

Blackbird Energy Inc. First Quarter 2015 Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") has been prepared by management and reviewed and approved by the Board of Directors (the "Board") of Blackbird Energy Inc. ("Blackbird" or "the Company") as of December 23, 2014. This MD&A is a review of the operational results of Blackbird. All financial information is presented in Canadian dollars unless otherwise stated.

This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements for the periods ended October 31, 2014 and 2013 and with the Company's audited consolidated financial statements for the periods ended July 31, 2014 and 2013, prepared under International Financial Reporting Standards ("IFRS"). Readers are cautioned that this MD&A contains "non-IFRS measures" and "forward-looking statements" which are discussed at the end of this MD&A.

About Blackbird Energy Inc.

Blackbird is a Canadian energy company actively engaged in crude oil and natural gas exploration, development and production in key areas of the Western Canada Sedimentary Basin. Blackbird is focused on creating long-term shareholder value through a successful exploration program and prudent financial management. Blackbird's shares are widely held and publicly traded on the TSX Venture Exchange under the symbol "BBI".

Blackbird's strategic platform for growth includes the exploration of its 100% working interest Elmworth Montney property ("Elmworth") as well as strategic acquisitions. In addition to Blackbird's Elmworth property the Company holds non-core assets in Saskatchewan and Alberta, from which all of the Company's current production is derived.

Blackbird's core property, Elmworth, consists of 46 contiguous sections of highly prospective Montney lands in close proximity to lands currently being developed by several competitors. The Elmworth property is located in the liquids-rich gas corridor of the Montney, and is anticipated to have up to 200 meters of aggregate net pay in three potential zones: the upper; middle; and lower Montney.

Q1 2015 Operating Summary

The first quarter of 2015 saw significant activity for Blackbird. This activity was centered on strengthening our highly prospective Elmworth Montney land base, building a team of dedicated and talented professionals, funding future growth plans, and ultimately drilling the Company's first Elmworth Montney well.

ELMWORTH MONTNEY LAND BASE

During the three months ended October 31, 2014 Blackbird acquired an additional 11 sections of Elmworth Montney land, 7 of which are contiguous with its current Elmworth Montney land holdings. In addition, Blackbird acquired 77 sections of East Wapiti Montney land. Subsequent to the three months ended October 31, 2014 the Company purchased an additional 3 sections of Elmworth Montney sections contiguous with its current Elmworth Montney land holdings. Total consideration for these acquisitions was cash of \$3.5 million.

Collectively, these land acquisitions bring the Company's total contiguous Elmworth Montney land position to 46 sections of highly prospective resource in close proximity to major industry competitors.

BUILDING OUR TEAM

During the quarter ended October 31, 2014 Blackbird continued to strengthen its team, with the hire of a Vice President, Drilling and Completions, a Manager, Land, and a Controller. The Company has also benefited from the appointment of Kevin Andrus to the Board of Directors. Mr. Andrus is the Portfolio Manager of Energy Investments at GMT Capital Corp. These strategic hires will allow Blackbird to maximize the potential of its Elmworth assets and continue to pursue strategic opportunities for the benefit of Blackbird's shareholders.

FUNDING DRILLING OPERATIONS

During the three months ended October 31, 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.

Subsequent to the three months ended October 31, 2014 the Company issued 16,150,555 flow-through common shares at a price of \$0.45 per flow-through share for gross proceeds of \$7.3 million. These private placements are collectively referred to as the "private placements".

In addition to the private placements discussed above, Blackbird divested its non-core Bigstone asset for cash proceeds of \$8.8 million as discussed in the Capital Expenditures section.

DRILLING THE COMPANY'S FIRST ELMWORTH MONTNEY WELLS

On December 9, 2014 the Company announced that its first 100% working interest horizontal Middle Montney well at Elmworth, located at 6-26-70-07W6 ("6-26"), was successfully drilled and cased with a cemented liner from surface location 14-14-70-07W6 to a total measured depth of 4,730 metres, including a 2,000 metre horizontal leg.

The Company also announced that it had licensed and spudded its second 100% working interest horizontal well at Elmworth, located at 5-26-70-07W6 ("5-26"), targeting the Upper Montney. The 5-26 well was spudded from the same drilling pad located at 14-14-70-07W6 and will be drilled to a vertical depth of approximately 2,340 metres, a lateral length of approximately 2,000 metres and a total measured depth of approximately 4,740 metres.

It is expected that the drilling of the 6-26 and 5-26 wells will cost approximately \$10 million (excluding completion costs). Completion operations for the 6-26 and 5-26 wells are to be undertaken in January 2015 and are expected to cost \$10 million (\$5 million for each well). The Company is planning to flow-test both wells in February, 2015.

KEY TOPICS OF THIS MD&A

In this MD&A Blackbird will first discuss critical issues related to its core operations and properties, such as the substantial capital requirements associated with the Company's future growth plans, the Company's current liquidity and capital resources, the Company's share capital, the capital expenditures and divestitures made during the quarter, and the operational results for the quarter. These discussions are followed by discussion regarding the first quarter 2015 financial and operating highlights related to the Company's non-core assets and operations.

