



**SECOND QUARTER 2015 CONSOLIDATED FINANCIAL STATEMENTS  
AS AT AND FOR THE THREE AND SIX MONTHS ENDED  
JANUARY 31, 2015**

**NOTICE OF NO AUDITOR REVIEW OF  
CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the unaudited condensed consolidated interim financial statements (“financial statements”), they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying financial statements of the Company have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of unaudited interim condensed consolidated financial statements by an entity’s auditor.

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

<i>(CDN\$ thousands, unaudited)</i>	Note	January 31 2015	July 31 2014
<b>Assets</b>			
Current			
Cash and cash equivalents		42,586	682
Accounts receivable		995	238
Prepaid expenses and deposits		217	166
Assets of discontinued operations	3 & 4	-	9,114
		<b>43,798</b>	10,200
Long term portion of prepaid expenses and deposits		321	271
Exploration and evaluation assets	3	27,329	1,836
Property and equipment	3 & 4	374	1,342
		<b>71,822</b>	13,649
<b>Liabilities</b>			
Current			
Accounts payable and accrued liabilities		16,682	289
Loan payable	6	-	387
Convertible debentures	6	-	386
Flow-through share premium liability	7 & 10	-	16
Liabilities of discontinued operations	4	88	85
		<b>16,770</b>	1,163
Decommissioning provision		1,581	1,314
		<b>18,351</b>	2,477
<b>Shareholders' Equity</b>			
Share capital	7	64,144	21,628
Share-based payment reserve	7	4,666	2,932
Deficit		(15,339)	(13,388)
		<b>53,471</b>	11,172
		<b>71,822</b>	13,649

See accompanying notes to the condensed consolidated interim financial statements.

Nature and continuance of operations (note 1)

Contingencies and commitments (note 10)

Subsequent events (note 12)

On behalf of the Board,

*(Signed) "Garth Braun"*

Garth Braun

Chairman, President and Chief Executive Officer

*(Signed) "Ron Schmitz"*

Ron Schmitz

Director

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

	Note	Three Months Ended		Six Months Ended	
		January 31 2015	January 31 2014	January 31 2015	January 31 2014
<i>(CDN\$ thousands, except per share amounts, unaudited)</i>					
<b>Revenue</b>					
Revenue		151	211	487	470
Royalties		(14)	(12)	(36)	(39)
		137	199	451	431
<b>Expenses</b>					
Operating, production and transportation		224	342	458	609
General and administrative		771	288	1,437	463
Depletion and depreciation	3	76	89	212	158
Share-based compensation	8	645	416	1,821	495
Property and equipment impairment	3	473	178	1,168	178
Gain on settlement of decommissioning liabilities		-	-	(22)	-
		(2,189)	(1,313)	(5,074)	(1,903)
<b>Operating loss</b>		(2,052)	(1,114)	(4,623)	(1,472)
<b>Other</b>					
Amortization of flow-through share premium liability	7 & 10	2,720	-	2,720	-
Financing costs	6	(10)	-	(26)	(6)
Other income		94	1	131	-
		2,804	1	2,825	(6)
<b>Net income (loss) from continuing operations</b>		752	(1,113)	(1,798)	(1,478)
<b>Net income (loss) from discontinued operations</b>	4	-	(8)	(153)	(32)
<b>Net income (loss) and comprehensive income (loss)</b>		752	(1,121)	(1,951)	(1,510)
<b>Net income (loss) per common share</b>					
Basic and diluted - continuing operations	7	0.01	(0.01)	(0.01)	(0.01)
Basic and diluted - discontinued operations	7	-	(0.01)	(0.01)	(0.01)

See accompanying notes to the condensed consolidated interim financial statements.

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

	Note	Three Months Ended		Six Months Ended	
		January 31 2015	January 31 2014	January 31 2015	January 31 2014
<i>(CDN\$ thousands, unaudited)</i>					
<b>Cash provided by (used in):</b>					
<b>Operating activities</b>					
Net income (loss)		752	(1,121)	(1,951)	(1,510)
Items not involving cash:					
Depletion and depreciation	3	76	89	212	231
Share-based compensation	8	645	416	1,821	495
Amortization of flow-through share premium liability	7 & 10	(2,720)	-	(2,720)	-
Interest accrued on loans payable		-	-	-	2
Property and equipment impairment	3	473	178	1,168	178
Financing costs	6	9	5	27	10
Loss on disposition of property and equipment	3	-	-	127	-
Gain on settlement of decommissioning liabilities		-	-	(22)	-
Interest paid		(1)	-	(10)	(1)
Decommissioning expenditures		-	-	(32)	-
Changes in non-cash working capital	11	215	(314)	(75)	(261)
		(551)	(747)	(1,455)	(856)
<b>Financing activities</b>					
Loan payable	6	-	-	-	200
Repayment of loan payable	6	-	-	(384)	(202)
Issuance of special warrants	7	-	-	32,000	-
Issuance of flow-through shares	7	7,308	-	12,714	-
Issuance of share capital for cash	7	-	2,609	-	3,087
Share issue costs	7	(392)	(214)	(2,226)	(214)
Exercise of stock options and warrants	7	540	-	2,248	-
		7,456	2,395	44,352	2,871
<b>Investing activities</b>					
Proceeds from disposition of property and equipment, net	3 & 4	-	58	8,780	58
Property and equipment additions	3	(200)	(150)	(280)	(248)
Exploration and evaluation additions	3	(20,406)	(388)	(25,234)	(728)
Changes in non-cash working capital	11	14,601	-	15,741	-
		(6,005)	(480)	(993)	(918)
<b>Increase in cash and cash equivalents during the period</b>		<b>900</b>	<b>1,168</b>	<b>41,904</b>	<b>1,097</b>
Cash and cash equivalents, beginning of period		41,686	664	682	735
<b>Cash and cash equivalents, end of period</b>		<b>42,586</b>	<b>1,832</b>	<b>42,586</b>	<b>1,832</b>

