BLACKBIRD ENERGY

# FIRST QUARTER CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Dated December 28, 2017

## AS AT AND FOR THE THREE MONTHS ENDED OCTOBER 31, 2017

# Blackbird Energy Inc. Condensed Consolidated Interim Statements of Financial Position

| *(CDN$ thousands, unaudited)* | Note | **October 31 2017** | July 31 2017 |
|---|---|---|---|
| **Assets** | | | |
| Current | | | |
| Cash | | **33,791** | 60,535 |
| Accounts receivable | | **3,047** | 1,289 |
| Inventory | 3 | **182** | 397 |
| Prepaid expenses and deposits | | **418** | 1,022 |
| | | **37,438** | 63,243 |
| Long-term portion of deposits | | **517** | 518 |
| Exploration and evaluation assets | 3 | **31,396** | 25,153 |
| Property and equipment | 3 | **122,236** | 99,992 |
| Investment in securities | 4 | **3,000** | 3,000 |
| | | **194,587** | 191,906 |
| **Liabilities** | | | |
| Current | | | |
| Accounts payable and accrued liabilities | 7, 10 | **15,669** | 13,175 |
| Flow-through share premium liability | | **452** | 1,309 |
| | | **16,121** | 14,484 |
| Decommissioning provision | | **3,249** | 2,556 |
| Deferred income taxes | 13 | **7,086** | 5,937 |
| | | **26,456** | 22,977 |
| **Shareholders' Equity** | | | |
| Share capital | 8 | **185,942** | 185,624 |
| Reserves | 8 | **15,379** | 14,758 |
| Deficit | | **(33,190)** | (31,453) |
| | | **168,131** | 168,929 |
| | | **194,587** | 191,906 |

*See accompanying notes to the condensed consolidated interim financial statements.*

Nature and continuance of operations (note 1)
Contingencies and commitments (note 11)
Subsequent events (note 15)

On behalf of the Board,

Garth Braun
*Chairman, Chief Executive Officer and President*

Ron Schmitz
*Director*

# Blackbird Energy Inc. Condensed Consolidated Interim Statements of Operations and Comprehensive Loss

| | | Three months Ended | |
|---|---|---|---|
| *(CDN$ thousands, except per share amounts, unaudited)* | Note | **October 31 2017** | October 31 2016 |
| **Revenue** | | | |
| Petroleum and natural gas | | **2,582** | 15 |
| Royalties | | **(137)** | - |
| | | **2,445** | 15 |
| **Expenses** | | | |
| Operating | | **696** | 106 |
| Transportation and processing | | **808** | - |
| General and administrative | 14 | **921** | 594 |
| Depletion, depreciation and amortization | 3 | **827** | - |
| Share-based compensation | 9 | **747** | 253 |
| | | **(3,999)** | (953) |
| **Operating loss** | | **(1,554)** | (938) |
| **Other** | | | |
| Amortization of flow-through share premium liability | | **857** | 155 |
| Financing costs | 7 | **(15)** | (4) |
| Interest income | | **124** | 75 |
| | | **966** | 226 |
| **Loss before taxes** | | **(588)** | (712) |
| **Income taxes** | | | |
| Deferred income tax expense | 13 | **(1,149)** | (347) |
| **Net loss and comprehensive loss** | | **(1,737)** | (1,059) |
| **Net loss per share** | | | |
| Basic and diluted | 8 | **(0.00)** | (0.00) |

*See accompanying notes to the condensed consolidated interim financial statements.*

# Blackbird Energy Inc. Condensed Consolidated Interim Statements of Cash Flows

| | | Three months Ended | |
|---|---|---|---|
| *(CDN$ thousands, unaudited)* | Note | **October 31 2017** | October 31 2016 |
| **Cash (used in) provided by:** | | | |
| **Operating activities** | | | |
| Net loss | | **(1,737)** | (1,059) |
| Items not involving cash: | | | |
| Deferred income tax expense | 13 | **1,149** | 347 |
| Depletion, depreciation and amortization | | **827** | - |
| Share-based compensation | 9 | **747** | 253 |
| Amortization of flow-through share premium liability | | **(857)** | (155) |
| Financing costs | 7 | **15** | 4 |
| Changes in non-cash working capital | 12 | **(2,258)** | (625) |
| | | **(2,114)** | (1,235) |
| **Financing activities** | | | |
| Issuance of flow-through shares | 8 | **-** | 8,003 |
| Share issue costs | 8 | **-** | (54) |
| Exercise of stock options and warrants | 8 | **192** | 82 |
| | | **192** | 8,031 |
| **Investing activities** | | | |
| Property and equipment additions | 3 | **(22,455)** | (4,441) |
| Exploration and evaluation asset additions | 3 | **(6,109)** | (2,822) |
| Inventory disposition | 3 | **142** | - |
| Deposits, net | | **-** | (55) |
| Changes in non-cash working capital | 12 | **3,600** | 4,282 |
| | | **(24,822)** | (3,036) |
| **(Decrease) increase in cash during the period** | | **(26,744)** | 3,760 |
| Cash, beginning of period | | **60,535** | 29,051 |
| **Cash, end of period** | | **33,791** | 32,811 |

