

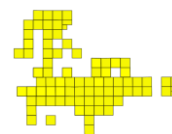


MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated October 21, 2016



FOR THE YEARS ENDED JULY 31, 2016 AND 2015



Blackbird Energy Inc. Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") has been prepared by the management of Blackbird Energy Inc. ("Blackbird" or the "Company") and was reviewed and approved by the board of directors of the Company (the "Board") and the audit committee of the Board on October 21, 2016. 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 audited consolidated financial statements for the periods ended July 31, 2016 and 2015, 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.

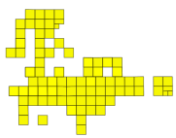
Blackbird is a Canadian energy company actively engaged in crude oil condensate and natural gas exploration, development and production in a key area of the Western Canada Sedimentary Basin. Blackbird is focused on creating long-term shareholder value through a successful exploration and development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

Blackbird's strategic platform for growth includes the exploration and development of its 100% working interest Elmworth Montney property ("Elmworth" or "Elmworth Montney"), which is located near Grande Prairie, Alberta, 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 and revenue is derived.

Elmworth consisted of 83.75 net sections (53,600 net acres) of highly prospective Montney lands as at July 31, 2016. This land is in close proximity to lands currently being developed by several competitors. The Elmworth property is located in a condensate and liquids-rich gas corridor of the Montney, some of which is defined by competitors as the "super condensate rich" corridor, which has up to 200 metres of aggregate net pay in at least three potential zones: the Upper; Middle; and Lower Montney. Blackbird has drilled three successful Montney wells at Elmworth, one in the Upper Montney and two in the Middle Montney. Blackbird is currently drilling its fourth Elmworth Montney well, targeting the Upper Montney on the western edge of the Company's lands.

KEY TOPICS OF THIS MD&A

In this MD&A Blackbird will first discuss critical topics 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 made by the Company during the year; and the Company's operational results for the year. This is followed by a discussion of the financial and operating highlights related to the Company's non-core assets and operations for the years ended July 31, 2016 and 2015.



2016 Operating Summary

During the year ended July 31, 2016, and subsequent to the year then ended, Blackbird accomplished many critical milestones. Management has prepared the following critical milestone timeline, with nine total events, to illustrate the progress that the Company has made:

BLACKBIRD CRITICAL MILESTONES

Q1

Market Cap: \$47.8 million (Aug 4, 2015)

#1

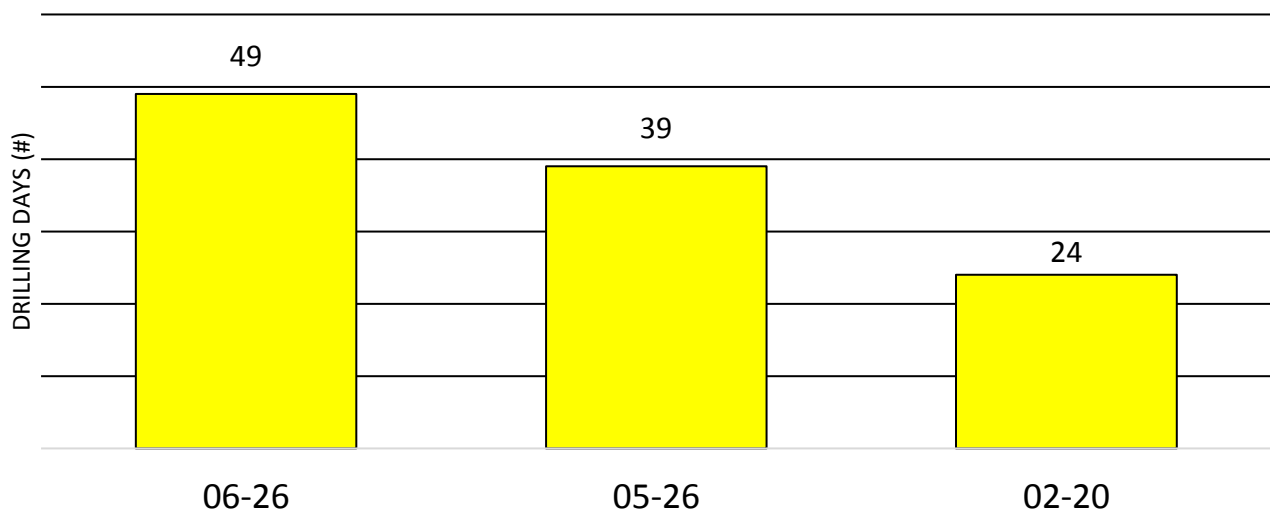
DRILLING, COMPLETING AND TESTING OUR THIRD ELMWORTH MONTNEY WELL

On October 27, 2015, Blackbird announced that it successfully drilled, logged, and cased its third 100% working interest Elsworth Montney well, located at 02-20-70-7W6 ("02-20"). This location was selected based on extensive geological research, competitor data, and proximity to planned infrastructure.