See accompanying notes to the condensed consolidated interim financial statements.

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

<i>(CDN\$ thousands, except share amounts, unaudited)</i>	Number of Common Shares (000's)	Number of Special Warrants (000's)	Share Capital	Share-Based Payment Reserve	Deficit	Total
At July 31, 2013	124,074	-	14,645	1,742	(9,861)	6,526
Issuance of common shares	33,488	-	3,087	-	-	3,087
Issuance of Agents' warrants as finders' fees	-	-	-	112	-	112
Share issue costs	-	-	(327)	-	-	(327)
Share-based compensation	-	-	-	494	-	494
Net loss and comprehensive loss	-	-	-	-	(1,510)	(1,510)
At January 31, 2014	157,562	-	17,405	2,348	(11,371)	8,382

<i>(CDN\$ thousands, except share amounts, unaudited)</i>	Number of Common Shares (000's)	Number of Special Warrants (000's)	Share Capital	Share-Based Payment Reserve	Deficit	Total
At July 31, 2014	192,117	-	21,628	2,932	(13,388)	11,172
Issuance of special warrants	-	110,345	32,000	-	-	32,000
Exercise of special warrants	-	(110,345)	(32,000)	-	-	(32,000)
Distribution of common shares upon exercise of special warrants	110,345	-	32,000	-	-	32,000
Issuance of flow-through shares	32,051	-	12,714	-	-	12,714
Flow-through share premium	-	-	(2,704)	-	-	(2,704)
Share issue costs	-	-	(2,226)	-	-	(2,226)
Exercise of stock options and warrants	14,867	-	2,335	(87)	-	2,248
Issuance of commons shares on conversion of convertible debentures and accrued interest	3,453	-	397	-	-	397
Share-based compensation	-	-	-	1,821	-	1,821
Net loss and comprehensive loss	-	-	-	-	(1,951)	(1,951)
<b>At January 31, 2015</b>	<b>352,833</b>	<b>-</b>	<b>64,144</b>	<b>4,666</b>	<b>(15,339)</b>	<b>53,471</b>

See accompanying notes to the condensed consolidated interim financial statements.

# Blackbird Energy Inc. Notes to the Condensed Consolidated Interim Financial Statements

January 31, 2015 (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 registered office located at Suite 400 – 570 Granville Street, Vancouver, BC, V6C 3P1 and its head office located at Suite 2200, 635 8th Avenue SW, Calgary, Alberta, T2P 3M3. 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”.

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 condensed consolidated financial statements. The Company estimates that it has sufficient funds to continue operations for the next fiscal year. The Company intends to raise additional funds as necessary in the future to advance its projects.

<i>(CDN\$ thousands)</i>	<b>January 31 2015</b>	July 31 2014
Working capital	<b>27,028</b>	9,037
Deficit	<b>(15,339)</b>	(13,388)

## 2. BASIS OF PRESENTATION

### (a) Statement of compliance

These financial statements were prepared in accordance with International Accounting Standards 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 on March 31, 2015.

### (b) Basis of measurement

These financial statements have been prepared on a historical cost basis except as detailed in the Company’s accounting policies disclosed in the audited consolidated financial statements for the year ended July 31, 2014 as filed on SEDAR. The accounting policies have been applied consistently to all periods presented in the financial statements. The 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, 2014. Certain comparative figures have been reclassified to conform to the current period’s presentation. The financial statements are presented in Canadian dollars, which is the Company’s functional currency.

## 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.

### (d) Principles of consolidation

These financial statements include the accounts of the Company and its wholly-owned subsidiaries, Blackbird Energy Holdings LLC, Pennant Energy Inc. (Note 3) and Ruger Energy Inc., all of which are 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.