*See accompanying notes to the condensed consolidated interim financial statements.*

*Supplemental cash flow information (note 12)*

# Blackbird Energy Inc. Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

| *(CDN$ thousands, except share amounts, unaudited)* | Number of Common Shares (000s) | Share Capital | Reserves | Deficit | Total |
|---|---|---|---|---|---|
| At July 31, 2016 | 550,023 | 86,416 | 11,505 | (20,853) | 77,068 |
| Issuance of flow-through shares | 16,500 | 8,003 | - | - | 8,003 |
| Flow-through share premium | - | (248) | - | - | (248) |
| Share issue costs | - | (54) | - | - | (54) |
| Exercise of stock options and warrants | 435 | 130 | (48) | - | 82 |
| Share-based compensation | - | - | 253 | - | 253 |
| Net loss and comprehensive loss | - | - | - | (1,059) | (1,059) |
| At October 31, 2016 | 566,958 | 94,247 | 11,710 | (21,912) | 84,045 |

| *(CDN$ thousands, except share amounts, unaudited)* | **Number of Common Shares (000s)** | **Share Capital** | **Reserves** | **Deficit** | **Total** |
|---|---|---|---|---|---|
| At July 31, 2017 | 745,430 | 185,624 | 14,758 | (31,453) | 168,929 |
| Exercise of stock options | 1,533 | 318 | (126) | - | 192 |
| Share-based compensation | - | - | 747 | - | 747 |
| Net loss and comprehensive loss | - | - | - | (1,737) | (1,737) |
| **At October 31, 2017** | **746,963** | **185,942** | **15,379** | **(33,190)** | **168,131** |

*See accompanying notes to the condensed consolidated interim financial statements.*

*Unaudited, all tabular amounts in CDN$ thousands, except where otherwise noted.*

## 1. NATURE AND CONTINUANCE OF OPERATIONS

Blackbird Energy Inc. ("Blackbird" or the "Company") is a Canadian based energy company with its head office located at Suite 400 – 444 5th Avenue SW, Calgary, Alberta, T2P 2T8 and its registered office located at Suite 409 – 221 W. Esplanade, North Vancouver, BC, V7M 3J3. The Company is engaged in the exploration for and the production of oil and natural gas. The Company's operations are located in western Canada. The Company's shares are widely held and publicly traded on the TSX Venture Exchange under the symbol "BBI". The Company's listed warrants are publicly traded on the TSX Venture Exchange under the symbol "BBI.WT".

These condensed consolidated interim financial statements (the "financial statements") have been prepared on a going concern basis and do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and thus be required to realize its assets and discharge its liabilities in a manner other than in the normal course of business and at amounts different from those reflected in these financial statements. The Company estimates that it has sufficient funds to continue operations for the next 12 months.

| *(CDN$ thousands)* | **October 31 2017** | July 31 2017 |
|---|---|---|
| Working capital | **21,317** | 48,759 |
| Deficit | **(33,190)** | (31,453) |

## 2. BASIS OF PRESENTATION

### (a) Statement of compliance

These financial statements were prepared in accordance with International Accounting Standard 34 ("IAS 34") Interim Financial Reporting and present the Company's results of operations and financial position under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), with interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements were approved and authorized for issue by the board of directors of the Company (the "Board") on December 27, 2017.

### (b) Basis of measurement

These interim financial statements have been prepared on a historical cost basis, except for financial instruments which are classified as fair value through profit or loss. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The accounting policies have been applied consistently to all periods presented in the financial statements and are the same policies as disclosed in the Company's most recent annual audited consolidated financial statements. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto as at and for the year ended July 31, 2017. The financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiary.