Q1 2015 Financial Highlights: Core Operations and Properties

SUBSTANTIAL CAPITAL REQUIREMENTS

Blackbird must make substantial capital expenditures in order to maintain its current capacity, to meet planned growth and to fund future development activities. These expenditures relate to items both committed to as a result of past transactions, such as the contingencies and commitments discussed below, and also to amounts for which Blackbird has not yet committed, such as future capital expenditures related to Elmworth.

It is expected that each Elmworth Montney well will cost approximately \$10 million to drill and complete. While the Company had a working capital surplus of \$40.2 million at October 31, 2014, and completed an additional flow-through common share private placement subsequent to the quarter then ended, as discussed above, Blackbird anticipates that its working capital surplus will decline to approximately \$27.0 million when it has satisfied its future obligations with respect to the drilling and completion operations of the 6-26 and 5-26 wells and administrative costs.

In addition, Blackbird must address material uncertainties with respect to access, egress and infrastructure (collectively “infrastructure”) which will require further capital expenditure. The amount of capital expenditure required to address these material uncertainties related to infrastructure are not yet known to the Company but are expected to be material.

As a result of the Company’s current commitments, expected expenditures not yet committed, and the material uncertainty with respect to infrastructure, management expects that the Company will require further funding in the form of additional equity issuances, the assumption of debt, or a combination of both in order to meet its planned growth objectives and to fund future development activities.

Blackbird has not committed to a formal capital budget or development activities beyond the 6-26 and 5-26 wells as the scope of the potential Elmworth resource is not yet known to the Company. The Company plans to evaluate the scope of the Elmworth resource in February 2015, during and subsequent to flow-testing operations, at which time Blackbird will commit to a capital budget beyond the 6-26 and 5-26 wells.

LIQUIDITY AND CAPITAL RESOURCES

<i>(CDN\$ thousands)</i>	October 31 2014	July 31 2014
Cash and cash equivalents	41,686	682
Accounts receivable	339	238
Prepaid expenses and deposits	655	166
Assets of discontinued operations	-	9,114
Accounts payable and accrued liabilities	(1,588)	(289)
Loan payable	-	(387)
Convertible debentures	-	(386)
Flow-through share premium liability	(804)	(16)
Liabilities of discontinued operations	(88)	(85)
Working capital surplus (deficit)	40,200	9,037

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

As at October 31, 2014 Blackbird had a working capital surplus of \$40.2 million (July 31, 2014 – \$9.0 million), not including the flow-through private placement of \$7.3 million made subsequent to October 31, 2014, and no long-term debt. The increase in working capital surplus compared to the three months ended July 31, 2014 is due to the private placements discussed in the Q1 2015 Operating Summary above.

The Company relies on equity financings to fund its capital requirements and to provide liquidity for operations. From time to time Blackbird may supplement its liquidity with the proceeds from the sale of assets.

SHARE CAPITAL & SHAREHOLDERS' EQUITY

During the three months ended October 31, 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 the private placements.

Each special warrant entitles the holder to receive, for no additional consideration upon exercise, one common share. In connection with the aforementioned private placements, the Company agreed to prepare and file a prospectus (the "Qualification Prospectus") and all other necessary documents in order to qualify the common shares issuable upon conversion of the special warrants to subscribers resident in Canada, or who are otherwise subject to Canadian securities laws. The Company filed the Qualification Prospectus subsequent to the quarter ended October 31, 2014. The Company's shareholders' equity is as follows:

<i>(CDN\$ thousands, except per share amounts, unaudited)</i>	Number of Common Shares (000's)	Number of Special Warrants (000's)	Share Capital	Share Subscriptions Received in Advance	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
Issuance of flow-through shares	15,900	-	5,406	-	-	-	5,406
Flow-through share premium	-	-	(795)	-	-	-	(795)
Share issue costs	-	-	(1,834)	-	-	-	(1,834)
Exercise of stock options and warrants	11,520	-	1,795	-	(87)	-	1,708
Conversion of convertible debentures and accrued interest	3,453	-	397	-	-	-	397
Share-based compensation	-	-	-	-	1,176	-	1,176
Net loss and comprehensive loss	-	-	-	-	-	(2,708)	(2,708)
At October 31, 2014	222,990	110,345	58,597	-	4,021	(16,096)	46,522

As discussed above, subsequent to the three months ended October 31, 2014 the Company issued 16,150,555 flow-through common shares at a price of \$0.45 per flow-through share for gross proceeds of \$7.3 million.

The following table summarizes the outstanding share capital as of the date of the MD&A:

SHARE CAPITAL & SHAREHOLDERS' EQUITY (CONTINUED)

	Number of shares issued or issuable
Common shares (including special warrants converted on December 23, 2014)	352,682,911
Stock options	19,860,711
Warrants	16,061,591
Agents' warrants	620,567
Special warrants (converted to common shares on December 23, 2014)	-

CAPITAL EXPENDITURES AND DIVESTITURES

During the three months ended October 31, 2014 the Company acquired an additional 11 sections of Elmworth Montney land, 7 of which are contiguous with its current Elmworth Montney land holdings, and 77 sections of East Wapiti Montney land, for cash consideration of \$3.5 million.