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

	Six months ended January 31, 2015			Year ended July 31, 2014		
	Cost	Accum. DD&A	Carrying value	Cost	Accum. DD&A	Carrying value
<i>(CDN\$ thousands)</i>						
<b>Exploration and evaluation assets</b>						
Beginning of period	1,836	-	1,836	1,281	-	1,281
Additions	25,234	-	25,234	1,467	-	1,467
Assumed on acquisition of Pennant	-	-	-	307	-	307
Change in decommissioning obligations	259	-	259	-	-	-
Transferred to property and equipment	-	-	-	(823)	-	(823)
Impairment	-	-	-	-	(396)	(396)
End of period	27,329	-	27,329	2,232	(396)	1,836
<b>Property and equipment</b>						
Beginning of period	11,611	(1,217)	10,394	5,922	(467)	5,455
Additions	280	-	280	276	-	276
Assumed on acquisition of Pennant	-	-	-	4,288	-	4,288
Dispositions	(9,665)	618	(9,047)	-	-	-
Change in decommissioning obligations	118	-	118	302	-	302
Depletion and depreciation	-	(212)	(212)	-	(541)	(541)
Transferred from exploration and evaluation assets	-	-	-	823	-	823
Impairment	-	(1,168)	(1,168)	-	(209)	(209)
Office furniture	9	-	9	-	-	-
End of period	2,353	(1,979)	374	11,611	(1,217)	10,394
Property and equipment - discontinued operations	-	-	-	9,670	(618)	9,052
Property and equipment - continuing operations	2,353	(1,979)	374	1,941	(599)	1,342

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

The Company has four Cash Generating Units (“CGU” or “CGUs”), including the Elmworth CGU, which is classified as exploration and evaluation assets. The three remaining CGUs are included in the Company’s only reportable segment, Western Canada, including Bigstone, which was sold during the quarter ended October 31, 2014, Alberta Minor, and Saskatchewan Minor, all three of which are included in property and equipment.

The CGUs have been determined based on their similar geographical location, reservoir characteristics, development plans, and regulatory regimes; their shared infrastructure, processing and gathering facilities; and management’s basis for internal reporting and monitoring.

During the three months ended January 31, 2015, the Company capitalized \$0.2 million (January 31, 2014 – \$nil) of general and administrative expenses directly attributable to exploration and development activities.

During the six months ended January 31, 2015, the Company capitalized \$0.3 million (January 31, 2014 – \$nil) 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 proved or probable reserves.

The Elmworth property consists of a 100% working interest in two wells, which were drilled and completed, during the quarter, and undeveloped land which is located in the Elmworth area near Grande Prairie, Alberta. The Elmworth property represents all of the Company’s exploration and evaluation assets.

During the three and six months ended January 31, 2015, the Company acquired an additional 8 and 19 sections of Elmworth Montney undeveloped land for cash consideration of \$0.6 million and \$3.5 million, respectively. During the six months ended January 31, 2015, the Company also acquired 77 sections of East Wapiti Montney undeveloped land for cash consideration of \$0.5 million.

Subsequent to January 31, 2015 the Company purchased an additional 14 sections of Elmworth Montney land for cash consideration of \$1.1 million.

As at January 31, 2015, no indicators of impairment were identified that would imply a decline in exploration and evaluation asset carrying values.

#### (b) Property and equipment

##### *Bigstone Disposition*

On September 15, 2014, the Company completed the sale of its Bigstone CGU in west central Alberta for cash proceeds of \$8.8 million plus customary closing adjustments of \$0.1 million. This CGU had a carrying value of \$9.0 million resulting in a loss on disposition of \$0.1 million, included in loss from discontinued operations (note 4).



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

#### *Impairment and Depletion*

An impairment test is performed on capitalized property and equipment costs at a CGU level on an annual basis and quarterly when indicators of impairment exist.

During the three months ended January 31, 2015, the Company recognized an impairment of \$0.5 million to property and equipment (January 31, 2014 - \$0.2 million) to reflect the low oil and natural gas price environment for future production. The Company recorded net impairments of \$0.1 million in the Alberta Minor CGU and \$0.4 million in the Saskatchewan Minor CGU during the three months ended January 31, 2015 (January 31, 2014 - \$0.2 million in the Alberta Minor CGU).

During the six months ended January 31, 2015, the Company recognized an impairment of \$1.2 million to property and equipment (January 31, 2014 – \$0.2 million) to reflect the low oil and natural gas price environment for future production. The Company recorded net impairments of \$0.3 million in the Alberta Minor CGU and \$0.9 million in the Saskatchewan Minor CGU during the six months ended January 31, 2015 (January 31, 2014 - \$0.2 million in the Alberta Minor CGU).

Impairments recognized during the three and six months ended January 31, 2015, were calculated using a 10% discount rate. Using a discount rate of 8% would reduce the 2015 impairment by less than \$0.1 million for the three and six months ended January 31, 2015. Using a discount rate of 12% would increase 2015 impairment by less than \$0.1 million for the three and six months ended January 31, 2015.