The 02-20 well drill program included the drilling of a vertical pilot well from surface location 10-8-70-7W6 to a vertical depth of 2,582 meters. The vertical pilot well was then logged from surface to the bottom of the Lower Montney. Upon completion of logging operations, Blackbird drilled a horizontal leg of 2,008 meters, targeting the Middle Montney formation, to bottom-hole location 02-20-70-7W6. The measured depth of the 02-20 well is 4,660 meters. Blackbird realized cost savings from utilizing a monobore, believed to be the first in the Elsworth corridor.

The 02-20 well was spud on September 24, 2015 and drilling operations were completed in 32 days from spud to rig release, including 8 days to drill and log the vertical pilot well. This represents a significant improvement in drilling efficiency compared to Blackbird's previous wells.

DRILLING DAYS EFFICIENCY



Blackbird completed the well using sliding sleeve frac technology and an energized CO₂ foam frac with 70 individual stages. A total of 10,531 m³ (88,317 Bbls) of load fluid and 9,226 m³ of CO₂ distributed an average of 31.75 tonnes of proppant per stage over the 70 stages.

**DRILLING, COMPLETING AND TESTING OUR THIRD ELMWORTH MONTNEY WELL (CONTINUED)****Q2**

On January 28, 2016, Blackbird released the production test results for the 02-20 well. Results from the final 24 hours of the test are as follows:

Well	Average Flowing Casing Pressure (kPa) ⁽¹⁾	Raw Gas (mmcf/d) ⁽²⁾	Liquid Hydrocarbons (bbls/d) ⁽²⁾⁽³⁾	Total Combined Production (boe/d) ⁽²⁾	Liquids to Gas Ratio (bbls/mmcf)
02-20	7,973	6.8	641	1,768	94

Notes:

- 1) The 02-20 well produced through a 19.05 millimeter choke at the beginning of the final 24 hour test period and a 21.30 millimeter choke at the end of the final 24-hour test period.
- 2) The 02-20 well average rates over the final 24 hours of the test.
- 3) The 02-20 well total liquid hydrocarbons are comprised of 316 bbls of free condensate and 325 bbls of estimated natural gas liquids based on the composition from the 06-26 gas analysis.

The 02-20 well flowed on clean-up for a total of 751 hours and recovered approximately 43% of its load fluid, in addition to 481.4 m³ (3,027 bbls) of condensate and 2,150 e3m³ of CO₂. During the final 24 hour test the casing pressure averaged 7,973 kPa. Blackbird expects that the 02-20 well will continue to clean up and that productivity will increase as additional load fluid is recovered.

During the final 24-hour test, the flow rate of the 02-20 well was restricted in order to limit production to 275 10³m³ of total gas per day (combined raw gas, CO₂ and N₂), in accordance with the Company's flare permit.

02-20 AND PILOT WELL COST

Blackbird incurred approximately \$0.6 million for drilling and logging of the pilot well, \$3.3 million for drilling of the 02-20 well, \$6.7 million for the completion of the 02-20 well and \$3.9 million for testing operations and other post-completion costs.

Based on drilling and completion costs of approximately \$10.0 million and proved plus probable reserves volumes of 1,089,300 boe, as assigned in the January 31, 2016 independent reserves evaluation, finding and development costs amounted to \$9.18/boe. Under a development scenario and using pad drilling, Blackbird estimates that drilling, completions, equipping and tie-in costs will total approximately \$5.5 million per location, which is analogous with the costs achieved by other Elsworth Montney producers. With drilling, completions, equipping and tie-in costs of \$5.5 million and 1,089,300 boe of proved plus probable reserve volumes, finding and development costs decrease to \$5.05/boe on a proved plus probable reserves basis.