Subsequent to the three months ended October 31, 2014 the Company purchased an additional 3 sections of Elmworth Montney land contiguous with its current Elmworth Montney land holdings for cash consideration of \$0.5 million, bringing the Company's total contiguous Elmworth Montney land position to 46 sections.

<i>(CDN\$ thousands)</i>	Q1 2015	Q1 2014
Exploration and evaluation drilling	1,091	-
Property and equipment drilling	24	-
Plants, facilities and pipelines	15	88
Land and lease	3,645	44
Capital well workovers	50	1
Capitalized general and administrative expenses	96	-
Bigstone disposition	(9,047)	-
Net capital expenditures	(4,126)	133

<i>(CDN\$ thousands)</i>	Q1 2015	Q1 2014
Elmworth	4,828	-
Saskatchewan Minor	90	133
Net capital expenditures from continuing operations	4,918	133
Bigstone	3	-
Bigstone disposition	(9,047)	-
Net capital expenditures from discontinued operations	(9,044)	-
Net capital expenditures	(4,126)	133

CAPITAL EXPENDITURES AND DIVESTITURES (CONTINUED)

As discussed above, on December 9, 2014 the Company announced that its first 100% working interest horizontal Middle Montney well at Elmworth, the 6-26, was successfully drilled and cased with a cemented liner from surface location 14-14-70-07W6 to a total measured depth of 4,730 metres, including a 2,000 metre horizontal leg. The Company also announced that it had licensed and spudded its second 100% working interest horizontal well at Elmworth, the 5-26, targeting the Upper Montney. The 5-26 well was spudded from the same drilling pad located at 14-14-70-07W6 and will be drilled to a vertical depth of approximately 2,340 metres, a lateral length of approximately 2,000 metres and a total measured depth of approximately 4,740 metres.

It is expected that the drilling of the 6-26 and 5-26 wells will cost approximately \$10 million (excluding completions costs). Costs of \$1.1 million related to the 6-26 well were incurred as of October 31, 2014 and charged to exploration and evaluation assets. Completions operations for the 6-26 and 5-26 well are to be undertaken in January 2015 and are expected to cost \$10 million (\$5 million for each well). The Company is planning to flow-test both wells in February, 2015.

NON-CORE ASSET DIVESTITURE: 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, as per the calculation below. All discontinued operations discussed in this MD&A are related to the Bigstone CGU.

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

CONTINGENCIES AND COMMITMENTS

At October 31, 2014, 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	1,676	-	-	-	-	-	1,676
Office rent	90	180	180	180	-	-	630
	1,766	180	180	180	-	-	2,306

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

The Company is required to incur and renounce \$12.7 million of eligible Canadian Exploration Expenditures by December 31, 2015 in connection with the issuances of flow-through shares discussed above. As at October 31, 2014, \$0.3 million of these expenditures have been incurred.

CONTINGENCIES AND COMMITMENTS (CONTINUED)

The remaining \$12.4 million of qualifying expenditures will be incurred during fiscal 2015. The Company plans to fund these expenditures and commitments with working capital.

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 for the purpose of and is adequate to address any future claims as to matters insured.

GENERAL AND ADMINISTRATIVE EXPENSES

<i>(CDN\$ thousands, except where otherwise noted)</i>	Q1 2015	Q1 2014
Gross general and administrative (G&A) expense	759	175
Capitalized G&A expense	(93)	-
Total net G&A expense	666	175
G&A expense (\$/boe)	128.08	42.68

(1) All G&A is related to continuing operations

For the three months ended October 31, 2014, gross G&A expenses for continuing operations increased to \$0.8 million from \$0.2 million for the same period in 2013. The increase was due to increased salaries and wages and general office costs related to the hire of additional employees and increased legal fees incurred related to the Bigstone disposition and the private placements.

SHARE-BASED COMPENSATION

<i>(CDN\$ thousands)</i>	Q1 2015	Q1 2014
Share-based compensation – stock option expense	1,176	78

(1) All share-based compensation is related to continuing operations

During the three months ended October 31, 2014, Blackbird incurred share-based compensation expense of \$1.2 million compared to \$0.1 million during the same quarter of 2013. The increase during the quarter ended October 31, 2014 is due to the granting of options to attract key personnel, including the Company's new Vice President, Drilling and Completions, the Company's new Manager, Land, the Company's new Controller and the addition of an independent director. Blackbird believes that compensation tied to shareholder return is a critical piece of attracting top-tier people who share the common mandate of generating shareholder value.

Q1 2015 Financial Highlights: Non-Core Properties

PRODUCTION

For the three months ended October 31, 2014, production from continuing operations averaged 58 boe/d. The decrease in production from the same quarter of 2013 is primarily due to decreased gas volumes due to temporarily shut-in gas wells at Bigstone, with few capital expenditures allocated to replacing production.