The impairment test was carried out at January 31, 2015, using the following forward commodity price projections:

Year	AECO Gas (\$CDN/MMBtu) <sup>(1)</sup>	SaskEnergy (\$CDN/MMBtu) <sup>(1)</sup>	Hardisty Heavy Crude Oil Proxy (12 API) (\$CDN/bbl) <sup>(1)</sup>	Alberta Natural Gas Liquids Edmonton Butane (\$CDN/bbl) <sup>(1)</sup>
2015	2.74	2.61	42.51	46.19
2016	3.20	3.07	53.04	53.27
2017	3.59	3.46	57.18	57.35
2018	3.75	3.62	59.42	59.56
2019	3.93	3.79	60.51	60.63
2020+ <sup>(2)</sup>	+2.0%	+2.0%	+2.0%	+2.0%

(1) Source: Independent qualified reserves evaluator's price forecast, effective January 31, 2015.

(2) Percentage change represents the change in each year after 2019 to the end of the reserve life.

The depletion cost base for the three and six months ended January 31, 2015 included future development costs of \$nil (three and six months ended January 31, 2014 - \$8.9 million).

#### *Pennant Acquisition*

On April 17, 2014, the Company completed a Plan of Arrangement with Pennant Energy Inc. ("Pennant"), whereby the Company acquired Pennant on the basis of one common share of Pennant for 0.42857 corresponding shares of the Company. Pennant is considered a business and the Company accounted for the acquisition as a business combination.

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

As consideration, the Company issued 29,253,954 common shares valued at \$3.5 million, 2,078,567 stock options with a Black-Scholes fair value of \$0.1 million and 4,730,127 warrants with a Black-Scholes fair value of \$0.3 million.

The share consideration was based on the \$0.12 per share closing price of the Company's shares on the April 17, 2014 acquisition date. The fair market value of the stock options and warrants were determined using the following Black-Scholes model assumptions:

	Converted Warrants	Converted Stock Options
Risk-free interest rate	1.12%	1.13%
Expected life	1.20 years	0.6 years
Annualized volatility	123.06%	71.71%

The Company incurred costs related to the acquisition totaling \$0.2 million which were recorded in general and administrative expenses during the year ended July 31, 2014.

The recognized amounts of identifiable assets acquired and liabilities assumed at fair value were as follows:

	(CDN\$ thousands)
Cash	\$ 9
Accounts receivable	53
Prepaid expenses	7
Deposits	77
Convertible debentures	(473)
Accounts payable and accrued liabilities	(142)
<b>Working capital deficiency</b>	<b>\$ (469)</b>
Property and equipment	4,288
Exploration and evaluation assets	307
Decommissioning provision	(237)
<b>Net assets acquired</b>	<b>\$ 3,889</b>
<u>Consideration paid</u>	
Fair value of 29,253,954 shares at \$0.12 per share	\$ 3,510
Fair value of 4,730,127 warrants using Black-Scholes model	271
Fair value of 2,078,567 stock options using Black-Scholes model	108
<b>Total consideration paid</b>	<b>\$ 3,889</b>

The fair values for property and equipment were based on the April 30, 2014 independent reserves report plus the petroleum and natural gas revenues received between April 17, 2014 and April 30, 2014.

Had the acquisition of Pennant taken place on August 1, 2013, the Company's consolidated revenue for the year ended July 31, 2014 would have been \$1.5 million and its consolidated net loss would have been \$4.1 million.

#### 4. DISCONTINUED OPERATIONS

As discussed in note 3 (b), on September 15, 2014, the Company completed the sale of its Bigstone CGU in west central Alberta for cash proceeds of \$8.8 million plus customary closing adjustments of \$0.1 million.

(a) Net loss on the Bigstone disposition

<b>Proceeds from disposition</b>	<i>(CDN\$ thousands)</i>
Cash received	8,800
Transaction costs	(20)
Proceeds net of transaction costs	8,780
<b>Net assets and liabilities disposed at carrying value</b>	
Decommissioning provision	(140)
Net assets	9,047
<b>Net loss on disposition</b>	<b>(127)</b>

(b) Financial information from discontinued operations

The assets and liabilities of discontinued operations presented in the condensed consolidated interim statements of financial position are as follows:

<i>(CDN\$ thousands)</i>	Note	January 31 2015	July 31 2014
<b>Assets of discontinued operations</b>			
Current			
Accounts receivable		-	36
Prepaid expenses and deposits		-	26
Property and equipment	3	-	9,052
		-	9,114
<b>Liabilities of discontinued operations</b>			
Current			
Accounts payable and accrued liabilities		88	15
Decommissioning provision		88	15
		-	70
		88	85

#### 4. DISCONTINUED OPERATIONS (CONTINUED)

Loss from discontinued operations reported in the condensed consolidated interim statements of operations and comprehensive income (loss) is as follows:

(CDN\$ thousands)	Note	Three Months Ended		Six Months Ended	
		January 31 2015	January 31 2014	January 31 2015	January 31 2014
<b>Revenue</b>					
Revenue		-	13	2	136
Royalties		-	(2)	-	(8)
			11	2	128
<b>Expenses</b>					
Operating, production and transportation		-	19	27	86
Depletion and depreciation		-	-	-	73
			19	27	159
<b>Operating loss</b>			(8)	(25)	(31)
<b>Other</b>					
Financing costs	6	-	-	(1)	(1)
Loss on disposition of property and equipment	3	-	-	(127)	-
				(128)	(1)
<b>Loss from discontinued operations</b>			(8)	(153)	(32)
Basic and diluted loss per common share - discontinued operations			(0.01)	(0.01)	(0.01)