#2**Q3****ACQUISITION OF FIRM CAPACITY IN ALLIANCE PIPELINE**

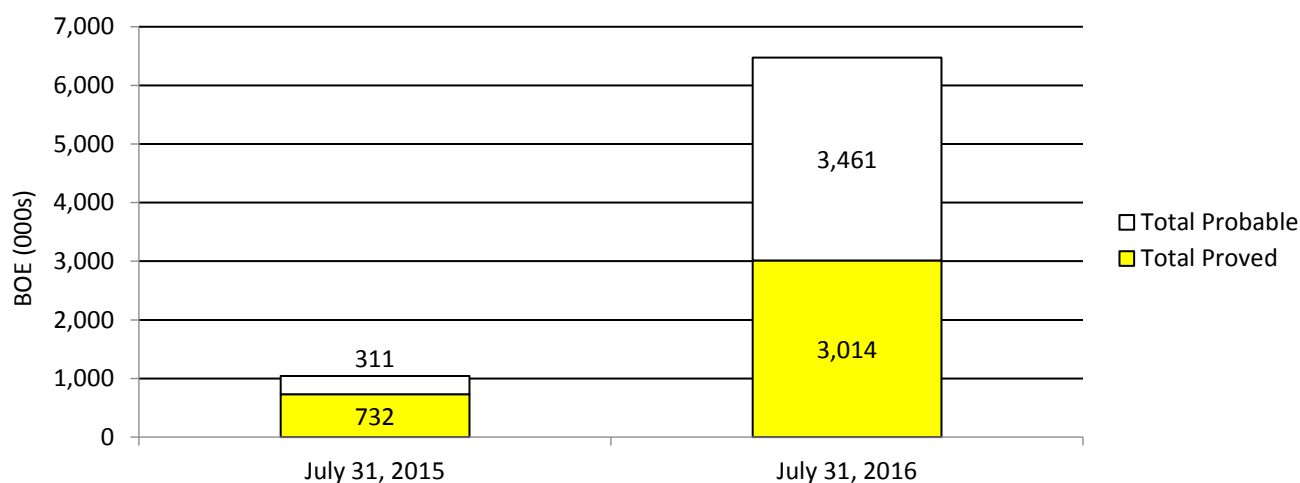
On February 25, 2016, the Company entered into a Firm Full Path natural gas take-or-pay marketing agreement with a term beginning on October 1, 2016 and ending on October 31, 2020. The agreement allows for the transportation of 5 million cubic feet of processed natural gas per day to the Alliance Chicago Exchange Hub. See the "Contingencies and Commitments" section below for more details.

**THE RESERVES BUILD**

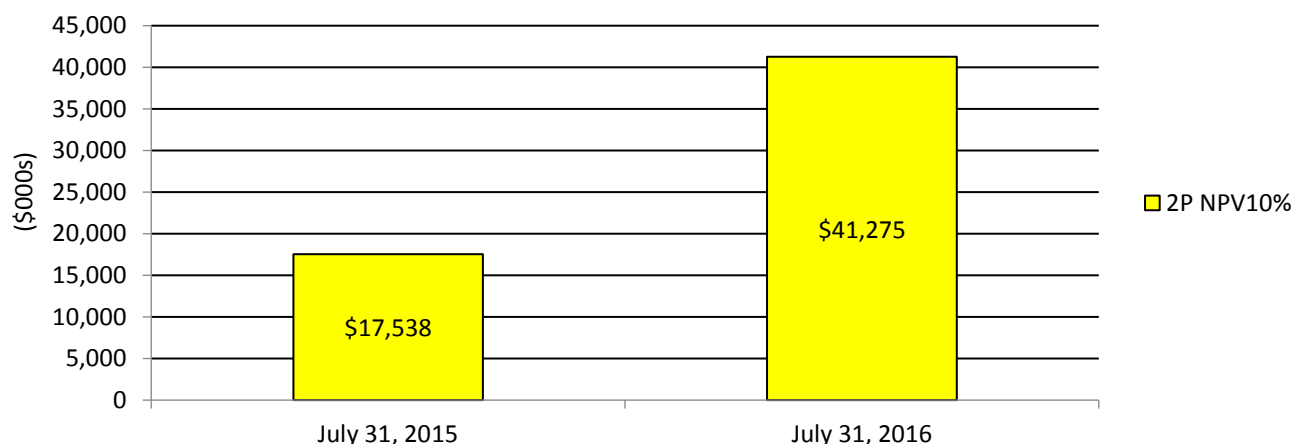
On March 8, 2016, Blackbird announced a significant increase to its reserves. This was based on Blackbird's interim independent reserves assessment and evaluation as at January 31, 2016, by the independent engineering firm GLJ Petroleum Consultants Ltd. ("GLJ"). The Company's reserves have been subsequently evaluated as at July 31, 2016. The evaluation by GLJ was conducted in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook and is compliant with National Instrument 51-101 – Standards of Disclosure For Oil and Gas Activities. The Company's Form 51-101F1 – Statement of Reserves Data and Other Oil and Gas Information as at July 31, 2016 can be viewed on SEDAR at www.sedar.com.