## 2. BASIS OF PRESENTATION (CONTINUED)

**(c) Use of estimates and judgment**

The timely preparation of financial statements requires that management make estimates and assumptions and use judgment regarding assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as at the date of the financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur. As described in note 2(d) the Company used its judgement to conclude that it does not have significant influence over Stage Completions Inc. (“Stage”) and therefore equity accounting is not required. The Company also makes estimates and uses judgement with respect to determining its cash generating units (“CGUs”), accruals, lease classifications, reserves, depletion, depreciation and amortization, recoverability of asset carrying values, decommissioning provision, share-based payments, and income taxes.

**(d) Principles of consolidation**

These financial statements include the accounts of the Company and its wholly-owned subsidiary, Pennant Energy Inc., which is controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All significant inter-company transactions and balances have been eliminated upon consolidation. Ruger Energy Inc., a previously wholly-owned subsidiary of Blackbird, was amalgamated with Blackbird effective February 1, 2017.

Associates are entities in which an investor has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when an investor holds between 20% and 50% of the voting power of another entity. Investments in associates must be accounted for using the equity method.

On November 22, 2016, the Company closed the acquisition of an indirect 10% minority interest in Stage, a private Canadian company pursuant to a subscription agreement entered into between Blackbird and Stage’s holding corporations, the majority shareholders of Stage. The Company has accounted for its investment in Stage as a level 3 financial instrument held at cost (see note 4). Given its ownership position and other relationships with Stage, the Company considered if equity accounting was required. Blackbird’s security holdings in Stage are for investment purposes only. The Company does not intend to participate in policy making. Blackbird did not receive any contractual entitlement to have a nominee appointed to the board of directors of Stage as a result of the investment. The Company and Stage do however have directors in common from previous appointments. To ensure that the Company will not act jointly or in concert with any common directors/officers in connection with the holding or voting of its securities in Stage, these individuals have declared their conflict and have abstained from past voting when applicable and will continue to abstain from voting as a board member on any matters related to Stage and Blackbird which may arise. Given these factors, the Company has concluded that equity accounting is not applicable.

## 3. EXPLORATION AND EVALUATION ASSETS & PROPERTY AND EQUIPMENT

| | Three months ended October 31, 2017 | | | Year ended July 31, 2017 | | |
|---|---|---|---|---|---|---|
| *(CDN$ thousands)* | **Cost** | **Accum. impair.** | **Carrying value** | Cost | Accum. impair. | Carrying value |
| **Exploration and evaluation assets** | | | | | | |
| Beginning of period | **29,623** | **(4,470)** | **25,153** | 14,145 | (4,470) | 9,675 |
| Additions | **6,109** | **-** | **6,109** | 30,118 | - | 30,118 |
| Change in decommissioning provision | **134** | **-** | **134** | 289 | - | 289 |
| Transferred to property and equipment | **-** | **-** | **-** | (14,929) | - | (14,929) |
| End of period | **35,866** | **(4,470)** | **31,396** | 29,623 | (4,470) | 25,153 |
| *(CDN$ thousands)* | **Cost** | **Accum. DD&A and impair.** | **Carrying value** | Cost | Accum. DD&A and impair. | Carrying value |
| **Property and equipment** | | | | | | |
| Beginning of period | **97,726** | **2,266** | **99,992** | 34,910 | 3,870 | 38,780 |
| Additions | **22,455** | **-** | **22,455** | 46,868 | - | 46,868 |
| Change in decommissioning provision | **543** | **-** | **543** | 1,235 | - | 1,235 |
| Transferred from exploration and evaluation assets | **-** | **-** | **-** | 14,929 | - | 14,929 |
| Depletion, depreciation and amortization | **-** | **(827)** | **(827)** | - | (1,604) | (1,604) |
| Transferred from (to) inventory | **73** | **-** | **73** | (216) | - | (216) |
| End of period | **120,797** | **1,439** | **122,236** | 97,726 | 2,266 | 99,992 |

The Company's only reportable segment, Western Canada, consists of three cash generating units ("CGUs"). These CGUs include Pipestone / Elmworth, Alberta Minor and Saskatchewan Minor.

During the three months ended October 31, 2017, the Company capitalized $0.3 million (October 31, 2016 - $0.2 million) of general and administrative expenses directly attributable to exploration and development activities.

### (a) Exploration and evaluation assets

Exploration and evaluation assets consist of the Company's exploration projects which are pending the determination of technical feasibility and commercial viability, typically being the establishment of proved or probable reserves. The Pipestone / Elmworth property consists of working interests in lands and wells which are located in the Pipestone / Elmworth area near Grande Prairie, Alberta. The Pipestone / Elmworth property represents all of the Company's exploration and evaluation assets.

