	$ 4,563	**$ 3,528**	$ 4,563

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)
(audited)

1. GENERAL INFORMATION

BlackPearl Resources Inc. (together with its subsidiaries collectively referred to as 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's common shares are listed and traded on the TSX Exchange under the trading symbol "PXX". The Company's Swedish Depository Receipts trade on the NASDAQ Stockholm exchange under the symbol "PXXS". BlackPearl is incorporated under the Canada Business Corporations Act and is located in Canada. The address of its registered office is 900, 215 – 9th Avenue SW, Calgary, Alberta, T2P 1K3.

2. BASIS OF PREPARATION

These condensed unaudited interim consolidated financial statements for the three and nine months ended September 30, 2016 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, 2015. 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, outstanding and effective as of November 3, 2016, 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, 2016 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, 2015 which have been prepared in accordance with IFRS as issued by the IASB.

3. SIGNIFICANT ACCOUNTING POLICIES

Accounting standards issued but not yet applied
The standards and interpretations that are issued but not yet effective up to the date of issuance of the Company's financial statements are listed below.

In May 2014, the IASB issued IFRS 15, "*Revenue from Contracts with Customers*" ("IFRS 15") to replace IAS 11, "*Construction Contracts*", IAS 18, "*Revenue*" and a number of revenue-related interpretations. IFRS 15 specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. IFRS 15 is effective for years beginning on or after January 1, 2018 with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the Company's consolidated financial statements.

In July 2014, the IASB issued IFRS 9, "*Financial Instruments*" ("IFRS 9") to replace IAS 39, "*Financial Instruments: Recognition and Measurement.*" IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS 9 on the Company's consolidated financial statements.

In January 2016, the IASB issued IFRS 16, "*Leases*" ("IFRS 16") to replace IAS 17, "*Leases.*" Under IFRS 16, a single recognition and measurement model will apply for lessees which will require recognition of assets and liabilities for most leases. IFRS 16 is effective for years beginning on or after January 1, 2019 with earlier adoption permitted. The Company is currently evaluating the impact of adopting IFRS 16 on the Company's consolidated financial statements.

4. CASH AND CASH EQUIVALENTS

		September 30, 2016		December 31, 2015
Cash at financial institutions	$	**3,528**	$	2,300

Cash at financial institutions earns interest at floating rates based on daily deposit rates. As of September 30, 2016, US $0.5 million (December 31, 2015 – US $0.9 million) is included in cash at financial institutions. The Company only deposits cash with major financial institutions of high quality credit ratings.

5. TRADE AND OTHER RECEIVABLES

		September 30, 2016		December 31, 2015
Trade accounts receivable	$	**10,759**	$	6,264
Receivables from joint operation partners		**323**		304
Allowance for doubtful accounts		**(285)**		(285)
Net accounts receivable		**10,797**		6,283
Receivable from risk management contracts		**779**		4,228
Other receivables		**94**		290
Total trade and other receivables	$	**11,670**	$	10,801

Aging of trade and other receivables are as follows:

At September 30, 2016	Current	31 to 60 days	61 to 90 days	Over 90 days	Total
Trade accounts receivable	$ 10,759	$ -	$ -	$ -	$ 10,759
Receivables from joint operation partners	3	-	-	320	323
Allowance for doubtful accounts	-	-	-	(285)	(285)
Receivable from risk management contracts	779	-	-	-	779
Other receivables	94	-	-	-	94
Total trade and other receivables	$ 11,635	$ -	$ -	$ 35	$ 11,670

At December 31, 2015	Current	31 to 60 days	61 to 90 days	Over 90 days	Total
Trade accounts receivable	$ 6,264	$ -	$ -	$ -	$ 6,264
Receivables from joint operation partners	3	6	2	293	304
Allowance for doubtful accounts	-	-	-	(285)	(285)
Receivable from risk management contracts	4,228	-	-	-	4,228
Other receivables	290	-	-	-	290
Total trade and other receivables	$ 10,785	$ 6	$ 2	$ 8	$ 10,801

6. EXPLORATION AND EVALUATION ASSETS

At January 1, 2015	$ 166,344
Expenditures	3,477
Change in decommissioning provision	(328)
At December 31, 2015	169,493
Expenditures	936
Change in decommissioning provision	62
At September 30, 2016	$ 170,491

The Company's exploration and evaluation assets consist predominately of costs pertaining to the Blackrod SAGD pilot project in northern Alberta. These assets are not subject to depletion or depreciation but they are reviewed for possible impairment. During the first nine months of 2016, no assets were considered to be impaired.