Cash flows from discontinued operations reported in the condensed consolidated interim statements of cash flows are as follows:

(CDN\$ thousands)		Three Months Ended		Six Months Ended	
		January 31 2015	January 31 2014	January 31 2015	January 31 2014
<b>Cash (used in) provided by:</b>					
<b>Operating activities</b>					
Net loss		-	(8)	(153)	(32)
Items not involving cash:					
Depletion and depreciation		-	-	-	73
Financing costs	6	-	-	1	1
Loss on disposition of property and equipment	3	-	-	127	-
			(8)	(25)	42
<b>Investing activities</b>					
Proceeds from disposition of property and equipment, net	3	-	6	8,780	-
Property and equipment additions		-	-	-	(133)
			6	8,780	(133)
<b>(Decrease) increase in cash and cash equivalents</b>			(2)	8,755	(91)

## 5. FINANCIAL INSTRUMENTS AND RISK FACTORS

### *Financial Instruments*

A number of the Company's accounting policies and disclosures require the determination of fair value for financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information regarding the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### (a) Exploration and evaluation assets and property and equipment

The fair value of property and equipment recognized in a business combination is based on market values. The market value of property and equipment is the estimated amount for which property and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The market value of petroleum and natural gas properties included in property and equipment and exploration and evaluation assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions. The market value of other items of property and equipment is based on the quoted market prices for similar items.

#### (b) Cash and cash equivalents, accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities

The fair value of cash and cash equivalents, accounts receivable, prepaid expenses and deposits and accounts payable and accrued liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair value of these balances approximated their carrying value at January 31, 2015 due to their short term to maturity.

#### (c) Stock Options

The fair value of stock options is measured using the Black-Scholes option-pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted-average historical volatility adjusted for changes expected due to publicly available information), weighted-average expected life of the instruments (based on historical experience and general option-holder behaviour) and the risk-free interest rate (based on Government of Canada bonds).

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.

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.

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

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

### *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 of Directors.

#### (a) 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. The Company does not have any financial risk management contracts in place at January 31, 2015 to manage these risks.

#### (b) Interest rate risk

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

#### (c) Foreign exchange risk

The Company is exposed to foreign currency fluctuations as oil and gas prices received are referenced to U.S. dollar denominated prices.

#### (d) Credit risk

The Company's credit risk exposure is related to joint interest billings, goods and services tax receivable, and cash and cash equivalents. As at January 31, 2015, the Company had \$0.8 million net receivable from goods and service tax with the remaining balance collectible from joint interest billings. The Company's allowance for doubtful accounts at January 31, 2015, was \$nil and the Company expects to collect all outstanding accounts receivable (July 31, 2014 - \$nil).

At January 31, 2015, cash and cash equivalents were comprised of \$0.1 million in short term investment instruments and \$42.5 million of cash held at financial institutions (July 31, 2014 – \$0.7 million cash held at financial institutions).

#### (e) Liquidity risk

The Company generally relies on cash flow from operating activities to fund its capital requirements and to provide liquidity for all operations.

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

### (f) 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 the Company's working capital, among others to measure the status of its capital structure. The Company has currently 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 and debt. The Company does not have any debt as at January 31, 2015.

## 6. LOAN PAYABLE, CONVERTIBLE DEBENTURES AND FINANCING COSTS

### (a) Loan payable

During the year ended July 31, 2014, the Company received unsecured loans of \$600,000 from the Chairman, President and Chief Executive Officer of the Company at an interest rate of 12%. As at October 31, 2014, the loan and associated accrued interest had been repaid and a balance of \$nil remained payable (July 31, 2014 - \$0.4 million).

### (b) Convertible debentures

On April 17, 2014, the Company assumed the liability for convertible debentures from its subsidiary, Pennant (note 3). At any time, at the option of the holder, the principal amount of each convertible debenture was convertible into shares at a price of \$0.11667 per share until October 15, 2014 and \$0.23333 thereafter, and any accrued but unpaid interest thereon would be convertible into shares at a price per share equal to the market price at the time of conversion.

During the year ended July 31, 2014, the Company issued 1,046,141 common shares valued at \$0.1 million pursuant to the conversion of 110 convertible debentures. During the six months ended January 31, 2015 the Company issued 3,452,840 common shares valued at \$0.4 million pursuant to the conversion of 345 convertible debentures, of which 595,402 common shares valued at \$0.1 million were related to key employees. As at January 31, 2015 all convertible debentures had been converted into common shares and a balance of \$nil remained payable (July 31, 2014 - \$0.4 million).

