BLACKBIRD ENERGY

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Dated November 28, 2017

FOR THE YEARS ENDED JULY 31, 2017 AND 2016

Management's Report

To the Shareholders of
Blackbird Energy Inc.

The financial statements of Blackbird Energy Inc. were prepared by management in accordance with International Financial Reporting Standards as adopted by the Chartered Professional Accountants of Canada. Management has used estimates and careful judgement, particularly in those circumstances where transactions affecting current periods are dependent on information not know for certain until a future period. The financial and operational information contained in this year-end report is consistent with that reported in the financial statements.

Management is responsible for the integrity of the financial and operational information contained in this report. Blackbird Energy Inc. has designed and maintains internal controls to provide reasonable assurance that assets are properly safeguarded and that the financial records are well maintained and provide relevant, timely and reliable information to management. The financial statements have been prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized in the notes to the financial statements.

External auditors appointed by the shareholders have conducted an independent examination of the corporate and accounting records in order to express their opinion on the financial statements. The Audit Committee has met with the external auditors and management in order to determine if management has fulfilled its responsibilities in the preparation of the financial statements. The Board of Directors has approved the financial statements on the recommendation of the Audit Committee.

Garth Braun
Chairman, Chief Executive Officer and President

Karen Minton

Karen Minton
Chief Financial Officer and Corporate Secretary

November 27, 2017

Independent Auditors' Report

To the Shareholders of
Blackbird Energy Inc.

We have audited the accompanying consolidated financial statements of Blackbird Energy Inc., which comprise the consolidated statements of financial position as at July 31, 2017 and 2016, and the consolidated statements of operations and comprehensive (loss) income, cash flows and changes in shareholders' equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Blackbird Energy Inc. as at July 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Vancouver, Canada

Davidson & Company LLP

November 27, 2017

Chartered Professional Accountants

Blackbird Energy Inc.
Consolidated Statements of Financial Position

(CDN$ thousands)	Note	July 31 2017	July 31 2016
Assets			
Current			
Cash		**60,535**	29,051
Accounts receivable	4	**1,289**	219
Inventory	7	**397**	181
Prepaid expenses and deposits	5	**1,022**	1,019
		63,243	30,470
Long-term portion of deposits	6	**518**	677
Exploration and evaluation assets	7	**25,153**	9,675
Property and equipment	7	**99,992**	38,780
Investment in securities	8	**3,000**	-
		191,906	79,602
Liabilities			
Current			
Accounts payable and accrued liabilities	9	**13,175**	702
Flow-through share premium liability	15	**1,309**	314
		14,484	1,016
Decommissioning provision	10	**2,556**	1,001
Deferred income taxes	19	**5,937**	517
		22,977	2,534
Shareholders' Equity			
Share capital	14	**185,624**	86,416
Reserves	14	**14,758**	11,505
Deficit		**(31,453)**	(20,853)
		168,929	77,068
		191,906	79,602

See accompanying notes to the consolidated financial statements.

Nature and continuance of operations (note 1)
Contingencies and commitments (note 20)
Subsequent events (note 23)

On behalf of the Board,

Garth Braun
Chairman, Chief Executive Officer and President

Ron Schmitz
Director

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

(CDN$ thousands, except per share amounts)	Note	Years Ended July 31 2017	July 31 2016
Revenue			
Petroleum and natural gas		**6,234**	33
Royalties		**(396)**	-
		5,838	33
Expenses			
Operating		**1,558**	273
Transportation and processing		**2,963**	-
General and administrative	18	**3,974**	2,254
Depletion, depreciation and amortization	7	**1,604**	-
Share-based compensation	16	**3,624**	1,293
Property evaluation expense	7	**-**	300
Inventory write-down	7	**-**	151
Property and equipment impairment reversal, net	7	**-**	(4,461)
Gain on settlement of decommissioning provision	10	**-**	(29)
		(13,723)	219
Operating (loss) income before other and income taxes		**(7,885)**	252
Other			
Amortization of flow-through share premium liability	15	**2,301**	148
Financing costs	13	**(44)**	(17)
Interest income		**448**	203
		2,705	334
(Loss) income before taxes		**(5,180)**	586
Income taxes			
Deferred income tax expense	19	**(5,420)**	(517)
Net (loss) income and comprehensive (loss) income		**(10,600)**	69
Net (loss) income per common share			
Basic and diluted	14	**(0.02)**	0.00

See accompanying notes to the consolidated financial statements.

Blackbird Energy Inc.
Consolidated Statements of Cash Flows

		Years Ended	
(CDN$ thousands)	Note	**July 31 2017**	July 31 2016
Cash (used in) provided by:			
Operating activities			
Net (loss) income		**(10,600)**	69
Items not involving cash:			
Deferred income tax expense	19	**5,420**	517
Depletion, depreciation and amortization	7	**1,604**	-
Share-based compensation	16	**3,624**	1,293
Amortization of flow-through share premium liability	15	**(2,301)**	(148)
Inventory write-down	7	**-**	151
Property and equipment impairment reversal, net	7	**-**	(4,461)
Financing costs	13	**44**	17
Gain on settlement of decommissioning provision	10	**-**	(29)
Interest paid	21	**(12)**	-
Changes in non-cash working capital	21	**(578)**	(265)
		(2,799)	(2,856)
Financing activities			
Issuance of common shares	14	**61,851**	-
Issuance of flow-through shares	14	**36,093**	2,312
Issuance of units	14	**-**	26,462
Share issue costs	14	**(4,230)**	(1,796)
Exercise of stock options and warrants	14	**1,407**	477
		95,121	27,455
Investing activities			
Deposits, net		**-**	(915)
Property and equipment additions	7	**(46,868)**	(2,166)
Exploration and evaluation asset additions	7	**(23,107)**	(15,225)
Investment in securities	8	**(3,000)**	-
Changes in non-cash working capital	21	**12,137**	428
		(60,838)	(17,878)
Increase in cash during the year		**31,484**	6,721
Cash, beginning of year		**29,051**	22,330
Cash, end of year		**60,535**	29,051

See accompanying notes to the consolidated financial statements.