During the three months ended October 31, 2017, the Company acquired additional sections of Pipestone / Elmworth Montney undeveloped land for cash consideration of $1.4 million (October 31, 2016 - $0.2 million).

During the three months ended October 31, 2017, the Company incurred $4.7 million of exploratory drilling, completion and seismic costs (October 31, 2016 - $2.5 million).

## 3. EXPLORATION AND EVALUATION ASSETS & PROPERTY AND EQUIPMENT (CONTINUED)

### (b) Inventory

As at October 31, 2017, the Company held $0.2 million of fracturing sleeves and production casing inventory (July 31, 2017 - $0.4 million).

During the three months ended October 31, 2017, the Company collected proceeds of $0.1 million from the sale of production casing, which approximated its carrying value (October 31, 2016 - $nil).

### (c) Property and equipment

*i.* Transfers from exploration and evaluation ("E&E") assets to property and equipment ("P&E")

During the three months ended October 31, 2017, there were no transfers from E&E assets to P&E.

During the year ended July 31, 2017, $14.9 million of costs were transferred from E&E assets to P&E. The amount transferred consisted of drilling, completion and developed land costs. The Company tested for impairment immediately preceding the transfers of E&E assets to P&E. The Company determined that there was no impairment.

*ii.* Impairment

At the end of each reporting period, the Company reviews for indicators of impairment to ensure that the carrying value of its oil and natural gas properties are recoverable. As at October 31, 2017, there were no indicators of impairment.

## 4. INVESTMENT IN SECURITIES

On November 22, 2016, the Company closed the acquisition of an indirect 10% minority interest in Stage, a private Canadian company, for a cash purchase price of $3.0 million, pursuant to a subscription agreement entered into between Blackbird and Stage's holding corporations, the majority shareholders of Stage. Stage is a Canadian technology and services company that specializes in pinpoint multistage completions.

The investment in Stage is held at cost, as explained in note 2(d).

## 5. FINANCIAL INSTRUMENTS AND RISK FACTORS

### (a) Financial instruments

A number of the Company's accounting policies and disclosures require the determination of fair value for financial assets and liabilities. When applicable, further information regarding the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. The Company's financial instruments consist of:

*i.* Cash, accounts receivable, deposits, investment in securities and accounts payable and accrued liabilities

The Company classifies the fair value of these transactions according to the following hierarchy based on the nature of the observable inputs used to value the instrument.

## 5. FINANCIAL INSTRUMENTS AND RISK FACTORS (CONTINUED)

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide continuous pricing information.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations are derived from inputs that are not based on observable market data.

The fair value of accounts receivable, deposits, and accounts payable and accrued liabilities approximates their carrying values due to the short-term nature of these instruments. Cash is measured at fair value using level 1 fair value inputs. The investment in securities are a level 3 instrument measured at cost.

### (b) Risk factors

The Company is exposed to various financial instrument risks and management proactively assesses the potential impact and the likelihood of this exposure. These risks include commodity price risk, interest rate risk, foreign exchange risk, credit risk and liquidity risk. When material, these risks are reviewed and monitored by the Board.

*i.* Commodity price risk

Commodity prices for petroleum and natural gas are impacted by global economic events that dictate the levels of supply and demand, as well as the relationship between the Canadian dollar and the U.S. dollar. Significant changes in commodity prices may materially impact the Company's ability to raise capital and its expected future net revenue. The Company does not have any financial risk management contracts in place at October 31, 2017 to manage these risks.

*ii.* Interest rate risk

The Company's exposure to fluctuations in interest on its net loss and comprehensive loss, assuming reasonably possible changes in the variable interest rate of +/- 1%, is insignificant. This analysis assumes all other variables remain constant.

*iii.* Foreign exchange risk

The Company is exposed to foreign currency fluctuations as oil and gas prices received and certain commitments are referenced to U.S. dollar denominated prices. At October 31, 2017, the Company's U.S. dollar denominated commitments over the next five calendar years are as follows:

| *(US$ thousands)* | 2017 | 2018 | 2019 | 2020 | 2021 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| US dollar portion of gas marketing agreement(1) | 131 | 785 | 785 | 654 | - | - | 2,355 |

Note:
*(1) A fluctuation in the October 31, 2017, USD / CAD foreign exchange rate by +/- 10% would result in a $0.1 million CAD variation to the annual commitments associated with this marketing agreement.*

## 5. FINANCIAL INSTRUMENTS AND RISK FACTORS (CONTINUED)

*iv.* Credit risk

The Company's credit risk exposure is related to trade receivables, joint interest billings, goods and services tax receivable and cash. As at October 31, 2017, the Company had $1.8 million net receivable from the Canada Revenue Agency for GST/HST with the remaining balance collectible from trade receivables. The Company's allowance for doubtful accounts at October 31, 2017, was $31 thousand (July 31, 2017 - $31 thousand). The Company expects to collect all other outstanding receivables.