The transfer of exploration and evaluation assets to property, plant and equipment occurs when commercial viability and technical feasibility is established. Technical feasibility and commercial viability is established when significant proved reserves are recognized and regulatory approval has been obtained. During the nine months ended September 30, 2016, the Company received regulatory approval for Blackrod SAGD commercial development; however, significant proved reserves have yet to be recognized to date. During the nine months ended September 30, 2016, the Company capitalized net operating revenues totalling a loss of $0.3 million ($1.8 million loss in the first nine months of 2015) related to the Blackrod SAGD pilot project. The Company did not capitalize any general and administrative costs related to exploration activities during the nine months ended September 30, 2016 (2015 - $Nil).

7. PROPERTY, PLANT AND EQUIPMENT

	Oil and natural gas properties	**Corporate**	**Total**
Cost			
At January 1, 2015	$ 1,170,170	$ 3,496	$ 1,173,666
Expenditures	64,874	11	64,885
Capitalized stock-based compensation	146	-	146
Change in decommissioning provision	5,455	-	5,455
At December 31, 2015	1,240,645	3,507	1,244,152
Expenditures	3,780	59	3,839
Change in decommissioning provision	2,039	-	2,039
At September 30, 2016	$ 1,246,464	$ 3,566	$ 1,250,030
Accumulated depletion and depreciation			
At January 1, 2015	$ 543,574	$ 2,314	$ 545,888
Depletion and depreciation	51,781	169	51,950
Impairment	33,000	-	33,000
At December 31, 2015	628,355	2,483	630,838
Depletion and depreciation	33,278	111	33,389
At September 30, 2016	$ 661,633	$ 2,594	$ 664,227
Net book value			
December 31, 2015	$ 612,290	$ 1,024	$ 613,314
September 30, 2016	$ 584,831	$ 972	$ 585,803

During the nine months ended September 30, 2016, the Company did not capitalize any borrowing costs related to development activities (2015 - $2.1 million). The Company did not capitalize any general and administrative costs related to development activities during the nine months ended September 30, 2016 (2015 - $Nil).

The Company performed a review of impairment indicators at September 30, 2016 for any indication of impairment. There were no impairment losses or reversals of property, plant and equipment during the nine months ended September 30, 2016 (2015 - $Nil).

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2016	December 31, 2015
Trade payables and accrued liabilities	**$ 12,275**	$ 13,371
Payables to joint operation partners	**193**	218
Other payables	**415**	350
Total accounts payable and accrued liabilities	**$ 12,883**	$ 13,939

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

9. 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, processing and thermal facilities. The total undiscounted amount of the estimated cash flows required to settle the liability is approximately $82.7 million (December 31, 2015 - $83.3 million). The estimated net present value of the decommissioning liability was calculated using an inflation factor of 1.5% (December 31, 2015 – 1.5%) and discounted using a risk-free rate of 2.0% (December 31, 2015 – 2.2%). 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:

		Nine months ended September 30, 2016		Year ended December 31, 2015
Decommissioning liability, beginning of the period	**$**	**66,927**	$	60,683
New liabilities recognized		**-**		15,067
Decommissioning costs incurred		**(554)**		(531)
Change in estimated costs of decommissioning		**-**		(7,670)
Change in inflation rate		**-**		(4,883)
Change in discount rate		**2,099**		2,615
Accretion expense		**1,084**		1,646
Decommissioning liability, end of the period		**69,556**		66,927
Less current portion of decommissioning liability		**(645)**		(535)
Non-current portion of decommissioning liability	**$**	**68,911**	$	66,392

10. LONG-TERM DEBT

At September 30, 2016, the Company had credit facilities of $117.5 million, consisting of a $107.5 million syndicated revolving line of credit (December 31, 2015 - $140 million) and a non-syndicated operating line of credit of $10 million (December 31, 2015 - $10 million). At September 30, 2016, the Company had drawn $67 million (December 31, 2015 - $88 million) under these credit facilities as well as letters of credit issued in the amount of $20,000 (December 31, 2015 - $20,000); leaving $50.5 million (December 31, 2015 - $62 million) available to be drawn under these facilities. The facilities are secured by a floating and fixed charge debenture 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, the lending institution's forecast commodity prices, the current economic environment and other factors as determined by the syndicate of lending institutions. If the total advances made under the credit facilities are greater than the re-determined Borrowing Base, the Company has 60 days to repay the difference. The next scheduled Borrowing Base redetermination is to occur by November 30, 2016. The facilities are also subject to annual reviews by the lenders and the next scheduled review is to be completed by May 27, 2017. If the lenders elected not to renew the credit facilities during the annual review, any amounts outstanding would convert to a term loan that would be due and payable in full by May 26, 2018.