PRODUCTION (CONTINUED)

Commodity	Q1 2015	Q1 2014
Natural gas (<i>mcf/d</i>)	68	43
Crude oil (<i>bbls/d</i>)	45	37
Natural gas liquids (<i>bbls/d</i>)	2	-
Total production from continuing operations (<i>boe/d</i>) (6:1)	58	45
Total production from discontinued operations (<i>boe/d</i>) (6:1)	1	34
Total production (<i>boe/d</i>) (6:1)	59	79

Region	Q1 2015	Q1 2014
Alberta Minor (<i>boe/d</i>)	8	-
Saskatchewan Minor (<i>boe/d</i>)	50	45
Total production from continuing operations (<i>boe/d</i>) (6:1)	58	45
Bigstone (<i>boe/d</i>) (<i>discontinued operations</i>)	1	34
Total production (<i>boe/d</i>) (6:1)	59	79

PETROLEUM AND NATURAL GAS SALES

<i>(\$ thousands, except where otherwise noted)</i>	Q1 2015	Q1 2014
Petroleum and natural gas sales		
Natural gas	30	8
Crude oil	291	250
Natural gas liquids	15	-
Royalties	(22)	(26)
Petroleum and natural gas sales from continuing operations	314	232
Petroleum and natural gas sales from discontinued operations	2	115
Total petroleum and natural gas sales	316	347
Average sales price		
Natural gas (<i>\$/mcf</i>)	5.04	4.90
Crude oil (<i>\$/bbl</i>)	71.66	80.21
Natural gas liquids (<i>\$/bbl</i>)	70.48	64.22
Average sales price (<i>\$/boe</i>)	65.00	71.79
Benchmark prices		
AECO Gas (<i>\$/mcf</i>) ⁽¹⁾	3.82	3.82
SaskEnergy Gas (<i>\$/mcf</i>) ⁽¹⁾	3.69	2.98
Hardisty Heavy Oil (<i>\$/bbl</i>) ⁽¹⁾	69.78	75.54
Edmonton Butane (<i>\$/bbl</i>) ⁽¹⁾	64.65	70.36

(1) Source: Independent qualified reserves evaluator

PETROLEUM AND NATURAL GAS SALES (CONTINUED)

For the three months ended October 31, 2014, petroleum and natural gas sales from continuing operations, net of royalties was \$0.3 million compared to \$0.2 million during the same quarter of 2013. The consistent revenue between quarters was due to a higher weighting of crude oil revenue compared to natural gas revenue offset by lower realized crude oil and sales prices. Blackbird realized an average sales price of \$65.00 per boe during the three months ended October 31, 2014 compared to \$71.79 per boe in the three months ended October 31, 2013, exclusive of royalties, due to the lower crude oil prices. All petroleum and natural gas sales from discontinued operations are attributed to the Bigstone property.

ROYALTIES

<i>(\$ thousands, except where otherwise noted)</i>	Q1 2015	Q1 2014
Royalties		
Crown	2	10
Freehold and overriding	20	16
Total royalties from continuing operations	22	26
Total royalties from discontinued operations	-	8
Total	22	34
Royalties per boe (\$)	4.42	6.34
Average royalty rate (%)	6.8	10.1

Blackbird pays royalties to provincial governments, freehold landowners and overriding royalty owners. Royalties are calculated and paid based on petroleum and natural gas sales net of transportation. Crown royalties on Alberta natural gas production are calculated based on the Alberta Reference Price, which may vary from Blackbird's realized corporate price, impacting the average royalty rate. In addition, various items impact the average royalty rate paid, such as cost of service credits and other royalty credit programs.

Royalties on horizontal gas wells drilled in Alberta in 2014 and beyond generally bear royalties at a maximum of 5% for 18 months or until cumulative production reaches 50,000 boe.

Horizontal oil wells generally bear royalties at a maximum of 5% for 18 to 48 months until cumulative production reaches 50,000 boe to 100,000 boe, depending on well depth.

Wells in Saskatchewan generally bear royalties at 2.5% until cumulative production reaches 50,000 boe. Blackbird anticipates that production from wells drilled in 2014 and 2015 would qualify for these lower royalty rates.

Natural gas and liquids royalties for the three months ended October 31, 2014 were \$23 thousand or 6.8% of total petroleum and natural gas sales compared to 10.1% during the same quarter in 2013. The decrease in the royalty rate was due to Gas Cost Allowance adjustments.

OPERATING AND WELL WORKOVER EXPENSE

Combined operating and well workover expenses for the three months ended October 31, 2014 were \$0.2 million or \$44.97 per boe, compared to \$0.3 million or \$65.12 per boe during the same quarter in 2013. The decrease in aggregate operating and well workover expenses from the same quarter in 2013 is due to decreased volumes, while the decrease in per-unit expenses is attributable to lower field labour costs. The amount of operating expense attributed to discontinued operations was \$27 thousand (October 31, 2013 - \$66 thousand).