At October 31, 2017 and 2016 all cash was held with large Canadian financial institutions.

*v.* Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company has historically relied upon equity financings and debt to satisfy its capital requirements and will continue to depend on these financing activities.

*vi.* Capital management

The Company's primary objectives in managing its capital structure are to maintain a flexible capital structure which optimizes the costs of capital at an acceptable level of risk; which maintains sufficient liquidity to support ongoing operations, capital expenditure programs, and strategic initiatives; and which maximizes shareholder returns. The Company manages its capital structure to support current and future business plans and periodically adjusts the structure in response to changes in economic conditions and the risk characteristics of the Company's underlying assets and operations.

The Company monitors metrics such as working capital, among others, to measure the status of its capital structure. The Company has not established fixed quantitative thresholds for such metrics. Depending on market conditions, the Company's capital structure may be adjusted by issuing or repurchasing shares, issuing or repurchasing debt, modifying capital spending programs and disposing of assets. The Company considers its capital structure to include shareholders' equity. The Company's approach to managing capital has not changed from prior periods. With the exception of the positive working capital covenant (note 6), the Company is not exposed to any external capital requirements as at October 31, 2017.

## 6. OPERATING LOAN FACILITY

At October 31, 2017, the Company had a $1.0 million revolving operating loan facility (July 31, 2017 - $1.0 million) with ATB Financial. The loan facility is subject to a redetermination of the borrowing base from time to time, but reviewed at least annually. The facility is available by way of prime-based loans, letters of credit and corporate credit cards. The Company is required to maintain a positive working capital ratio at all times to satisfy the financial covenants associated with this facility. At October 31, 2017, the Company was in compliance with the covenants of the operating loan facility.

As of October 31, 2017, the loan facility was undrawn and no letters of credit were outstanding (July 31, 2017 – no balance drawn and $0.7 million in letters of credit issued which reduced the amount that could be borrowed under the loan facility).

At October 31, 2017, the available amount to draw on the loan facility was $1.0 million (July 31, 2017 - $0.3 million).

## 7. FINANCING COSTS AND ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

### (a) Financing costs

Financing costs for the Company during the three months ended were as follows:

| | Three months ended | |
|---|---|---|
| *(CDN$ thousands)* | **October 31 2017** | October 31 2016 |
| Accretion of decommissioning provision | **15** | 4 |
| | **15** | 4 |

### (b) Accounts payable and accrued liabilities

At October 31, 2017, the Company had $12.6 million of trade payables and $3.1 million of accrued liabilities (July 31, 2017 - $7.3 million of trade payables and $5.9 million of accrued liabilities).

## 8. SHAREHOLDERS' EQUITY

The Company is authorized to issue an unlimited number of common and preferred shares without par value.

For the three months ended October 31, 2017, the basic and diluted weighted average common shares outstanding was 745,896,344 (three months ended October 31, 2016 – 551,082,784).

Only the "in-the-money" dilutive instruments impact the calculation of diluted income per common share and assumes the Company uses all cash proceeds received to repurchase common shares in the market. Other than common shares, all equity instruments are excluded when calculating diluted loss per share as they are anti-dilutive when in a loss position.

All share issuance costs incurred are recorded directly as a reduction to share capital.

### (a) Land acquisition for 1,923,077 common shares

On March 23, 2017, the Company completed the acquisition of 2 gross (2 net) sections of undeveloped Pipestone / Elmworth Montney land in exchange for 1,923,077 Blackbird common shares as consideration. This transaction was recorded at the fair value of the common shares issued, which was $0.50 per common share or $1.0 million.

### (b) Marketed public offering of 112,456,000 common shares and 36,443,750 flow-through common shares

On March 14, 2017, the Company completed a marketed public offering of 112,456,000 common shares at a price of $0.55 per common share, 29,643,750 common shares issued on a "Canadian exploration expense flow-through" basis (the "CEE Flow-Through Shares") at a price of $0.64 per CEE Flow-Through Share and 6,800,000 common shares issued on a "Canadian development expense flow-through" basis (the "CDE Flow-Through Shares") at a price of $0.59 per CDE Flow-Through Share for aggregate gross proceeds of $84.8 million. The Company incurred $4.1 million of share issue costs during this transaction.