## 6. LOAN PAYABLE, CONVERTIBLE DEBENTURES AND FINANCING COSTS (CONTINUED)

### (c) Financing costs

Financing costs for the Company during the period ended January 31, 2015 were as follows:

	Three Months Ended		Six Months Ended	
	January 31 2015	January 31 2014	January 31 2015	January 31 2014
<i>(CDN\$ thousands)</i>				
Accretion of decommissioning provision <sup>(1)</sup>	8	5	17	10
Interest on loan payable	1	-	10	-
	9	5	27	10

*(1) This table includes both continuing operations and discontinued operations.*

## 7. SHAREHOLDERS' EQUITY

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

For the three months ended January 31, 2015, the basic and diluted weighted average common shares outstanding was 282,320,840 and 297,355,744, respectively (three months ended January 31, 2014 – 155,014,694).

For the six months ended January 31, 2015, the basic and diluted weighted average common shares outstanding was 241,982,686 and 257,017,591, respectively (six months ended January 31, 2014 – 139,544,480).

The company uses the treasury stock method to determine the dilutive effect of stock options and warrants. Under this method, only the “in-the-money” dilutive instruments impact the calculation of dilutive profit per common share. In calculating the diluted loss per common share for the six months ended January 31, 2015, the Company excluded the effect of stock options and warrants as they were anti-dilutive (January 31, 2014 – all stock options and warrants excluded).

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

### (a) Private placement of 3,300,000 flow-through shares

On December 9, 2014, the Company completed the second and final tranche of a non-brokered private placement for gross proceeds of \$1,485,000 consisting of 3,300,000 flow-through shares at a price of \$0.45 per flow-through share. The Company incurred \$74,250 of share issue costs and a flow-through share premium liability of \$0.5 million related to this private placement. This flow-through share premium liability has been fully amortized as of January 31, 2015.

### (b) Private placement of 12,850,555 flow-through shares

On December 5, 2014, the Company completed the first tranche of a non-brokered private placement for gross proceeds of \$5,782,750 consisting of 12,850,555 flow-through shares at a price of \$0.45 per flow-through share. The Company incurred \$277,782 of share issue costs and a flow-through share premium liability of \$1.4 million related to this private placement. This flow-through share premium liability has been fully amortized as of January 31, 2015.



## 7. SHAREHOLDERS' EQUITY (CONTINUED)

### (c) Private placement of 110,345,241 special warrants and 15,900,000 flow-through shares

On October 21, 2014, the Company completed a brokered private placement for gross proceeds of \$30,406,030 consisting of 86,207,000 special warrants at a price of \$0.29 per special warrant and 15,900,000 flow-through common shares at a price of \$0.34 per share. In conjunction with the brokered private placement, the Company also completed a non-brokered private placement for gross proceeds of \$7,000,090 consisting of 24,138,241 special warrants at a price of \$0.29 per special warrant. The Company incurred \$1.8 million of share issue costs and a flow-through share premium liability of \$0.8 million related to these private placements. This flow-through share premium liability has been fully amortized as of January 31, 2015.

Each special warrant entitled the holder to receive, for no additional consideration upon exercise, one common share. On December 18, 2014, the Company obtained a receipt for its final short form prospectus filed with the securities regulatory authorities in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario (the "receipt"). The receipt qualified the distribution of common shares upon the deemed exercise of the aforementioned special warrants. On December 23, 2014, as a result of the receipt, all 110,345,241 special warrants were exercised.

### (d) Private placement of 26,148,463 units and 7,340,000 flow-through shares

On November 7, 2013, the Company completed a private placement for gross proceeds of \$3,087,362 consisting of 26,148,463 units at a price of \$0.09 per unit and 7,340,000 flow-through shares at a price of \$0.10 per flow-through share. Each unit consisted of one common share and one share purchase warrant exercisable at \$0.15 until November 7, 2018. The Company recognized a flow-through share premium liability of \$37 thousand related to the private placements. This flow-through share premium liability has been fully amortized as of January 31, 2015.

The warrants are subject to an early acceleration provision which provides for the mandatory exercise or expiry of the warrants in the event the Company's shares close at \$0.30 or higher for at least 10 consecutive trading days. In such event, the warrants will accelerate and expire 30 days after the Company has given notice of the acceleration to the warrant holders. This acceleration provision has since been met; however, the company has elected not to evoke the acceleration provision at this time.

In relation to the November 7, 2013, private placement, the Company paid finder's fees of \$184,102 in cash and 1,970,021 agent's warrants, with each agent's warrant entitling the holder to purchase one share at a price of \$0.15 until November 7, 2015. The agent's warrants were valued at \$112,307 using the Black-Scholes option pricing model (assuming a risk-free interest rate of 1.76%, an expected life of 24 months, annualized volatility of 138.39% and a dividend rate of 0%). The Company paid an additional \$30,331 in share issue costs.

### (e) Acquisition of Pennant

On April 17, 2014, the Company completed a business combination whereby the Company acquired all of the issued and outstanding common shares of Pennant in exchange for common shares of the Company on the basis of one common share of Pennant for 0.42857 corresponding share of the Company (note 3).