FINANCING COSTS

Financing costs for the Company during the period ended October 31, 2014 were as follows:

<i>(CDN\$ thousands)</i>	Q1 2015	Q1 2014
Accretion of decommissioning provision ⁽¹⁾	9	6
Interest on loan payable	9	2
	18	8

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

OPERATING NETBACK AND FUNDS USED FOR CONTINUING OPERATIONS

	<i>(\$ thousands)</i>			<i>(\$ per boe)</i>		
	Q1 2015	Q1 2014	% change	Q1 2015	Q1 2014	% change
Petroleum and natural gas sales	337	258	31	64.81	62.93	3
Royalties	(23)	(26)	(12)	(4.43)	(6.34)	(30)
Operating, production and transportation	314 (234)	232 (267)	35 (12)	60.38 (44.97)	56.59 (65.12)	7 (31)
Operating netback⁽¹⁾	80	(35)	329	15.41	(8.53)	281
General and administrative	(666)	(175)	281	(128.08)	(42.68)	200
Interest income	33	-	-	6.35	-	-
Interest expense	(9)	-	-	(1.73)	-	-
Funds used for operations⁽¹⁾	(562)	(210)	168	(108.05)	(51.22)	111
Decommissioning expenditures	(31)	-	-	(6.23)	-	-
Changes in non-cash working capital	(289)	51	(667)	(55.63)	12.44	(547)
Funds used by discontinued operations	(25)	49	-	(4.83)	-	-
Cash used in operating activities	(907)	(110)	726	(174.74)	(38.78)	351

(1) Non-IFRS measure

For the three months ended October 31, 2014, funds used for operations was \$0.9 million compared to funds used for operations of \$0.1 million for the same period in 2013. This was primarily the result of increased G&A expense due to an increased number of employees and increased legal fees due to the completion of the Bigstone disposition and various filings. The increased G&A was partially offset by higher operating netback resulting from decreased operating expenses compared to the same period in 2013.

SENSITIVITIES

The following sensitivity analysis is provided to demonstrate the impact of changes in commodity prices on petroleum and natural gas sales from continuing operations for the three months ended October 31, 2014 and is based on the balances disclosed in this MD&A and the condensed consolidated interim financial statements for the three months ended October 31, 2014:

<i>(\$ thousands)</i>	Petroleum and Natural Gas Sales ⁽¹⁾
Change in average sales price for natural gas by \$1.00/mcf	6.2
Change in the average sales price for crude oil and natural gas liquids by \$1.00/bbl	4.3
Change in natural gas production by 1 mmcfd ⁽²⁾	459
Change in crude oil and natural gas liquids production by 100 bbls/d ⁽²⁾	652

(1) Reflects the change in petroleum and natural gas sales for the three months ended October 31, 2014.

(2) Reflects the change in production multiplied by Blackbird's average sales prices for the three months ended October 31, 2014.

DEPLETION, DEPRECIATION AND IMPAIRMENT

For the three months ended October 31, 2014, depletion and depreciation was \$136 thousand or \$26.15 per boe compared to \$141 thousand or \$34.39 per boe for the same period in 2013. The decrease in depletion and depreciation expense per boe compared to the same period in 2013 was caused by a lower depletion base.

The calculation of depletion and depreciation included an estimated \$nil (October 31, 2013 - \$8.9 million) for future development capital associated with proved plus probable undeveloped reserves and excluded \$6.7 million (October 31, 2013 - \$1.6 million) related to exploration and evaluation assets.

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 October 31, 2014, the Company recognized an impairment of \$0.7 million to property and equipment (three months ended October 31, 2013 - \$nil) to reflect the low oil and natural gas price environment for future production.

The Company recorded net impairments of \$0.2 million in the Alberta Minor CGU and \$0.5 million in the Saskatchewan Minor CGU during the three months ended October 31, 2014 (October 31, 2013 - \$nil).

Impairments recognized during the three months ended October 31, 2014, were calculated using a 10% discount rate. Using a discount rate of 9% would reduce the 2014 impairment by less than \$0.1 million. Using a discount rate of 11% would increase 2014 impairment by less than \$0.1 million.

The impairment test was carried out at October 31, 2014, using the following forward commodity price projections:

DEPLETION, DEPRECIATION AND IMPAIRMENT (CONTINUED)

Year	AECO Gas (\$CDN/MMBtu) ⁽¹⁾	SaskEnergy (\$CDN/MMBtu) ⁽¹⁾	Hardisty Heavy Crude Oil Proxy (12 API) (\$CDN/bbl) ⁽¹⁾	Alberta Natural Gas Liquids Edmonton Butane (\$CDN/bbl) ⁽¹⁾
2014 Q4	3.82	3.69	69.78	64.65
2015	3.64	3.52	64.51	64.57
2016	3.76	3.64	64.85	67.91
2017	3.88	3.75	67.14	67.16
2018	4.02	3.89	67.13	67.15
2019	4.22	4.09	67.31	67.33
2020+	+2.0%	+2.0%	+2.0%	+2.0%

(1) Source: Independent qualified reserves evaluator's price forecast, effective October 31, 2014.

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

Related Party Transactions

During the three months ended October 31, 2014 and 2013 the Company engaged in the following transactions with key employees:

<i>(CDN\$ thousands)</i>		
<i>For the three months ended October 31</i>	2014	2013
Accounting fees paid to a company owned by the Company's Chief Financial Officer	46	17
Management fees paid to a company owned by the Company's Chief Executive Officer	39	24
Salary paid to the Company's Chief Operating Officer	30	30
Consulting fees paid to companies owned by the Company's Vice President, Exploration and Vice President, Business Development	61	-
Share-based compensation of key employee	311	78
	487	149

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, of which 595,402 common shares valued at \$0.1 million were converted by management. As at October 31, 2014 all convertible debentures had been converted into common shares and a balance of \$nil remained payable (July 31, 2014 - \$0.4 million).