Supplemental cash flow information (note 21)

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

(CDN$ thousands, except share amounts)	Number of Common Shares (000s)	Share Capital	Reserves	Deficit	Total
At July 31, 2015	354,199	64,479	5,201	(20,967)	48,713
Issuance of common shares	176,410	21,169	-	-	21,169
Issuance of listed warrants	-	-	5,293	-	5,293
Issuance of flow-through shares	15,410	2,312	-	-	2,312
Flow-through share premium	-	(462)	-	-	(462)
Share issue costs	-	(1,796)	-	-	(1,796)
Exercise of stock options and warrants	4,004	714	(237)	-	477
Share-based compensation	-	-	1,248	45	1,293
Net income for the year	-	-	-	69	69
At July 31, 2016	550,023	86,416	11,505	(20,853)	77,068

(CDN$ thousands, except share amounts)	**Number of Common Shares (000s)**	**Share Capital**	**Reserves**	**Deficit**	**Total**
At July 31, 2016	550,023	86,416	11,505	(20,853)	77,068
Issuance of common shares	112,456	61,851	-	-	61,851
Issuance of flow-through shares	63,809	36,093	-	-	36,093
Flow-through share premium	-	(3,296)	-	-	(3,297)
Share issue costs	-	(4,230)	-	-	(4,230)
Exercise of stock options and warrants	7,219	1,778	(371)	-	1,407
Share-based compensation	-	-	3,624	-	3,624
Common shares issued for exploration and evaluation assets	11,923	7,012	-	-	7,013
Net loss for the year	-	-	-	(10,600)	(10,600)
At July 31, 2017	**745,430**	**185,624**	**14,758**	**(31,453)**	**168,929**

See accompanying notes to the consolidated financial statements.

All tabular amounts in CDN$ thousands, except where otherwise noted.

1. NATURE AND CONTINUANCE OF OPERATIONS

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

These consolidated 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 consolidated financial statements. The Company estimates that it has sufficient funds to continue operations for the next 12 months.

(CDN$ thousands)	**July 31 2017**	July 31 2016
Working capital	**48,759**	29,454
Deficit	**(31,453)**	(20,853)

2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The accounting policies have been applied consistently to all periods presented in the financial statements.

The financial statements are presented in Canadian dollars, which is also the functional currency of the Company and its subsidiaries.

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

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

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

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

On November 22, 2016, the Company closed the acquisition of an indirect 10% minority interest in Stage Completions Inc. ("Stage"), a private Canadian company pursuant to a subscription agreement entered into between Blackbird and Stage's holding corporations, the majority shareholders of Stage. The Company has accounted for its investment in Stage as a level 3 financial instrument held at cost (see note 8). Given its ownership position and other relationships with Stage, the Company considered if equity accounting was required. Blackbird's security holdings in Stage are for investment purposes only. The Company does not intend to participate in policy making. Blackbird did not receive any contractual entitlement to have a nominee appointed to the board of directors of Stage as a result of the investment. The Company and Stage do however have directors in common from previous appointments. To ensure that the Company will not act jointly or in concert with any common directors/officers in connection with the holding or voting of its securities in Stage, these individuals have declared their conflict and have abstained from past voting when applicable and will continue to abstain from voting as a board member on any matters related to Stage and Blackbird which may arise. Given these factors, the Company has concluded that equity accounting is not applicable.

(b) 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.

i. Investment in securities

As described in note 3(a) the Company used its judgement to conclude that it does not have significant influence over Stage and therefore equity accounting is not required.

ii. Cash generating units ("CGUs")

The Company's assets are aggregated into cash-generating units for the purpose of calculating impairment. CGUs are based on an assessment of the unit's ability to generate independent cash inflows. The determination of these CGUs was based on management's judgment in regard to shared infrastructure, integration of operations, the way in which management monitors the operations, geographical proximity, reservoir characteristics, petroleum type, and exposure to similar market and commodity risk profiles.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Use of estimates and judgment (continued)

iii. Reserves

Reserves and resources are used in the unit-of-production calculation for depreciation, depletion and amortization and the impairment analysis, which affect net income. There are numerous uncertainties inherent in estimating petroleum and natural gas reserves. Estimating reserves is very complex, requiring many judgments based on geological, geophysical, engineering and economic data. Changes in these judgments could have a material impact on the estimated reserves. These estimates may change, having either a negative or positive effect on net earnings as further information becomes available and as the economic environment changes.

iv. Depletion, depreciation and amortization

Depletion of petroleum and natural gas properties is calculated using the unit-of-production method based on production volumes before royalties in relation to total estimated reserves as determined annually by independent engineers and internal reserves evaluations. Changes in forward price estimates, production levels or results of future drilling may change the economic status of reserves and may result in reserves being revised.

v. Recoverability of asset carrying values

The Company assesses its petroleum and natural gas properties, including exploration and evaluation assets, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable, or at least annually.

The assessment of any impairment of property and equipment and exploration and evaluation assets is dependent upon estimates of recoverable amounts that take into account factors such as reserves, economic and market conditions, timing of cash flows, the useful lives of assets and their related salvage values.

vi. Decommissioning provision

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. Provisions are not recognized for future operating losses.

Provisions for decommissioning associated with the Company's oil and gas operations are based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows may differ from estimates due to changes in laws and regulations, public expectations, prices, discovery and analysis of site conditions and changes in clean up technology. Estimates are made using internal and external information.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Use of estimates and judgment (continued)

vii. Share-based payments

The fair value of stock options granted is measured using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the option, expected volatility, expected life of the options, expected dividends and the risk-free rate. These estimates will all impact the valuation of share-based payments which are recognized.