Pursuant to the terms of the credit agreement, advances may be made, at the Company's option, as direct advances, LIBOR advances, banker's acceptances or standby letters of credit/guarantees. These advances bear interest depending on the type of advancement at the lender's prime rate, banker's acceptance rate or LIBOR rates, plus applicable margins. The applicable margin charged by the lender is dependent upon the Company's debt to EBITDA ratio calculated at the Company's previous fiscal quarter end. The applicable margins range between 2.00% and 3.50%. The lending agreement defines debt as any advances outstanding on the credit facilities plus any outstanding letters of credit/guarantee. The lending agreement defines EBITDA as comprehensive income (loss) before income tax, financing charges, non-cash items deducted in determining comprehensive income (loss), unrealized gains or losses on risk management contracts and any income/losses attributable to assets acquired or disposed of when determining net comprehensive income (loss) for the period as indicated on the Company's consolidated statement of comprehensive income (loss). The Company also incurs a standby fee for undrawn amounts.

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. In addition, amounts related to risk management contracts are excluded from the calculation of current assets and current liabilities. The Company had a working capital ratio of 5.0:1 at September 30, 2016 (December 31, 2015 – 5.3:1) and was in compliance with this covenant at September 30, 2016.

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 December 31, 2015	335,638,226	$ 970,134
Shares issued on exercise of stock options	8,333	6
Transferred from contributed surplus on exercise of stock options	-	2
Balance as at September 30, 2016	335,646,559	$ 970,142

(c) Stock Options Outstanding

The Company has a stock option plan (the “Plan”) available to directors, officers, employees and certain consultants of the Company. 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. 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 table summarizes stock options outstanding:

	Number of Options	Weighted Average Exercise Price ($)
Outstanding at January 1, 2015	20,916,335	3.00
Granted	11,458,500	0.84
Forfeited	(666,666)	2.71
Expired	(2,053,000)	4.89
Outstanding at December 31, 2015	29,655,169	2.04
Granted	125,000	0.88
Exercised	(8,333)	0.71
Forfeited	(342,669)	3.34
Expired	(275,000)	6.88
Outstanding at September 30, 2016	29,154,167	1.98

Options outstanding and exercisable as at September 30, 2016 are summarized below:

	Options Outstanding			Options Exercisable		
Range of Exercise Prices ($)	**Number of Options Outstanding**	**Weighted-Average Exercise Price ($)**	**Weighted-Average Remaining Life (Years)**	**Number of Options Exercisable**	**Weighted-Average Exercise Price ($)**	**Weighted-Average Remaining Life (Years)**
0.71 – 1.50	11,395,167	0.84	3.73	3,746,245	0.84	3.72
1.51 – 3.00	14,254,000	2.31	2.43	10,265,876	2.32	2.36
3.01 – 4.50	1,705,500	3.71	0.74	1,705,500	3.71	0.74
4.51 – 4.97	1,799,500	4.92	0.13	1,799,500	4.92	0.13
	29,154,167	1.98	2.70	17,517,121	2.41	2.26

The fair value of common share options granted is estimated on the date of grant using the Black-Scholes option pricing model. During the nine months ended September 30, 2016, 125,000 options were granted (2015 – 7,195,000) and during the three months ended September 30, 2016, 50,000 options were granted (2015 – no options granted). The fair value of these options was estimated using the following weighted average assumptions:

	Three months ended September 30		Nine months ended September 30	
Assumptions	**2016**	2015	**2016**	2015
Risk free interest rate (%)	**0.5**	-	**0.6**	0.7
Dividend yield (%)	**0.0**	-	**0.0**	0.0
Expected life (years)	**3.8**	-	**3.7**	3.6
Expected volatility (%)	**55.8**	-	**55.1**	53.5
Forfeiture rate (%)	**10.8**	-	**11.3**	13.6
Weighted average fair value of options	**$ 0.43**	-	**$ 0.36**	$ 0.36

(d) Stock-based Compensation

	Three months ended September 30		Nine months ended September 30	
	2016	2015	**2016**	2015
Gross stock-based compensation	**$ 767**	$ 1,358	**$ 2,656**	$ 4,314
Recoveries from forfeitures	**-**	(10)	**(48)**	(58)
Net stock-based compensations before capitalization	**767**	1,348	**2,608**	4,256
Stock-based compensation capitalized to property, plant and equipment	**-**	(47)	**-**	(146)
Net stock-based compensation	**$ 767**	$ 1,301	**$ 2,608**	$ 4,110