## 8. SHAREHOLDERS' EQUITY (CONTINUED)

### (c) Land acquisition for 5,000,000 common shares

On March 6, 2017, the Company completed the acquisition of 13 gross (3.1 net) sections of undeveloped Pipestone / Elmworth Montney land in exchange for 5,000,000 Blackbird common shares as consideration. This transaction was recorded at the fair value of the common shares issued, which was $0.53 per common share or $2.6 million.

### (d) Land acquisition for 5,000,000 common shares

On February 15, 2017, the Company completed the acquisition of 8 gross (2.8 net) sections of undeveloped Pipestone / Elmworth Montney land in exchange for 5,000,000 Blackbird common shares as consideration. This transaction was recorded at the fair value of the common shares issued, which was $0.68 per common share or $3.4 million.

### (e) Private placement of 10,865,000 flow-through common shares

On November 1, 2016, the Company completed a non-brokered private placement for gross proceeds of $5.1 million consisting of 10,865,000 flow-through common shares at a price of $0.47 per flow-through share. The Company incurred $65 thousand of share issue costs during this transaction.

### (f) Private placement of 16,500,000 flow-through common shares

On October 27, 2016, the Company completed a non-brokered private placement for gross proceeds of $8.0 million consisting of 16,500,000 flow-through common shares at a price of $0.485 per flow-through share. The Company incurred $54 thousand of share issue costs during this transaction.

### (g) Listed Warrants

Listed warrant transactions are summarized as follows:

| | **Three months ended October 31, 2017** | | Year ended July 31, 2017 | |
|---|---|---|---|---|
| *(Thousands, except weighted average exercise price)* | **Number of listed warrants** | **Weighted average exercise price ($)** | Number of listed warrants | Weighted average exercise price ($) |
| Balance, beginning of period | **175,189** | **0.30** | 176,410 | 0.30 |
| Exercised | - | - | (1,221) | 0.30 |
| Balance, end of period | **175,189** | **0.30** | 175,189 | 0.30 |

As at October 31, 2017, all listed warrants are exercisable at a price of $0.30 and have a remaining contractual life of 3.6 years (July 31, 2017 - all listed warrants were exercisable at a price of $0.30 with a remaining contractual life of 3.8 years).

## 8. SHAREHOLDERS' EQUITY (CONTINUED)

### (h) Warrants

Warrant transactions are summarized as follows:

| | Three months ended October 31, 2017 | | Year ended July 31, 2017 | |
|---|---|---|---|---|
| *(Thousands, except weighted average exercise price)* | **Number of warrants** | **Weighted average exercise price ($)** | Number of warrants | Weighted average exercise price ($) |
| Balance, beginning of period | **8,151** | **0.15** | 11,832 | 0.15 |
| Exercised | **-** | **-** | (3,681) | 0.15 |
| Balance, end of period | **8,151** | **0.15** | 8,151 | 0.15 |

As at October 31, 2017, all warrants are exercisable at a price of $0.15 and have a remaining contractual life of 1.0 years (July 31, 2017 - all warrants were exercisable at a price of $0.15 with a remaining contractual life of 1.3 years).

### (i) Reserves

Reserves transactions are summarized as follows:

| | Three months ended October 31, 2017 | | | Year ended July 31, 2017 | | |
|---|---|---|---|---|---|---|
| *(CDN$ thousands)* | **Share-based payments** | **Warrants** | **Total** | Share-based payments | Warrants | Total |
| Balance, beginning of period | **9,502** | **5,256** | **14,758** | 6,212 | 5,293 | 11,505 |
| Additions | **747** | **-** | **747** | 3,624 | - | 3,624 |
| Deductions | **(126)** | **-** | **(126)** | (334) | (37) | (371) |
| Balance, end of period | **10,123** | **5,256** | **15,379** | 9,502 | 5,256 | 14,758 |

## 9. SHARE-BASED COMPENSATION

The Company has adopted a stock option plan under which it is authorized to grant options to officers, directors, employees and consultants which enable them to acquire common shares of the Company. The number of shares reserved for issuance under the plan shall not exceed 10% of the issued and outstanding common shares. The options may be granted for a maximum of 10 years and vest as determined by the Board. The exercise price of each option may not be less than the fair market value of the common shares at the time of the grant.

During the three months ended October 31, 2017, share-based compensation of $0.7 million (October 31, 2016 - $0.3 million) in the form of stock option expense was incurred, with $0.4 million related to officers and $0.1 million related to directors (October 31, 2016 - $152 thousand related to officers and $35 thousand related to directors).