When stock options are exercised, the cash proceeds along with the amount previously recorded as share-based payment reserves are recorded as share capital.

viii. Income taxes

Related assets and liabilities are recognized for the estimated tax consequences between amounts included in the financial statements and their tax base using substantively enacted future income tax rates. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences and, accordingly, affect the amount of the deferred tax asset or liability calculated at a point in time.

(c) Cash and cash equivalents

Cash and cash equivalents consist of balances with banks and investments in highly liquid short-term deposits with a maturity date, at date of issue, of less than ninety days. As at July 31, 2017 and 2016 the Company did not hold any cash equivalents.

(d) Joint interests

A portion of the Company's exploration, development and production activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property and equipment ("P&E")

P&E, which includes petroleum and natural gas ("P&NG") development and production assets, represents costs incurred in developing oil and natural gas reserves and maintaining or enhancing production from such reserves. Future decommissioning costs, related to producing assets, are also capitalized to P&E. P&E is carried at cost, less accumulated depletion, depreciation and amortization and accumulated impairment losses.

Gains and losses on disposal of P&E are determined as the difference between proceeds from disposal and the carrying amount of the asset sold and is recognized in earnings.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as petroleum and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are expensed to earnings as incurred. Such capitalized petroleum and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are expensed as incurred.

Exchanges of development and production assets (swaps, farm-outs or farm-ins) are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. Any gain or loss on derecognition of the asset given up is recognized in earnings.

(f) Exploration and evaluation ("E&E") assets

Petroleum and natural gas exploration and evaluation assets are accounted for in accordance with IFRS 6, *Exploration for and Evaluation of Mineral Resources*, whereby costs directly associated with the exploration for and evaluation of reserves are accumulated on an area-by-area basis and are capitalized as either tangible or intangible E&E assets when incurred. Costs incurred in advance of land acquisition or obtaining the legal right to explore are expensed.

When an area is determined to be technically feasible and commercially viable, generally upon the allocation of proved or probable reserves to the area, the accumulated costs are transferred to property and equipment. E&E assets are assessed for impairment immediately preceding their reclassification to property and equipment. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue to work in the area, the unrecoverable costs are charged to operations. No depletion or depreciation is provided for exploration and evaluation assets.

For exchanges (swaps, farm-outs or farm-ins) or parts of exchanges that involve only capitalized exploration and evaluation costs, the exchange is accounted for at cost.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Depletion, depreciation and amortization ("DD&A")

The carrying amount of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves.

Proved and probable reserves are estimated annually by independent reserve engineers and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a more than 50% statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proved and probable. The equivalent statistical probability for the proved component is 90%.

Such reserves may be considered economically producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all of the expected oil and natural gas production;
- evidence that necessary production, transmission and transportation facilities are available or can be made available; and
- availability of capital to develop reserves.

Reserves may only be considered proved and probable if supported by either actual production or a conclusive formation test. The area of reservoir considered proved and probable includes (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, or both, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower proved limit of the reservoir.

Reserves which can be produced economically through application of unproved recovery techniques (such as fluid injection) are only included in the proved and probable classification when successfully tested by a pilot project, the operation of an installed program in the reservoir or other reasonable evidence (such as, experience of the same techniques on similar reservoirs or reservoir simulation studies) provides support for the engineering analysis on which the project or program was based.

Depreciation on other equipment is calculated using a 30% declining balance rate over the estimated useful lives of the related assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Impairment

The carrying amounts of P&E are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the estimated recoverable amount is calculated. For the purpose of impairment testing, P&E assets are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash flows of other assets or group of assets. The recoverable amount of an asset or CGU is the greater of its fair value less cost to sell (“FVLCTS”) and its value in use (“VIU”). FVLCTS is the amount obtainable from the sale of an asset or CGU in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal. VIU is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU. The Company utilizes an independent reserve engineer’s report to estimate the VIU of its properties. An impairment loss is recognized in profit or loss if the carrying amount of an asset or CGU exceeds its estimated recoverable amount.

E&E assets are allocated to related CGU’s when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to property and equipment.

Impairment losses previously recognized are assessed at each reporting date for indications that the loss has decreased or no longer exists. An impairment loss is reversed to the extent that the asset’s new carrying amount does not exceed the original carrying amount, net of related accumulated depletion, depreciation and amortization, if there has been an increase in the estimate of the recoverable amount.

(i) Inventory

Inventory includes costs of purchase, net of trade discounts received. Inventory is stated at the lower of its cost and net realisable value (“NRV”) in accordance with IAS 2, *Inventories*.

(j) Decommissioning provision

The Company’s activities give rise to dismantling, decommissioning and site disturbance remediation activities. A provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning provisions are measured at the present value of management’s best estimate of the expenditure required to settle the present obligation at the reporting date. Changes in the present value of the estimated expenditure are reflected as an adjustment to the provision and the relevant asset. The unwinding of the discount on the decommissioning provision is recognized as an accretion expense. Actual costs incurred upon settlement of the decommissioning liabilities is charged against the provision to the extent the provision was recognized. Provisions are determined by discounting the expected cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability if the risks have not been incorporated into the estimate of cash flows. The increase in the provision due to the passage of time is recognized within accretion expense.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued in these types of transactions to be the more easily measurable component and the common shares are valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded to reserves.

(l) Share-based payments

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period of the related options on a graded basis. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

(m) Revenue recognition

Revenue from the sale of petroleum and natural gas is recognized when the significant risks and rewards of ownership are transferred to the buyer, which is based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, and production-based royalty expenses, are recognized during the same period in which the related revenue is earned. Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements and is included with petroleum and natural gas sales.