During the three months ended October 31, 2014 and 2013 the Company engaged in the following transactions with related parties other than key employees:

<i>(CDN\$ thousands)</i>		
<i>For the three months ended October 31</i>	2014	2013
Legal fees paid to a law firm controlled by a member of the Audit Committee	37	22
Share issue costs paid to a law firm controlled by a member of the Company's Audit Committee	92	-
Consulting fees paid to a member of the Company's Audit Committee	10	-
Share-based compensation of a director	217	-
	356	22

Related Party Transactions (Continued)

Share-based compensation of \$1.2 million in the form of stock option expense was incurred for the three months ended October 31, 2014, with \$0.3 million related to key employees and \$0.2 million related to directors (October 31, 2013 - \$0.1 million and all related to key employees and directors).

All related party services and transactions discussed above and as disclosed elsewhere in this MD&A 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 October 31, 2014 there was \$108 thousand outstanding in accounts payable related to these service providers (July 31, 2014 - \$28 thousand).

Outlook

The Company is very pleased and encouraged by the progress made over the past quarter. We are increasingly focused on obtaining capital efficiencies in our drilling and completions operations in this challenging commodity price environment. Subsequent to flow-testing the 6-26 and 5-26 wells in February, 2015 Blackbird will have approximately \$27 million of working capital. The Company believes it is very well positioned to capitalize on potential opportunities resulting from the difficult market conditions and to leverage our strong balance sheet to build value for shareholders in our highly prospective Elsworth Montney play.

Quarterly Financial Summary

<i>(\$ thousands except per share and production amounts)</i>	2015	2014	2014	2014	2014	2013	2013	2013
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total assets	50,214	13,649	14,146	9,698	8,115	7,817	10,582	10,852
Working capital	40,200	55	552	889	358	510	1,260	2,137
Elsworth Montney land sections ⁽³⁾	43	27	27	21	18	7	-	-
East Wapiti Montney land sections	77	-	-	-	-	-	-	-
Production								
Natural gas (mcf/d)	68	151	119	96	174	134	51	223
Crude oil and natural gas liquids (bbl/d)	48	41	22	39	57	54	32	19
Total (boe/d)	59	66	42	55	86	76	40	56
Petroleum & natural gas sales ⁽²⁾	338	446	218	224	381	460	174	180
Net loss and comprehensive loss ⁽¹⁾	(2,708)	(1,476)	(541)	(1,211)	(388)	(2,921)	(362)	(403)
Net loss and comprehensive loss per share – basic and diluted ⁽¹⁾	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.03)	(0.01)	(0.01)
Cash used in operations ⁽³⁾	(907)	(1,144)	(362)	(856)	(110)	(279)	(369)	(173)
Cash used in operations per share – basic	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)

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

(2) Non-IFRS measures.

(3) Contiguous sections, not including 3 sections purchased subsequent to October 31, 2014. The Company also owns 4 Elsworth Montney sections to the north of its contiguous block for a total of 47 at October 31, 2014.

Quarterly Financial Summary (Continued)

Significant factors and trends that have impacted Blackbird's results during the above periods include:

- (a) Revenue is directly impacted by Blackbird's ability to replace existing production and add incremental production through its workover, recompletion and capital expenditure program.
- (b) Fluctuations in Blackbird's petroleum and natural gas sales from quarter to quarter are primarily caused by variations in production volumes, realized oil and natural gas prices and the related impact of royalties.
- (c) Fluctuations in Blackbird's net loss and cash used in operations from quarter to quarter are primarily caused by variations in petroleum and natural gas sales, sales of assets, impairments of property, plant and equipment, share-based compensation expense and G&A costs.
- (d) Completion of the plan of arrangement with Pennant Energy Inc. on April 17, 2014.

Please refer to the other sections of this MD&A for the detailed discussions on changes for the three months ended October 31, 2014.

Risk Factors

The Blackbird management team conducts focused strategic planning and has identified the key risks, uncertainties and opportunities associated with Company's business that can affect its financial results. They include, but are not limited to:

RESERVES AND RESOURCE ESTIMATES

Blackbird's exploration and production activities are concentrated in the Western Canada Sedimentary Basin, where the industry is very competitive. There are a number of risks facing participants in the oil and natural gas industry, some of which are common to all businesses, while others are specific to the sector. These include risks such as finding and developing oil and natural gas reserves economically, geological risk, estimating reserves, producing the reserves in commercial quantities, finding a suitable market at attractive commodity prices, financial and liquidity risks, and environmental and safety risks. Blackbird's future oil and natural gas reserves and production and, therefore, its cash flows, will be highly dependent on the Company's success in exploiting its reserve base, executing a successful exploration program and acquiring additional reserves.