(e) Income (loss) per Share

Basic income (loss) per share amounts are calculated by dividing net and 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:

	Three months ended September 30		Nine months ended September 30	
	2016	2015	**2016**	2015
Net and comprehensive income (loss)	**$ 556**	$ 5,402	**$ (17,711)**	$ (15,621)
Weighted average number of common shares - basic	**335,646**	335,638	**335,642**	335,638
Dilutive effect:				
Outstanding options	**2,313**	-	**-**	-
Weighted average number of common shares - diluted	**337,959**	335,638	**335,642**	335,638
Basic income (loss) per share	**$ 0.00**	$ 0.01	**$ (0.05)**	$ (0.05)
Diluted income (loss) per share	**$ 0.00**	$ 0.01	**$ (0.05)**	$ (0.05)

For the nine months ended September 30, 2016, the Company used a weighted average market closing price of $0.94 (2015 - $0.97) per share to calculate the dilutive effect of stock options. For the nine months ended September 30, 2016, all outstanding options were anti-dilutive (2015 – all outstanding options were anti-dilutive) and were not included in the calculation of diluted income (loss) per share.

12. COMMITMENTS AND CONTINGENCIES

	2016	2017	2018	2019	2020	Thereafter
Operating leases [1]	$ 114	$ 960	$ 885	$ 687	$ 556	$ 545
Electrical service agreement [2]	264	1,000	585	119	119	1,987
Transportation service agreement [3]	34	135	135	135	33	-
Decommissioning liabilities [4]	349	394	456	334	8,225	72,984
Long-term debt [5]	-	-	67,000	-	-	-
Interest payments on long-term debt [5]	620	2,479	1,033	-	-	-
Total	$ 1,381	$ 4,968	$ 70,094	$ 1,275	$ 8,933	$ 75,516

(1) The Company's most significant operating lease is for office space.

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

(3) The Company entered into certain long-term agreements to transport natural gas to one of its facilities.

(4) 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 $82.7 million as at September 30, 2016. Decommissioning programs are undertaken regularly in accordance with applicable legislative requirements.

(5) Based on the existing terms of the Company's revolving and operating lines of credit, the first possible mandatory repayment date (assuming no changes in the Borrowing Base amount - see note 10) may come in 2018 assuming these facilities are not extended during the scheduled credit facility review in May 2017. Estimated future interest payments are based on rates existing at September 30, 2016.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments as at September 30, 2016 include cash and cash equivalents, trade and other receivables, deposits within prepaid expenses and deposits, accounts payable and accrued liabilities, risk management assets and liabilities and long-term debt.

(a) Fair value of financial instruments

The following table summarizes the carrying value and fair value of the Company's financial assets and liabilities.

		September 30, 2016		December 31, 2015	
	Measurement Level	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial Assets					
Loans and receivables:					
Cash and cash equivalents	1	**$ 3,528**	**$ 3,528**	$ 2,300	$ 2,300
Trade and other receivables	2	**$ 11,670**	**$ 11,670**	$ 10,801	$ 10,801
Deposits	2	**$ 96**	**$ 96**	$ 409	$ 409
Financial assets at fair value through profit or loss:					
Risk management assets	2	**$ 326**	**$ 326**	$ 10,548	$ 10,548
Financial liabilities					
Financial liabilities at amortized cost:					
Accounts payable and accrued liabilities	2	**$ 12,883**	**$ 12,883**	$ 13,939	$ 13,939
Long-term debt	2	**$ 67,000**	**$ 67,000**	$ 88,000	$ 88,000
Financial liabilities at fair value through profit or loss:					
Risk management liabilities	2	**$ 609**	**$ 609**	$ 1,223	$ 1,223

The fair values of financial instruments have been determined by various valuation methods as defined below:

- Level 1: fair value is based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of cash and cash equivalents, trade and other receivables, deposits and accounts payable and accrued liabilities approximate their carrying amount due to the short-term nature of the instruments. The fair value of the Company's long-term debt approximates its carrying value as the interest rates charged on this debt are comparable to current market rates. The fair values of the Company's risk management contracts are determined by discounting the difference between the contracted prices and published forward price curves as at the balance sheet date, using the remaining contracted oil volumes and a risk-free interest rate (based on published government rates).