(n) (Loss) earnings per share

Basic (loss) earnings per share is computed by dividing net (loss) earnings available to common shareholders by the weighted average number of shares outstanding during the reporting year. Diluted (loss) earnings per share is computed similar to basic (loss) earnings per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting year. For the year ended July 31, 2017, this calculation proved to be anti-dilutive.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Foreign currency translation

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currency for the Company and its subsidiaries is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are reflected in profit or loss for the year.

(p) Financial instruments – recognition and measurement

i. Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized through profit or loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized through profit or loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Financial instruments – recognition and measurement (continued)

i. Financial assets (continued)

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

The Company has classified its cash at fair value through profit or loss. The Company's accounts receivable and deposits are classified as loans and receivables. The Company's investment in securities is classified as available-for-sale.

ii. Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized through profit or loss.

Other financial liabilities - This category consists of liabilities carried at amortized cost using the effective interest method.

The Company's accounts payable and accrued liabilities are classified as other financial liabilities.

(q) Flow-through common shares

Canadian income tax legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. The Company accounts for flow-through shares whereby the premium paid, if any, for the flow-through shares in excess of the market value of the shares without flow-through features at the time of issue is credited to other liabilities and included in profit or loss on a pro-rata basis at the same time the qualifying expenditures are made.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Future Accounting Standards and Amendments

The following new standards and amendments have been issued but are not effective during the year ended July 31, 2017. Management is currently assessing the impact that these accounting standards and amendments will have on its financial statements.

- IAS 12 — Amendments to clarify the recognition of a deferred tax asset for unrealized losses. Effective for annual periods beginning on or after January 1, 2017.
- IFRS 9 — IFRS 9 is a new standard on financial instruments that will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as derecognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss. Effective for annual periods beginning on or after January 1, 2018.
- IFRS 15 — IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programs*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue – Barter Transactions involving Advertising Service*. Effective for annual periods beginning on or after January 1, 2018.
- IFRS 2 — Amendments to IFRS 2 in relation to the classification and measurement of share-based payment transactions. Effective for annual periods beginning on or after January 1, 2018.
- IFRS 7 — Amendments to IFRS 7 related to the application of IFRS 9, *Financial Instruments*. Effective for annual periods beginning on or after January 1, 2018.
- IFRIC 22 — IFRIC 22 is a new interpretation, which clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. Effective for annual periods beginning on or after January 1, 2018.
- IFRS 16 — IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model. Effective for annual periods beginning on or after January 1, 2019.

4. ACCOUNTS RECEIVABLE

The Company's accounts receivable are comprised of the following:

(CDN$ thousands)	**July 31 2017**	July 31 2016
GST/HST receivable	**668**	140
Trade receivables	**621**	79
	1,289	219

The Company's provision for allowance for doubtful accounts at July 31, 2017, was $31 thousand (July 31, 2016 - $31 thousand). The Company expects to collect all other outstanding receivables.

5. PREPAID EXPENSES AND DEPOSITS

The Company's prepaid expenses and deposits are comprised of the following:

(CDN$ thousands)	**July 31 2017**	July 31 2016
Gas transportation fees	**237**	74
Government security deposits	**735**	829
Royalties	**35**	-
Cash calls	**15**	-
Investor relations	**-**	116
	1,022	1,019

6. LONG-TERM PORTION OF DEPOSITS

The Company's long-term deposits are comprised of the following:

(CDN$ thousands)	**July 31 2017**	July 31 2016
Gas transportation fees	**470**	-
Government security deposits	**48**	54
Infrastructure project deposits	**-**	623
	518	677

7. EXPLORATION AND EVALUATION ASSETS & PROPERTY AND EQUIPMENT

	Year ended July 31, 2017			Year ended July 31, 2016		
(CDN$ thousands)	**Cost**	**Accum. impair.**	**Carrying value**	Cost	Accum. impair.	Carrying value
Exploration and evaluation assets						
Beginning of year	**14,145**	**(4,470)**	**9,675**	13,239	(4,470)	8,769
Additions	**30,118**	**-**	**30,118**	15,225	-	15,225
Change in decommissioning provision	**289**	**-**	**289**	192	-	192
Transferred to property and equipment	**(14,929)**	**-**	**(14,929)**	(14,511)	-	(14,511)
End of year	**29,623**	**(4,470)**	**25,153**	14,145	(4,470)	9,675
(CDN$ thousands)	**Cost**	**Accum. DD&A and impair.**	**Carrying value**	Cost	Accum. DD&A and impair.	Carrying value
Property and equipment						
Beginning of year	**34,910**	**3,870**	**38,780**	18,143	(591)	17,552
Additions	**46,868**	**-**	**46,868**	2,166	-	2,166
Dispositions	**-**	**-**	**-**	(3)	-	(3)
Change in decommissioning provision	**1,235**	**-**	**1,235**	93	-	93
Transferred from exploration and evaluation assets	**14,929**	**-**	**14,929**	14,511	-	14,511
Depletion, depreciation and amortization	**-**	**(1,604)**	**(1,604)**	-	-	-
Impairment reversal, net	**-**	**-**	**-**	-	4,461	4,461
Transferred to inventory	**(216)**	**-**	**(216)**	-	-	-
End of year	**97,726**	**2,266**	**99,992**	34,910	3,870	38,780

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

During the year ended July 31, 2017, the Company capitalized $1.2 million (July 31, 2016 - $0.7 million) of general and administrative expenses directly attributable to exploration and development activities.

(a) Exploration and evaluation assets

Exploration and evaluation assets consist of the Company's exploration projects which are pending the determination of technical feasibility and commercial viability, typically being the establishment of proved or probable reserves. The Pipestone / Elmworth property consists of a primarily 100% working interest in lands which are located in the Pipestone / Elmworth area near Grande Prairie, Alberta. The Pipestone / Elmworth property represents all of the Company's exploration and evaluation assets.