The Company mitigates the risk of finding and developing economical oil and natural gas reserves by utilizing a team of highly qualified professionals with expertise and experience in these areas. Blackbird attempts to maximize drilling success by exploring areas that have multi-zone opportunities, including targeting deeper horizons with uphole potential, continuously assessing new acquisition opportunities to complement existing activities and, depending on the scope of the Elsworth resource, balancing higher-risk exploratory drilling with lower-risk development drilling. Beyond exploration risk, there is the potential that the Company's oil and natural gas reserves may not be economically produced at prevailing prices. Blackbird minimizes this risk by generating exploration prospects internally, targeting high quality projects, operating projects, and by attempting to access sales markets through Company-owned infrastructure or mid-stream operators.

RESERVES AND RESOURCE ESTIMATES (CONTINUED)

Blackbird has retained an independent engineering consulting firm that assists the Company in evaluating oil and natural gas reserves. Reserve values are based on a number of variable factors and assumptions such as commodity prices, projected production, future production costs and governmental regulation. The reserves and recovery information contained in the independent reserves evaluation is an estimate. The actual production and ultimate reserves from the properties may be greater or less than the estimates prepared by the independent reserves evaluator.

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 US 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 October 31, 2014 to manage these risks.

OPERATIONAL MATTERS

The operation of oil and natural gas wells involves a number of operating and natural hazards that may result in blowouts, environmental damage and other unexpected or dangerous conditions resulting in damage to Blackbird and possible liability to third parties. Blackbird has established an environmental, health and safety program and has updated its operational emergency response plan and operational safety manual to address these operational issues. Blackbird maintains a comprehensive insurance plan, which includes liability insurance, where available, in amounts consistent with industry standards, to the extent that such insurance is available, to mitigate risks and protect against significant losses where possible. Blackbird may become liable for damages arising from such events against which it cannot insure or against which it may elect not to insure because of high premiums or other reasons. Blackbird operates in accordance with all applicable environmental legislation and strives to maintain compliance with such regulations. Blackbird's mandate includes ongoing development of procedures, standards and systems to allow Blackbird staff to make the best decisions possible and ensuring those decisions are in compliance with the Company's environmental, health and safety policies. Although management takes all reasonable steps to ensure verify title of properties it has an interest in, management can provide no assurance that there will not be title disputes or undetected defects.

INTEREST RATE RISK

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

FOREIGN EXCHANGE RISK

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

CREDIT RISK

The Company's credit risk exposure is related to joint interest billings, goods and services tax receivable, and cash and cash equivalents. The Company's allowance for doubtful accounts is currently \$nil and the Company expects to collect all outstanding accounts receivable (July 31, 2014 - \$nil).

At October 31, 2014, cash and cash equivalents were comprised of \$35.6 million in short term investment instruments and \$6.1 million of cash held at financial institutions (July 31, 2014 – \$0.7 million cash held at financial institutions).

LIQUIDITY RISK

The Company relies on equity financings to fund its capital requirements and to provide liquidity for operations. From time to time Blackbird may supplement its liquidity with the proceeds from the sale of assets.

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 debt-to-equity and debt-to-cash flow ratios, 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, refinancing existing 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 October 31, 2014.

The oil and natural gas industry is a very capital-intensive industry, and in order to fully realize the Company's strategic goals and business plans, Blackbird will rely on equity markets as a source of new capital in addition to bank financing and internally generated cash flow to fund its ongoing capital investments. Blackbird's ability to raise additional capital will depend on a number of factors that are beyond the Company's control, such as general economic and market conditions. Internally generated funds will also fluctuate with changing commodity prices.

CHANGES IN INCOME TAX LEGISLATION

In the future, income tax laws or other laws may be changed or interpreted in a manner that adversely affects Blackbird or its shareholders. Tax authorities having jurisdiction over Blackbird or its shareholders may disagree with how Blackbird calculates its income for tax purposes to the detriment of Blackbird and its shareholders.

ENVIRONMENTAL CONCERNS

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. A breach of such legislation may result in the imposition of fines or issuance of clean-up orders in respect of Blackbird or its working interests. Such legislation may be changed to impose higher standards and potentially more costly obligations to Blackbird. Blackbird focuses on conducting transparent, safe and responsible operations in the communities in which its people live and work.

GOING CONCERN RISK

The unaudited condensed consolidated interim financial statements for the quarter ended October 31, 2014 and related notes attached thereto have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. The Company expects its current capital resources will be sufficient to complete its exploration and development plans and operations through its current operating year but may need to raise additional funds through future debt or equity issuances. The unaudited condensed consolidated interim financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

PROJECT RISKS

Blackbird's ability to execute projects and market oil and natural gas depends on numerous factors beyond its control, including the availability of processing capacity, availability and proximity of pipeline capacity, availability of storage capacity, supply of and demand for oil and natural gas, availability of alternative fuel sources, effects of inclement weather, availability of drilling and related equipment, unexpected cost increases, accidental events, change in regulations, and availability and productivity of skilled labour. Because of these factors, Blackbird may be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it produces.

Basis of Presentation

The Company's financial statements and financial information contained in this MD&A have been prepared on the historical cost basis except as detailed in the Company's accounting policies disclosed in the audited consolidated financial statements for the years ended July 31, 2014 and 2013 as filed on SEDAR. The accounting policies have been applied consistently to all periods presented in the unaudited condensed consolidated interim financial statements. The unaudited condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto as at and for the years ended July 31, 2014 and 2013. 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.