(b) Risks associated with financial instruments

The following summarizes the risks associated with the Company's financial instruments:

(i) Credit Risk

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

As at September 30, 2016, the Company held $3.5 million in cash at various major financial institutions throughout Canada and the USA; however, one Canadian financial institution held over 90% of our cash and short-term deposits. The financial institution is a Canadian provincial crown corporation with a high investment grade rating and therefore we believe the credit risk is limited.

At September 30, 2016, 92% of receivables were from oil and gas marketers related to the sale of our oil and gas production. Receivables from oil and gas marketers are generally collected on the 25th day of the month following production. The Company attempts to mitigate the credit risk associated with these marketers by assessing their financial strength and entering into relationships with larger purchasers with established credit history. During 2016, the Company did not experience any collection issues with its marketers.

In the first nine months of 2016, the Company had four customers which individually accounted for more than 10 percent of its total oil and gas sales. Oil and gas sales to these collective customers represented approximately 86% of the Company's total oil and gas sales in the first nine months of 2016.

Risk management assets consist of commodity contracts used to manage the Company's exposure to fluctuations in commodity prices. At September 30, 2016, the Company had a $0.8 million receivable related to its risk management contracts. The Company manages the credit risk exposure related to risk management contracts by selecting investment grade counterparties and by not entering into contracts for trading or speculative purposes. During 2016, the Company did not experience any collection issues with its risk management contracts.

The Company typically does not obtain or post collateral or security from its oil and natural gas marketers or financial institution counterparties. The carrying amounts of accounts receivable represent the maximum credit exposure. The Company is not the operator of certain oil and natural gas properties in which it has an ownership interest. The Company is dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. In addition, the Company's activities may be impacted by the ability, expertise, judgment and financial capability of the operators.

(ii) Liquidity risk

Liquidity risk is the risk the Company is unable to meet its financial obligations as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. The Company has an on-going cash flow planning and forecasting model to help determine the funds required to meet its operational needs at all times. In addition, the Company manages its liquidity risk by ensuring that it has access to multiple sources of capital including cash and cash equivalents, cash from operating activities, undrawn credit facilities and opportunities to issue additional equity. As at September 30, 2016, the Company had $50.5 million available on its credit facilities. Management believes that these sources will be adequate to settle the Company's financial liabilities and commitments.

The maturity dates for the Company's undiscounted cash outflows related to financial liabilities are as follows:

	<6 Months	**6 months - 1 Year**	**1 - 2 Years**
Accounts payable and accrued liabilities	12,883	-	-
Risk management liabilities	-	-	609
Long-term debt	-	-	67,000
Interest payments on long-term debt (1)	1,240	1,240	1,652

(1) Estimated future interest payments are based on rates existing at September 30, 2016.

(iii) Interest Rate Risk

Interest rate risk refers to the risk that a financial instrument, or cash flows associated with the instrument, will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk related to interest expense on its credit facilities due to the floating interest rate charged on advances. For the nine months ended September 30, 2016, if interest rates had been one percent higher with all other variables held constant, after tax net loss for the period would have been approximately $614,000 higher. The Company has not entered into any fixed rate contracts to mitigate its interest rate risk.

(iv) Foreign currency exchange risk

The Company is exposed to risks arising from fluctuations in foreign currency exchange rates and the volatility of those rates. This exposure primarily relates to: (i) revenues received for the sale of its crude oil production are primarily priced relative to US dollars; (ii) certain expenditure commitments, deposits, accounts receivable, and accounts payable are denominated in US dollars; and to a lesser extent (iii) its operations in the United States. A significant change in the currency exchange rates between the US and Canadian dollar could have a material impact on the Company's revenues and net earnings. As at September 30, 2016, the Company has not entered into any fixed rate contracts to mitigate its currency risks.

As at September 30, 2016, the Company held US $0.5 million in cash and cash equivalents. If exchange rates to convert from US dollars to Canadian dollars had been $0.10 lower with all other variables held constant, after tax net loss for the year would have been approximately $54,000 higher as a result of the re-valuation of the Company's US dollar denominated financial assets and liabilities as at September 30, 2016. An equal opposite impact would have occurred to net loss had exchange rates been $0.10 higher.