During the year ended July 31, 2017, the Company acquired 23 gross (7.9 net) additional sections of undeveloped Pipestone / Elmworth Montney land in exchange for 11,923,077 Blackbird common shares which had a fair value at the time of the issuance of $7.0 million. During the year ended July 31, 2017, the Company also purchased 23.25 gross (22.25 net) sections of undeveloped Pipestone / Elmworth Montney land for cash consideration of $5.4 million (July 31, 2016 - $0.4 million).

7. EXPLORATION AND EVALUATION ASSETS & PROPERTY AND EQUIPMENT (CONTINUED)

(b) Property evaluation expense

Costs incurred in advance of land acquisition or obtaining the legal right to explore are expensed. During the year ended July 31, 2017, the Company incurred $nil in property evaluation expense (July 31, 2016 - $0.3 million).

(c) Inventory and write-down

As at July 31, 2017, the Company held $0.4 million of fracturing sleeves and production casing inventory (July 31, 2016 - $0.2 million). During the year ended July 31, 2017, the Company did not recognize a write-down to inventory (July 31, 2016 - $0.2 million).

(d) Property and equipment

i. Transfers from E&E to P&E

On July 31, 2017, $3.1 million of costs were transferred from E&E assets to P&E. The amount transferred consisted of drilling, completion, and developed land costs. On April 30, 2017, $8.2 million of costs were transferred from E&E assets to P&E. The amount transferred consisted of drilling, completion, and developed land costs. On January 31, 2017, $3.6 million of costs were transferred from E&E assets to P&E. The amount transferred consisted of drilling and developed land costs.

On January 31, 2016, $14.5 million of costs were transferred from E&E assets to P&E. The amount transferred consisted of drilling, completion, testing, post-completion, and developed land costs.

The Company tested for impairment immediately preceding the transfer of E&E assets to P&E during the years ended July 31, 2017 and 2016. The Company determined that there was no impairment during these periods.

ii. Impairment and impairment reversal

At the end of each reporting period, the Company reviews for indicators of impairment to ensure that the carrying value of its oil and natural gas properties is recoverable. At July 31, 2017, there were no indicators of impairment. During the year ended July 31, 2017, the Company did not recognize impairment to any of its CGUs.

During the year ended July 31, 2016, the Company recognized a net impairment reversal of $4.5 million to property and equipment consisting of impairment of $2.7 million during the three months ended October 31, 2015 and an impairment reversal of $7.2 million during the three months ended January 31, 2016. This impairment and impairment reversal related to the Pipestone / Elmworth CGU. The impairment booked was due to the impact of lower commodity prices on future production. The impairment reversal was booked to reflect the impact of the increased reserves base on future production which was supported by an independent reserve report with an effective date of January 31, 2016.

8. INVESTMENT IN SECURITIES

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

The investment in Stage is held at cost, as explained in note 3(a).

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Company's accounts payable and accrued liabilities are comprised of the following:

(CDN$ thousands)	**July 31 2017**	July 31 2016
Trade payables	**7,298**	573
Accrued liabilities	**5,877**	129
	13,175	702

10. DECOMMISSIONING PROVISION

(CDN$ thousands)	**July 31 2017**	July 31 2016
Balance, beginning of year	**1,001**	729
Provisions assumed	**60**	-
Provisions incurred	**1,381**	191
Provisions settled	**-**	(29)
Accretion (note 13)	**32**	17
Changes in estimates and rates	**82**	93
Balance, end of year	**2,556**	1,001

The decommissioning provision has been estimated for all petroleum and natural gas interests by management. The decommissioning provision is based on estimated costs to abandon and reclaim the petroleum and natural gas assets and the estimated timing of the costs to be incurred in future years. The total undiscounted, uninflated amount of the estimated cash flows required to settle the obligation is approximately $3.3 million (July 31, 2016 - $1.1 million). The total undiscounted amount of the estimated cash flows required to settle the obligation is approximately $5.3 million (July 31, 2016 - $1.5 million) using an inflation rate of 2.0% per annum (July 31, 2016 - 1.5%). The estimated cash flows have been discounted using a pre-tax risk free rate of 2.4% (July 31, 2016 – 1.5%). The Company estimates that these costs will be incurred between fiscal 2019 and 2044 (July 31, 2016 - 2019 and 2043) with the majority of them being incurred between 2040 and 2044.

11. FINANCIAL INSTRUMENTS AND RISK FACTORS

(a) Financial Instruments

A number of the Company's accounting policies and disclosures require the determination of fair value for financial assets and liabilities. 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.

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

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

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

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

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

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

(b) Risk Factors

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

i. Commodity price risk

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

ii. Interest rate risk

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

11. FINANCIAL INSTRUMENTS AND RISK FACTORS (CONTINUED)

(b) Risk Factors (Continued)

iii. Foreign exchange risk

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

(US$ thousands)	2017	2018	2019	2020	2021	Thereafter	Total
US dollar portion of gas marketing agreement(1)	329	785	785	654	-	-	2,553

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

iv. Credit risk

The Company's credit risk exposure is related to trade receivables, joint interest billings, goods and services tax receivable, and cash. As at July 31, 2017, the Company had $0.7 million net receivable from GST/HST with the remaining balance collectible from trade receivables. The Company's allowance for doubtful accounts at July 31, 2017, was $31 thousand (July 31, 2016 - $31 thousand). The Company expects to collect all other outstanding receivables.

The Company retains its cash deposits with highly reputable financial institutions. At July 31, 2017 and 2016 all cash was held with large Canadian financial institutions.

v. Liquidity risk

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

vi. Capital management

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

The Company monitors metrics such as working capital, among others, to measure the status of its capital structure. The Company has not established fixed quantitative thresholds for such metrics. Depending on market conditions, the Company's capital structure may be adjusted by issuing or repurchasing shares, issuing or repurchasing debt, modifying capital spending programs and disposing of assets. The Company considers its capital structure to include shareholders' equity. The Company's approach to managing capital has not changed from 2016.