Critical Accounting Estimates

The timely preparation of financial statements and the financial information contained in this MD&A 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.

New events or additional information may result in the revision of these estimates over time. Examples of these estimates include but are not limited to estimated revenues, royalties and operating expenses on production as at a specific reporting date but for which actual revenues and costs have not yet been received; estimated capital expenditures on projects that are in progress; estimated fair values of financial instruments that are subject to fluctuation depending on underlying commodity prices, foreign exchange rates and interest rates, volatility curves and the risk of non-performance; estimated value of decommissioning liabilities that depend on estimates of future costs and timing of expenditures; estimated future recoverable value of property and equipment and any associated impairment charges or recoveries; and estimated compensation expense under Blackbird's share-based compensation plan.

Blackbird has hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Further, past estimates are reviewed and compared to actual results, and actual results are compared to budget in order to make more informed decisions on future estimates. For further information on certain estimates inherent in the financial statements, refer to Note 3 of the audited financial statements for the years ended July 31, 2014 and 2013.

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.

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.

CASH AND CASH EQUIVALENTS, ACCOUNTS RECEIVABLE, PREPAID EXPENSES AND DEPOSITS, AND 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 October 31, 2014 due to their short term to maturity.

Critical Accounting Estimates (Continued)

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.

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

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.

Management's Responsibility for Financial Statements

Information provided in this report, including from the unaudited condensed consolidated interim financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future value for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying interim condensed consolidated financial statements. Management maintains a system of internal controls to provide reasonable assurances that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

Off-Balance Sheet Arrangements

Blackbird has no off-balance sheet arrangements.

Non-IFRS Measures

This MD&A contains references to funds used for operations, funds used for operations per share and operating netback, which are not defined under IFRS as issued by the International Accounting Standards Board and are therefore non-IFRS financial measures that do not have any standardized meaning prescribed by IFRS and are, therefore, unlikely to be comparable to similar measures presented by other issuers. Management of Blackbird believes funds used for operations, funds used for operations per share and operating netback are relevant indicators of Blackbird's financial performance and its ability to fund future capital expenditures. Funds used for operations and operating netback should not be considered an alternative to or more meaningful than cash flow from operating activities, as determined in accordance with IFRS, as an indicator of Blackbird's performance. In the operating netback and funds used for operations section of this MD&A, reconciliation has been prepared of funds used in operations and operating netback to cash from operating activities, the most comparable measure calculated in accordance with IFRS.

BOE Presentation

Production information is commonly reported in units of barrel of oil equivalent ("boe"). For purposes of computing such units, natural gas is converted to equivalent barrels of oil using a conversion factor of six thousand cubic feet to one barrel of oil (6:1). This conversion ratio of 6:1 is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Such disclosure of boe's may be misleading, particularly if used in isolation. Additionally, given the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion ratio of 6:1 may be misleading as an indication of value. Readers should be aware that historical results are not necessarily indicative of future performance. Natural gas production is expressed in thousand cubic feet ("mcf"). Oil and natural gas liquids are expressed in barrels ("bbls").

Forward-Looking Statements

Certain information included in this discussion may constitute forward-looking statements. Readers are cautioned not to put undue reliance on forward-looking statements. These statements relate to future events or the Company's future performance, business prospects or opportunities. Forward-looking statements consist of statements that are not purely historical, including any statements regarding beliefs, plans, expectations or intentions regarding the future. Such statements are subject to risks and uncertainties that may cause actual results, performance or developments to differ materially from those contained in the statements. No assurance can be given that any of the events anticipated by the forward-looking statements will occur or, if they do occur, what benefits the Company will obtain from them. These forward-looking statements reflect management's current views and are based on certain expectations, estimates and assumptions which may prove to be incorrect. A number of risks and uncertainties could cause our actual results to differ materially from those expressed or implied by the forward-looking statements, including: (1) a downturn in general economic conditions in North America and internationally, (2) the inherent uncertainties and speculative nature associated with petroleum and gas exploration and production, (3) a decreased demand for petroleum or natural gas, (4) any number of events or causes which may delay or cease exploration and development of the Company's property interests, such as environmental liabilities, weather, mechanical failures, safety concerns and labour problems; (5) the risk that the Company does not execute its business plan, (6) inability to retain key employees, (7) inability to finance operations and growth, and (8) other factors beyond the Company's control.

Forward-Looking Statements (Continued)

These forward-looking statements are made as of the date of this discussion and, except as required by law, the Company assumes no obligation to update these forward-looking statements, or to update the reasons why actual results differed from those projected in the forward-looking statements.

The foregoing list of risk factors is not exhaustive. Additional information on these and other factors which could affect Blackbird's operations or financial results are included in Blackbird's most recent Annual Information Form. In addition, information is available in Blackbird's other reports on file with Canadian securities regulatory authorities.

Additional Information

Additional information relating to Blackbird is filed on SEDAR and can be viewed at www.sedar.com. Information can also be obtained on Blackbird's website at www.blackbirdenergyinc.com or by contacting Blackbird at Blackbird Energy Inc., Suite 2200, 635 – 8th Avenue S.W., Calgary, Alberta, Canada T2P 3M3.