As consideration, the Company issued 29,253,954 common shares valued at \$3.5 million, 2,078,567 stock options with a Black-Scholes fair value of \$0.1 million and 4,730,127 warrants with a Black-Scholes fair value of \$0.3 million.

## 7. SHAREHOLDERS' EQUITY (CONTINUED)

### (f) Convertible debentures

During the year ended July 31, 2014, the Company issued 1,046,141 common shares valued at \$0.1 million pursuant to the conversion of 110 convertible debentures. During the three months ended October 31, 2014, the Company issued 3,452,840 common shares valued at \$0.4 million pursuant to the conversion of 345 convertible debentures (note 6). As at January 31, 2015 all convertible debentures had been converted into common shares and a balance of \$nil remained payable (July 31, 2014 - \$0.4 million).

### (g) Warrants

Warrant transactions are summarized as follows:

<i>(CDN\$ thousands, except weighted average exercise price)</i>	Six months ended January 31, 2015		Twelve months ended July 31, 2014	
	Number of warrants	Weighted average exercise price (\$)	Number of warrants	Weighted average exercise price (\$)
Balance, beginning of period	28,918	0.15	39,583	0.24
Issued on acquisition of Pennant (note 3)	-	-	4,730	0.22
Granted	-	-	26,148	0.15
Exercised	(13,007)	(0.15)	(1,961)	(0.13)
Expired/cancelled	-	-	(39,582)	(0.25)
Balance, end of period	15,911	0.15	28,918	0.15

### (h) Agents' Warrants

Agents' warrant transactions are summarized as follows:

<i>(CDN\$ thousands, except weighted average exercise price)</i>	Six months ended January 31, 2015		Twelve months ended July 31, 2014	
	Number of agents' warrants	Weighted average exercise price (\$)	Number of agents' warrants	Weighted average exercise price (\$)
Balance, beginning of period	1,278	0.15	1,918	0.26
Granted	-	-	1,970	0.15
Exercised	(657)	(0.15)	(692)	(0.15)
Expired/cancelled	-	-	(1,918)	(0.26)
Balance, end of period	621	0.15	1,278	0.15

## 8. 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 can be granted for a maximum of 10 years and vest as determined by the board of directors. 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 January 31, 2015, share-based compensation of \$0.6 million in the form of stock option expense was incurred, with \$0.5 million related to key employees and \$0.1 million related to Directors (January 31, 2014 - \$0.2 million related to key employees and Directors). No share-based compensation expense was capitalized during the three months ended January 31, 2015 or 2014.

During the six months ended January 31, 2015, share-based compensation of \$1.8 million in the form of stock option expense was incurred, with \$0.8 million related to key employees and \$0.3 million related to Directors (January 31, 2014 - \$0.3 million related to key employees and Directors). No share-based compensation expense was capitalized during the six months ended January 31, 2015 or 2014.

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:

	Six months ended January 31, 2015	Twelve months ended July 31, 2014
Share price (\$)	0.36	0.12
Exercise price (\$)	0.36	0.12
Risk free rate (%)	2.02	1.71
Expected life (years)	5.00	4.67
Expected dividend yield (%)	-	-
Expected volatility (%)	126.94	102.62
Expected forfeiture rate (%)	5.79	-
Weighted average fair value of options granted (\$)	0.29	0.12

The following tables summarize stock options outstanding under the plan at January 31, 2015:

	Six months ended January 31, 2015		Twelve months ended July 31, 2014	
	Number of options	Weighted average exercise price (\$)	Number of options	Weighted average exercise price (\$)
<i>(CDN\$ thousands, except weighted average exercise price)</i>				
Balance, beginning of period	13,389	0.14	8,450	0.18
Issued on acquisition of Pennant (note 3)	-	-	2,079	0.21
Granted	9,150	0.36	8,125	0.12
Exercised	(1,203)	(0.17)	(1,602)	(0.13)
Expired/cancelled	(225)	(0.10)	(3,663)	(0.22)
Balance, end of period	21,111	0.24	13,389	0.14

## 8. SHARE-BASED COMPENSATION (CONTINUED)

Exercise price (\$)	Options outstanding			Options exercisable	
	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	7,461	3.5	0.11	7,461	0.11
0.16 – 0.30	5,750	3.2	0.21	4,917	0.21
0.31 – 0.42	7,900	4.8	0.38	5,200	0.25
<b>0.10 – 0.42</b>	<b>21,111</b>	<b>3.9</b>	<b>0.24</b>	<b>17,578</b>	<b>0.18</b>

## 9. RELATED PARTY TRANSACTIONS

During the six months ended January 31, 2015 and 2014, the Company engaged in the following transactions with key employees and key contractors:

	Three Months Ended		Six Months Ended	
	January 31 2015	January 31 2014	January 31 2015	January 31 2014
<i>(CDN\$ thousands)</i>				
Accounting and administration fees paid to a company owned by the Company's former Chief Financial Officer	6	22	46	39
Management fees paid to a company owned by the Company's Chief Executive Officer	-	24	39	48
Consulting fees paid to companies owned by the Company's Vice President, Exploration and Vice President, Business Development	2	-	63	-
Share-based compensation of key employees and key contractors*	486	247	797	325
	<b>494</b>	<b>293</b>	<b>945</b>	<b>412</b>

\*The Chief Executive Officer and former Chief Operating Officer also serve as members of the Board of Directors. All related share-based compensation is included as that of key employees and key contractors for these individuals. All other share-based compensation of Board members is included as that of Directors in the following table.