12. OPERATING LOAN FACILITY

At July 31, 2017, the Company had a $1.0 million revolving operating loan facility (July 31, 2016 - no loan facility) with ATB Financial. The loan facility is subject to a redetermination of the borrowing base from time to time, but reviewed at least annually. The facility is available by way of prime-based loans, letters of credit and corporate credit cards. The Company is required to maintain a positive working capital ratio at all times to satisfy the financial covenants associated with this facility. At July 31, 2017, the Company was in compliance with the covenants of the operating loan facility.

As of July 31, 2017, the Company had a balance of $nil drawn against the loan and $0.7 million in letters of credit issued (July 31, 2016 – no balance drawn or letters of credit issued) which reduce the credit available on the loan facility.

At July 31, 2017, the available amount to draw on the loan facility was $0.3 million (July 31, 2016 - no loan facility).

13. FINANCING COSTS

Financing costs for the Company during the years ended were as follows:

	Years ended	
(CDN$ thousands)	**July 31 2017**	July 31 2016
Accretion of decommissioning provision (note 10)	**32**	17
Interest expense	**12**	-
	44	17

14. SHAREHOLDERS' EQUITY

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

Basic and diluted per share amounts have been calculated based on the following:

	Years ended	
(Thousands)	**July 31 2017**	July 31 2016
Weighted average number of common shares - basic	**636,385**	395,401
Effect of outstanding stock options	**-**	1,552
Effect of outstanding warrants	**-**	458
Weighted average number of common shares - diluted	**636,385**	397,411

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

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

14. SHAREHOLDERS' EQUITY (CONTINUED)

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

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

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

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

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

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

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

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

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

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

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

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

14. SHAREHOLDERS' EQUITY (CONTINUED)

(g) Prospectus offering of 176,410,000 units and 15,410,000 flow-through common shares

On May 19, 2016, the Company completed a brokered prospectus offering of 176,410,000 units at a price of $0.15 per unit and 15,410,000 flow-through common shares at a price of $0.15 per flow-through common share for aggregate gross proceeds of $28.8 million. The Company incurred $1.8 million of share issue costs during this transaction.

Each unit consisted of one common share and one listed common share purchase warrant ("listed warrant"). Each listed warrant entitles the holder thereof to acquire, subject to adjustment in accordance with the indenture governing the listed warrants, one common share at an exercise price of $0.30, at any time prior to the date that is 60 months following the closing date of the financing. The listed warrants commenced trading on the TSX-V at the opening of markets on May 25, 2016, under the symbol "BBI.WT".

Pursuant to the Company's accounting policy, the proceeds from sale of the units was bifurcated using a residual value approach. Based on this approach, the Company allocated a total of $21.2 million to the share component of the unit, with the residual $5.3 million being attributable to the warrant component.

(h) Stock option and warrant exercises

During the year ended July 31, 2017, the Company issued 7,219,175 common shares (July 31, 2016 – 4,004,024 common shares) due to the exercise of stock options and warrants. The Company received proceeds of $1.4 million (July 31, 2016 - $0.5 million) and recognized a fair value reversal of $0.4 million (July 31, 2016 - $0.2 million) on the exercises.

(i) Listed Warrants

Listed warrant transactions are summarized as follows:

	Year ended July 31, 2017		Year ended July 31, 2016	
(Thousands, except weighted average exercise price)	**Number of listed warrants**	**Weighted average exercise price ($)**	Number of listed warrants	Weighted average exercise price ($)
Balance, beginning of year	**176,410**	**0.30**	-	-
Granted	**-**	**-**	176,410	0.30
Exercised	**(1,221)**	**0.30**	-	-
Expired/cancelled	**-**	**-**	-	-
Balance, end of year	**175,189**	**0.30**	176,410	0.30

As at July 31, 2017, all listed warrants are exercisable at a price of $0.30 and have a remaining contractual life of 3.8 years (July 31, 2016 - all listed warrants were exercisable at a price of $0.30 with a remaining contractual life of 4.8 years).

14. SHAREHOLDERS' EQUITY (CONTINUED)

(j) Warrants

Warrant transactions are summarized as follows:

	Year ended July 31, 2017		Year ended July 31, 2016	
(Thousands, except weighted average exercise price)	**Number of warrants**	**Weighted average exercise price ($)**	Number of warrants	Weighted average exercise price ($)
Balance, beginning of year	**11,832**	**0.15**	14,467	0.14
Granted	**-**	**-**	-	-
Exercised	**(3,681)**	**0.15**	(2,635)	0.12
Expired/cancelled	**-**	**-**	-	-
Balance, end of year	**8,151**	**0.15**	11,832	0.15

As at July 31, 2017, all warrants are exercisable at a price of $0.15 and have a remaining contractual life of 1.3 years (July 31, 2016 - all warrants were exercisable at a price of $0.15 with a remaining contractual life of 2.3 years).

(k) Agents' Warrants

Agents' warrant transactions are summarized as follows:

	Year ended July 31, 2017		Year ended July 31, 2016	
(Thousands, except weighted average exercise price)	**Number of agents' warrants**	**Weighted average exercise price ($)**	Number of agents' warrants	Weighted average exercise price ($)
Balance, beginning of year	-	-	419	0.15
Granted	-	-	-	-
Exercised	-	-	(419)	0.15
Expired/cancelled	-	-	-	-
Balance, end of year	-	-	-	-

14. SHAREHOLDERS' EQUITY (CONTINUED)

(l) Reserves

Reserves transactions are summarized as follows:

	Year ended July 31, 2017			Year ended July 31, 2016		
(CDN$ thousands)	**Share-based payments**	**Warrants**	**Total**	Share-based payments	Warrants	Total
Balance, beginning of year	**6,212**	**5,293**	**11,505**	5,017	184	5,201
Additions	**3,624**	**-**	**3,624**	1,248	5,293	6,541
Deductions	**(334)**	**(37)**	**(371)**	(53)	(184)	(237)
Balance, end of year	**9,502**	**5,256**	**14,758**	6,212	5,293	11,505

15. FLOW-THROUGH SHARE PREMIUM LIABILITY

(CDN$ thousands)	**July 31 2017**	July 31 2016
Balance, beginning of year	**314**	-
Flow-through premium liability incurred	**3,296**	462
Qualifying expenditures incurred	**(2,301)**	(148)
Balance, end of year	**1,309**	314

On March 14, 2017, the Company issued 29,643,750 CEE Flow-Through Shares at a price of $0.64 per CEE Flow-Through Share and 6,800,000 CDE Flow-Through Shares at a price of $0.59 per CDE Flow-Through Share for aggregate gross proceeds of $23.0 million. A flow-through share premium liability of $2.9 million was recognized on the issuance date.

On November 1, 2016, the Company issued 10,865,000 flow-through common shares at a price of $0.47 per flow-through common share for total gross proceeds of $5.1 million. A flow-through share premium liability of $0.1 million was recognized on the issuance date.

On October 27, 2016, the Company issued 16,500,000 flow-through common shares at a price of $0.485 per flow-through common share for total gross proceeds of $8.0 million. A flow-through share premium liability of $0.3 million was recognized on the issuance date.

On May 19, 2016, the Company issued 15,410,000 flow-through common shares at a price of $0.15 per flow-through common share for total gross proceeds of $2.3 million. A flow-through share premium liability of $0.5 million was recognized on the issuance date.

At July 31, 2017, the Company had a flow-through share premium liability of $1.3 million (July 31, 2016 - $0.3 million). The Company is required to incur and renounce the qualifying eligible Canadian Exploration Expenses ("CEE") by December 31, 2018 related to this liability (note 20).

16. SHARE-BASED COMPENSATION

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

During the year ended July 31, 2017, share-based compensation of $3.6 million (July 31, 2016 - $1.3 million) in the form of stock option expense was incurred, with $2.0 million related to officers and $0.6 million related to directors (July 31, 2016 - $0.9 million related to officers and $0.2 million related to directors).

During the year ended July 31, 2016, a reversal of $45 thousand was recognized directly to reserves and deficit related to the share-based compensation expense previously recognized on a tranche of unvested stock options that were subsequently expired/cancelled in the current period. During the year ended July 31, 2017, there were no comparable adjustments.

No share-based compensation expense was capitalized during the years ended July 31, 2017 or 2016.

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

	Year ended July 31, 2017		Year ended July 31, 2016	
(Thousands, except weighted average exercise price)	**Number of options**	**Weighted average exercise price ($)**	Number of options	Weighted average exercise price ($)
Balance, beginning of year	**24,536**	**0.23**	23,436	0.25
Granted	**12,625**	**0.57**	7,800	0.18
Exercised	**(2,317)**	**0.21**	(950)	0.10
Expired/cancelled	**(533)**	**0.46**	(5,750)	0.26
Balance, end of year	**34,311**	**0.35**	24,536	0.23

	Options outstanding			Options exercisable	
Exercise price ($)	Number of options (thousands)	Average remaining contractual life (years)	Weighted average exercise price ($)	Number of options (thousands)	Weighted average exercise price ($)
0.10 – 0.15	4,891	1.2	0.11	4,891	0.11
0.16 – 0.30	10,920	3.0	0.19	8,420	0.20
0.31 – 0.45	6,500	2.6	0.37	5,833	0.38
0.46 – 0.65	12,000	4.2	0.58	4,467	0.57
0.10 – 0.65	**34,311**	**3.1**	**0.35**	**23,611**	**0.29**

16. SHARE-BASED COMPENSATION (CONTINUED)

The fair value of options granted during the year 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:

	Year ended July 31, 2017	Year ended July 31, 2016
Expected dividend yield (%)	**-**	-
Risk free rate (%)	**2.06**	2.26
Expected life (years)	**5.00**	5.00
Expected volatility (%)	**104.54**	112.53
Expected forfeiture rate (%)	**10.00**	10.00
Weighted average fair value of options granted ($)	**0.44**	0.14

17. RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiary as shown in the table below:

	Country of Incorporation	Principal Activity	Ownership
Pennant Energy Inc.	Canada	Oil and natural gas development	100%

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

17. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Years ended	
(CDN$ thousands)	**July 31 2017**	July 31 2016
Share-based compensation	**2,632**	1,152
Compensation paid to key management personnel that was expensed	**845**	468
Compensation paid to key management personnel that was capitalized to exploration and development activities	**773**	528
Fees paid to Directors	**38**	45
Legal fees paid to Macdonald Tuskey, a law firm in which Mr. William L. Macdonald, Director, is a Principal	**141**	51
Share issue costs paid to Macdonald Tuskey	**93**	92
Fees paid to Canadian Energy Services and Technology Corp. for drilling services performed, a company in which Mr. Burton Ahrens, Director, is also a Director	**970**	372
Fees paid to Stage for completions equipment and services performed, a company in which Mr. Garth Braun, Blackbird's Chairman, Chief Executive Officer and President is also a Director and owns an indirect minority interest in Stage, certain of Blackbird's other officers own non-controlling interests in Stage, and Mr. Sean Campbell, a Director of Blackbird, holds an indirect controlling interest in Stage and is also the President, Chief Executive Officer and a Director of Stage	**1,919**	28
	7,411	2,736

During the year ended July 31, 2017, Blackbird paid Stage $3.0 million in cash consideration for the acquisition of its indirect 10% minority interest (see note 8).

As of July 31, 2017, there was $9 thousand outstanding in accounts payable related to the above noted service providers (July 31, 2016 - $19 thousand).