(v) Commodity price risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in the price of oil and natural gas. Commodity prices are impacted by world economic events that affect supply and demand, which are generally beyond the Company's control. Changes in crude oil prices may significantly affect the Company's results of operations, cash generated from operating activities, capital spending and the Company's ability to meet its obligations. The majority of the Company's production is sold under short-term contracts; consequently BlackPearl is at risk to near term price movements. The Company manages this risk by constantly monitoring commodity prices and factoring them into operational decisions, such as contracting or expanding its capital expenditures program. Natural gas currently represents less than 2% of the Company's total production and, as a result, any fluctuation in natural gas prices would have a nominal effect on current revenues.

From time to time, the Company enters into certain risk management contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These risk management contracts are not used for trading or speculative purposes. The Company has not designated its risk management contracts as effective accounting hedges, and thus has not applied hedge accounting, even though the Company considers all risk management contracts to be economic hedges. As a result, all risk management contracts are recorded at fair value at each reporting period with the change in fair value being recognized as an unrealized gain or loss on the statement of comprehensive income (loss).

Risk management amounts recognized were as follows:

	Three months ended September 30		Nine months ended September 30	
	2016	2015	**2016**	2015
Realized gain on risk management contracts	**$ 2,137**	$ 7,940	**$ 10,215**	$ 26,893
Unrealized gain (loss) on risk management contracts	**(538)**	11,826	**(9,607)**	(13,081)
Gain on risk management contracts	**$ 1,599**	$ 19,766	**$ 608**	$ 13,812

The table below summarizes the Company's outstanding commodity contracts as at September 30, 2016:

Subject of Contract	Volume	Term	Reference	Strike Price	Type	Fair value
2016						
Oil	1,000 bbls/d	October 1 to December 31	CDN$ WCS	CDN$ 51.15/bbl	Swap	$ 472
Oil	2,000 bbls/d	October 1 to December 31	CDN$ WCS	CDN$ 47.60/bbl	Swap	340
Oil	2,000 bbls/d	October 1 to December 31	US$ WTI	US$ 65.00/bbl	Sold Call	(13)
2017						
Oil	1,000 bbls/d	January 1 to December 31	CDN$ WCS	CDN$ 50.00/bbl	Swap	714
Oil	1,000 bbls/d	January 1 to December 31	CDN$ WCS	CDN$ 49.50/bbl	Swap	463
Oil	500 bbls/d	January 1 to June 30	CDN$ WCS	CDN$ 40.00/bbl to 52.50/bbl	Collar	(98)
Oil	500 bbls/d	January 1 to June 30	CDN$ WCS	CDN$ 40.00/bbl to 47.00/bbl	Collar	(310)
Oil	1,000 bbls/d	January 1 to December 31	US$ WTI	US$ 60.00/bbl	Sold Call	(1,263)
2018						
Oil	500 bbls/d	January 1 to December 31	US$ WTI	US$ 70.00/bbl	Sold Call	(588)
Total						$ (283)
Current portion of fair value of contracts						$ 326
Non-current portion of fair value of contracts						$ (609)

As at September 30, 2016, a 10% decrease to the oil price used to calculate the fair value for the risk management contracts would result in an approximate $6.6 million increase in fair value of these contracts and decrease in the after tax net loss for the period.

14. SUPPLEMENTARY INFORMATION

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

	Three months ended September 30		Nine months ended September 30	
	2016	2015	**2016**	2015
Cash interest paid	**$ 986**	$ 923	**$ 2,739**	$ 2,568

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

	Three months ended September 30		Nine months ended September 30	
	2016	2015	**2016**	2015
Gross interest and financing charges	**$ 986**	$ 923	**$ 2,739**	$ 2,568
Capitalized interest and financing charges	**-**	(786)	**-**	(2,066)
Net interest and financing charges	**986**	137	**2,739**	502
Accretion of decommissioning liabilities	**357**	431	**1,084**	1,276
Finance costs	**$ 1,343**	$ 568	**$ 3,823**	$ 1,778

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

	Three months ended September 30		Nine months ended September 30	
	2016	2015	**2016**	2015
Changes in non-cash working capital				
Trade and other receivables	**$ 1,437**	$ 5,956	**$ (869)**	$ 8,854
Inventory	**10**	(8)	**517**	299
Prepaid expenses and deposits	**657**	288	**(17)**	(1,147)
Accounts payable and accrued liabilities	**1,133**	(12,632)	**(1,097)**	(45,159)
Changes in non-cash working capital	**$ 3,237**	$ (6,396)	**$ (1,466)**	$ (37,153)
Relating to:				
Operating activities	**$ 2,277**	$ 4,177	**$ (1,011)**	$ 12,480
Investing activities	**960**	(10,573)	**(455)**	(49,633)