## 9. SHARE-BASED COMPENSATION (CONTINUED)

No share-based compensation expense was capitalized during the three months ended October 31, 2017 or 2016.

The following tables summarize the stock options outstanding under the stock option plan as at October 31, 2017:

| | **Three months ended October 31, 2017** | | Year ended July 31, 2017 | |
|---|---|---|---|---|
| *(Thousands, except weighted average exercise price)* | **Number of options** | **Weighted average exercise price ($)** | Number of options | Weighted average exercise price ($) |
| Balance, beginning of period | **34,311** | **0.35** | 24,536 | 0.23 |
| Granted | **1,500** | **0.36** | 12,625 | 0.57 |
| Exercised | **(1,533)** | **0.13** | (2,317) | 0.21 |
| Forfeited/expired | **(1,167)** | **0.45** | (533) | 0.46 |
| Balance, end of period | **33,111** | **0.36** | 34,311 | 0.35 |

| | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| Exercise price ($) | Number of options (thousands) | Average remaining contractual life (years) | Weighted average exercise price ($) | Number of options (thousands) | Weighted average exercise price ($) |
| 0.10 – 0.15 | 3,691 | 1.0 | 0.11 | 3,691 | 0.11 |
| 0.16 – 0.30 | 10,420 | 2.4 | 0.20 | 8,420 | 0.20 |
| 0.31 – 0.45 | 7,500 | 2.8 | 0.37 | 6,000 | 0.37 |
| 0.46 – 0.65 | 11,500 | 3.5 | 0.58 | 4,967 | 0.57 |
| **0.10 – 0.65** | **33,111** | **2.7** | **0.36** | **23,078** | **0.31** |

The fair value of options granted during the period was estimated on the date of grant using a Black-Scholes option pricing model with weighted average assumptions and resulting values for grants as follows:

| | **Three months ended October 31, 2017** | Three months ended October 31, 2016 |
|---|---|---|
| Expected dividend yield (%) | - | - |
| Risk free rate (%) | **2.34** | 1.55 |
| Expected life (years) | **5.00** | 5.00 |
| Expected volatility (%) | **98.44** | 108.29 |
| Expected forfeiture rate (%) | **10.00** | 10.00 |
| Weighted average fair value of options granted ($) | **0.27** | 0.26 |

## 10. RELATED PARTY TRANSACTIONS

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Certain of these entities transacted with the Company during the reporting period.

Blackbird has determined that the key management personnel of the Company consist of its directors and officers, including those who formerly held such positions. During the three months ended October 31, 2017 and 2016, the Company paid or accrued compensation to key management as follows:

| | Three months ended | |
|---|---|---|
| *(CDN$ thousands)* | **October 31 2017** | October 31 2016 |
| Share-based compensation | **523** | 187 |
| Compensation paid to key management personnel that was expensed | **62** | 117 |
| Compensation paid to key management personnel that was capitalized to exploration and development activities | **162** | 162 |
| Fees paid to ASI Accounting Services for interim Chief Financial Officer services performed, a company in which Mr. Ron Schmitz, Director and former Chief Financial Officer, is President | **42** | - |
| Legal fees paid to Macdonald Tuskey, a law firm in which Mr. William L. Macdonald, Director, is a Principal | **10** | 42 |
| Share issue costs paid to Macdonald Tuskey | **-** | 17 |
| Fees paid to Canadian Energy Services and Technology Corp. for drilling services performed, a company in which Mr. Burton Ahrens, Director, is also a Director | **694** | 10 |
| Fees paid to Stage for completions equipment and services performed, a company in which Mr. Garth Braun, Blackbird's Chairman, Chief Executive Officer and President is also a Director and owns an indirect minority interest in Stage, certain of Blackbird's other officers own non-controlling interests in Stage, and Mr. Sean Campbell, a Director of Blackbird, holds an indirect controlling interest in Stage and is also the President, Chief Executive Officer and a Director of Stage | **166** | 380 |
| | **1,659** | 915 |

As of October 31, 2017, there was $0.7 million outstanding in accounts payable related to the above noted service providers (July 31, 2017 - $9 thousand).