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

	Years Ended	
(CDN$ thousands)	**July 31 2017**	July 31 2016[(1)]
Personnel	**2,725**	1,623
Office costs, travel and other	**1,004**	609
Professional fees	**1,072**	365
Investor relations	**370**	388
Gross G&A expenses	**5,171**	2,985
Capitalized salaries and benefits	**(1,197)**	(731)
G&A expenses	**3,974**	2,254

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

19. INCOME TAXES

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

	Years ended	
(CDN$ thousands)	**July 31 2017**	July 31 2016
(Loss) income before taxes	**(5,180)**	586
Expected (recovery) income tax expense	**(1,399)**	158
Change in statutory rates and other	**421**	1,708
Permanent differences	**45**	310
Impact of flow-through shares	**7,202**	198
Share issue costs	**(1,142)**	(476)
Adjustment to prior year's provision versus statutory tax returns and expiry of non-capital losses	**330**	349
Change in unrecognized deductible temporary differences	**(37)**	(1,730)
Deferred income tax expense	**5,420**	517

The significant components of the Company's deferred tax liability are as follows:

(CDN$ thousands)	**July 31 2017**	July 31 2016
Deferred tax (liabilities) assets		
Property, equipment, and resource assets	**(11,903)**	(4,292)
Share issue costs	**1,452**	758
Non-capital losses	**4,514**	3,017
Net deferred tax liability	**(5,937)**	(517)

19. INCOME TAXES (CONTINUED)

The significant components of the Company's deductible temporary differences, unused tax credits and unused tax losses that have not been recognized on the statement of financial position are as follows:

(CDN$ thousands)	**July 31 2017**	**Expiry Dates**	July 31 2016	Expiry Dates
Temporary differences				
Property, equipment, and resource assets	**3,224**	**No expiry date**	3,224	No expiry date
Allowable capital losses	**1,958**	**No expiry date**	91	No expiry date
Non-capital losses available for future years	**1,312**	**2030 to 2037**	1,334	2030 to 2036

Tax attributes are subject to review, and potential adjustment, by tax authorities.

20. CONTINGENCIES AND COMMITMENTS

(a) Commitments

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

(CDN$ thousands)	2017	2018	2019	2020	2021	Thereafter	Total
Office lease	93	224	130	-	-	-	447
Equipment leases	254	610	610	610	599	119	2,802
Canadian dollar portion of gas marketing agreement	513	1,223	1,223	1,018	-	-	3,977
Transportation and processing	1,428	2,836	-	-	-	-	4,264
	2,288	**4,893**	**1,963**	**1,628**	**599**	**119**	**11,490**

(US$ thousands)	2017	2018	2019	2020	2021	Thereafter	Total
US dollar portion of gas marketing agreement(1)	329	785	785	654	-	-	2,553

Note:

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

(b) Flow-through shares

The Company is required to incur and renounce $19.0 million of eligible CEE by December 31, 2018 in connection with the issuance of the CEE Flow-Through Shares on March 14, 2017 (note 15). As at July 31, 2017, $8.0 million of these expenditures have been incurred.

20. CONTINGENCIES AND COMMITMENTS (CONTINUED)

(c) Litigation and claims

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

21. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Years ended	
(CDN$ thousands)	**July 31 2017**	July 31 2016
Accounts receivable	**(1,070)**	172
Prepaid expenses and deposits	**156**	(126)
Accounts payable and accrued liabilities	**12,473**	117
	11,559	163

	Years ended	
(CDN$ thousands)	**July 31 2017**	July 31 2016
Operating	**(578)**	(265)
Investing	**12,137**	428
	11,559	163

During the year ended July 31, 2017, the Company acquired undeveloped Pipestone / Elmworth Montney land in exchange for 11,923,077 Blackbird common shares which had a fair value of $7.0 million (July 31, 2016 - $nil).

During the year ended July 31, 2017, the Company paid $12 thousand in interest and $nil in income tax (July 31, 2016 - $nil in interest and $nil in income tax).

22. SEGMENTED INFORMATION

The Company operates in the upstream oil and natural gas industry with operations currently in Canada, and as such, only has one reportable segment.

All revenues are derived from operations within Canada.

23. SUBSEQUENT EVENTS

(a) Firm transportation, processing and marketing commitments

Subsequent to July 31, 2017, the Company entered into a binding agreement for firm transportation of condensate produced from the Company's Pipestone / Elmworth project. The agreement provides firm service transportation through Pembina's pipeline system for 1,000 barrels of condensate per day. The agreement is effective October 1, 2017, and will continue for a term of 10 years. The agreement adds future commitments of approximately $95 thousand per month or $1.1 million per annum.

Subsequent to July 31, 2017, the Company entered into a binding agreement for firm natural gas transportation. The agreement provides for the transportation of 3.5 million cubic feet of natural gas per day through the TransCanada pipeline system. The service was assigned effective October 1, 2017, with the majority of the assignment having a term of 9 months and the remainder having a term of 13 months, with renewal options available. The agreement adds future commitments of approximately $18 thousand per month or $160 thousand per annum.

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

(b) Granting of stock options

Subsequent to July 31, 2017, the Company granted 1,500,000 stock options to certain officers and employees with a weighted average exercise price of $0.36 per share. One third of these options vested immediately with the remaining two thirds vesting equally on the next two anniversary dates of the grants. The options granted have a five year term.

(c) Exercise of stock options

Subsequent to July 31, 2017, the Company received $0.3 million from the exercise of 2,033,333 stock options with a weighted average exercise price of $0.14 per option.

(d) Forfeiture of stock options

Subsequent to July 31, 2017, 1,166,667 stock options with a weighted average exercise price of $0.45 were forfeited.

(e) Exercise of warrants

Subsequent to July 31, 2017, the Company received $50 thousand from the exercise of 334,000 warrants with an exercise price of $0.15 per warrant.