During the six months ended January 31, 2015, the Company issued 3,452,840 common shares valued at \$0.4 million pursuant to the conversion of 345 convertible debentures, of which 595,402 common shares valued at \$0.1 million were converted by management. As at January 31, 2015, all convertible debentures had been converted into common shares and a balance of \$nil remained payable (July 31, 2014 - \$0.4 million).

During the six months ended January 31, 2015 and 2014, the Company engaged in the following transactions with related parties other than key employees:

## 9. RELATED PARTY TRANSACTIONS (CONTINUED)

	Three Months Ended		Six Months Ended	
	January 31 2015	January 31 2014	January 31 2015	January 31 2014
<i>(CDN\$ thousands)</i>				
Legal fees paid to a law firm controlled by a member of the Audit Committee	105	24	142	46
Share issue costs paid to a law firm controlled by a member of the Company's Audit Committee	-	14	92	14
Consulting fees paid to a member of the Company's Audit Committee	-	-	10	-
Share-based compensation of Directors	87	-	304	-
Rent and services from a former Director	-	8	-	8
	<b>192</b>	46	<b>548</b>	68

All related party services and transactions discussed above and as disclosed in other notes in these financial statements were measured and disclosed at their settlement value, which is the fair value agreed to by the parties in the normal course of business and under normal industry terms. As of January 31, 2015 there was \$48 thousand outstanding in accounts payable related to these service providers (July 31, 2014 - \$28 thousand).

## 10. CONTINGENCIES AND COMMITMENTS

### (a) Commitments and financial liabilities

The Company relies on equity financings to fund its capital requirements and to provide liquidity for operations. At January 31, 2015, the Company has committed to future payments over the next five years, as follows:

<i>(CDN\$ thousands)</i>	2015	2016	2017	2018	2019	Thereafter	Total
Accounts payable and accrued liabilities	16,770	-	-	-	-	-	16,770
Office rent	45	180	180	180	-	-	585
	<b>16,815</b>	<b>180</b>	<b>180</b>	<b>180</b>	-	-	<b>17,355</b>

### (b) Flow-through shares

The Company is required to incur and renounce \$12.7 million of eligible Canadian Exploration Expenditures ("CEE") by December 31, 2015 in connection with the issuance of flow-through shares during the six months ended January 31, 2015 (note 7). As at January 31, 2015, all \$12.7 million of these qualifying expenditures have been incurred.

### (c) Litigation and claims

The Company is not involved in any claims or litigation at this time. 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.

## 11. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three Months Ended		Six Months Ended	
	January 31 2015	January 31 2014	January 31 2015	January 31 2014
<i>(CDN\$ thousands)</i>				
Accounts receivable	(656)	(65)	(720)	(64)
Prepaid expenses and deposits	379	(20)	(75)	(62)
Accounts payable and accrued liabilities	15,093	(229)	16,461	(135)
	<b>14,816</b>	<b>(314)</b>	<b>15,666</b>	<b>(261)</b>

	Three Months Ended		Six Months Ended	
	January 31 2015	January 31 2014	January 31 2015	January 31 2014
<i>(CDN\$ thousands)</i>				
Operating	215	(314)	(75)	(261)
Investing	14,601	-	15,741	-
	<b>14,816</b>	<b>(314)</b>	<b>15,666</b>	<b>(261)</b>

During the three months ended January 31, 2015, the Company paid \$1 thousand in interest and \$nil in tax (January 31, 2014 - \$nil).

During the six months ended January 31, 2015, the Company paid \$10 thousand in interest and \$nil in tax (January 31, 2014 - \$nil).

## 12. SUBSEQUENT EVENTS

### (a) Land acquisitions

Subsequent to January 31, 2015, the Company purchased an additional 14 sections of Elmworth Montney land for cash consideration of \$1.1 million (note 3).

### (b) Granting of options

Subsequent to January 31, 2015, the company granted 900,000 stock options to an officer and employees with exercise prices ranging from \$0.31 per share to \$0.465 per share and a weighted average exercise price of \$0.44. One third of these options vested immediately with the remaining thirds vesting equally on the anniversary date of the grant in the following two years. The options granted have a five year expiry.

### (c) Exercise of options and warrants

Subsequent to January 31, 2015, the Company received \$66 thousand in cash from the exercise of 450,000 stock options with exercise prices ranging from \$0.105 per share to \$0.20 per share.

Subsequent to January 31, 2015, the Company received \$91 thousand in cash from the exercise of 723,084 warrants with exercise prices ranging from \$0.11667 per share to \$0.15 per share.