## 11. CONTINGENCIES AND COMMITMENTS

### (a) Commitments

At October 31, 2017, the Company has committed to future payments over the next five calendar years, as follows:

| *(CDN$ thousands)* | 2017 | 2018 | 2019 | 2020 | 2021 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Office lease | 37 | 224 | 130 | - | - | - | 391 |
| Equipment leases | 102 | 610 | 610 | 610 | 599 | 119 | 2,650 |
| Canadian dollar portion of gas marketing agreement | 204 | 1,223 | 1,223 | 1,018 | - | - | 3,668 |
| Transportation and processing | 747 | 3,906 | 966 | 848 | 805 | 4,628 | 11,900 |
| | **1,090** | **5,963** | **2,929** | **2,476** | **1,404** | **4,747** | **18,609** |

| *(US$ thousands)* | 2017 | 2018 | 2019 | 2020 | 2021 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| US dollar portion of gas marketing agreement(1) | 131 | 785 | 785 | 654 | - | - | 2,355 |

Note:
*(1) A fluctuation in the October 31, 2017, USD / CAD foreign exchange rate by +/- 10% would result in a $0.1 million CAD variation to the annual commitments associated with this marketing agreement.*

### (b) Flow-through shares

The Company is required to incur and renounce $19.0 million of eligible Canadian Exploration Expenses by December 31, 2018 in connection with the issuance of the CEE Flow-Through Shares on March 14, 2017 (note 8). As at October 31, 2017, $15.2 million of these expenditures have been incurred.

### (c) Litigation and claims

The Company is not involved in any claims or litigation at this time, other than those where management believes the possibility of an outflow of economic resources is remote. The Company maintains insurance, which in the opinion of the Company, is in place and is adequate to address any future claims as to matters insured.

## 12. SUPPLEMENTAL CASH FLOW INFORMATION

The changes in non-cash working capital are as follows:

| | Three months ended | |
|---|---|---|
| *(CDN$ thousands)* | **October 31 2017** | October 31 2016 |
| Accounts receivable | **(1,758)** | (126) |
| Prepaid expenses and deposits | **606** | 36 |
| Accounts payable and accrued liabilities | **2,494** | 3,747 |
| | **1,342** | 3,657 |

| | Three months ended | |
|---|---|---|
| *(CDN$ thousands)* | **October 31 2017** | October 31 2016 |
| Operating | **(2,258)** | (625) |
| Investing | **3,600** | 4,282 |
| | **1,342** | 3,657 |

During the three months ended October 31, 2017, the Company paid $nil in interest and $nil in income tax (October 31, 2016 - $nil in interest and $nil in income tax).

## 13. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

| | Three months ended | |
|---|---|---|
| *(CDN$ thousands)* | **October 31 2017** | October 31 2016 |
| Loss before taxes | **(588)** | (712) |
| | | |
| Expected income tax recovery | **(159)** | (192) |
| Change in statutory rates and other | **-** | 21 |
| Permanent differences | **(29)** | 38 |
| Impact of flow-through shares | **1,949** | 210 |
| Share issue costs | **-** | (15) |
| Adjustment to prior year’s provision versus statutory tax returns and expiry of non-capital losses | **(612)** | 321 |
| Change in unrecognized deductible temporary differences | **-** | (36) |
| Deferred income tax expense | **1,149** | 347 |

## 14. COMPONENTS OF GENERAL AND ADMINISTRATIVE ("G&A") EXPENSE

| | Three months ended | |
|---|---|---|
| *(CDN$ thousands)* | **October 31 2017** | October 31 2016[1] |
| Personnel | **805** | 437 |
| Office costs, travel and other | **213** | 137 |
| Professional fees | **153** | 111 |
| Investor relations | **60** | 124 |
| Gross G&A expenses | **1,231** | 809 |
| Capitalized salaries and benefits | **(310)** | (215) |
| Net G&A expenses | **921** | 594 |

Note:

*(1) Comparative figures have been reclassified to conform to current period presentation.*

## 15. SUBSEQUENT EVENTS

### (a) Firm transportation and processing commitments

Subsequent to October 31, 2017, the Company entered into a binding agreement for firm processing of raw gas produced from the Company's Pipestone / Elmworth project. The agreement has an initial term of five years with firm capacity of 20.0 million cubic feet of natural gas per day expected to commence in the second quarter of calendar 2019, increasing to 25.0 million cubic feet per day twelve months after plant start-up and to 30.0 million cubic feet per day eighteen months after plant start-up. Blackbird has an option to acquire a working interest of up to 20% in the deep cut sour gas processing facility. The future commitments related to this agreement will depend on the Company's course of action with respect to participating in the facility.

### (b) Exercise of stock options

Subsequent to October 31, 2017, the Company received $180 thousand from the exercise of 1,000,000 stock options with a weighted average exercise price of $0.18 per share.

### (c) Exercise of warrants

Subsequent to October 31, 2017, the Company received $63 thousand from the exercise of 417,333 warrants with an exercise price of $0.15 per warrant.