Highlights of Blackbird's July 31, 2016 reserves evaluation compared to Blackbird's July 31, 2015 reserves evaluation are as follows:

- Total proved plus probable reserves increased 521% to 6,475 mboe (37% natural gas liquids ("NGLs")).
- Total proved plus probable reserves net present value ("NPV") increased 135% to \$41.3 million before tax using forecast prices and costs, discounted at 10%.
- Total proved reserves increased 312% to 3,014 mboe (38% NGLs).

RESERVES VOLUMES AND LOCATIONS

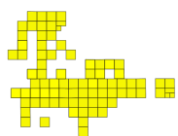
Location	Total Proved Reserves (mboe)	Total Probable Reserves (mboe)	Total Proved Plus Probable Reserves (mboe)
05-26	344	141	485
06-26	383	166	549
02-20	763	326	1,089
Offsets	1,524	2,828	4,352
Total	3,014	3,461	6,475

**THE RESERVES BUILD (CONTINUED)****RESERVES VALUE****FIRM TRANSPORTATION AND PROCESSING AGREEMENT**

On May 19, 2016, the Company entered into a binding take-or-pay gas handling agreement with a third party for the firm transportation and processing of sour natural gas produced from the Elmworth project. The agreement provides firm service transportation to the third party's sour gas plant and processing of 6.3 mmcf/d of natural gas and associated liquids. The agreement is effective on November 1, 2016 (the "Effective Date"), with the take or pay fee applicable from the date of first delivery, being no later than January 1, 2017, subject to certain third party facility enhancements and regulatory approvals. The agreement will continue for 24 months from the Effective Date. This agreement is a critical step in Blackbird achieving production and cash flow. See the "Contingencies and Commitments" section below for more details.

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 (the "Offering") of 176,410,000 units ("Units") of the Company at a price of \$0.15 per Unit and 15,410,000 common shares of the Company ("Common Shares") issued on a "Canadian Development Expense" flow-through basis pursuant to the *Income Tax Act* (Canada) ("Flow-Through Shares") at a price of \$0.15 per Flow-Through Share for aggregate gross proceeds of \$28.8 million (net proceeds - \$27.0 million), which included 23,010,000 Units and 2,010,000 Flow-Through Shares issued pursuant to the exercise in full of the over-allotment option granted to the agent in connection with the Offering. See the "Contingencies and Commitments" section below for more details.



PROSPECTUS OFFERING OF 176,410,000 UNITS AND 15,410,000 FLOW-THROUGH COMMON SHARES (CONTINUED)

Each Unit consisted of one Common Share and one Common Share purchase warrant of the Company ("Warrant"). Each Warrant entitles the holder thereof to acquire, subject to adjustment in accordance with the indenture governing the Warrants, one Common Share (each, a "Warrant Share") at an exercise price of \$0.30 per Warrant Share, at any time prior to the date that is 60 months following the closing date of the Offering. The Warrants commenced trading at the opening of markets on May 25, 2016, on the TSX-V under the symbol "BBI.WT".

The Company intends to use the net proceeds of the Offering to fund the construction of its infrastructure development and execute the drill program consisting of one Upper Montney well at the Elmworth Project, as discussed under the eighth event of this timeline.

#6

STAGE ACQUISITION

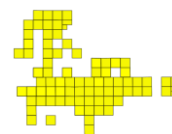
On September 22, 2016, Blackbird announced that it had received final approval from the TSX-V for the acquisition of an indirect 10% minority interest in Stage Completions Inc. ("Stage"), a private Canadian technology and services company that specializes in pinpoint multistage completions, for a cash purchase price of \$3.0 million (the "Transaction"). The Company entered into the purchase agreement with Stage on July 28, 2016 which was subsequently amended on September 22, 2016 to extend the closing date of the Transaction to no later than December 15, 2016. The financial conditions associated with the agreement have been satisfied, as Blackbird has received an independent valuation of Stage from a large international accounting firm. The Stage system was successfully installed and tested in the first of two condition wells during September, 2016. At this time, the Transaction remains subject to the successful installation and test of the Stage system in the second of the two condition wells.

Blackbird's investment will yield the following benefits:

- Blackbird will obtain Stage's systems for cost plus an administration fee, giving Blackbird a clear competitive advantage on completion costs;
- Blackbird will have preferential access to the Stage system, providing another distinct competitive advantage; and
- The ability for Blackbird to participate in the anticipated growth of Stage as it deploys its disruptive technology globally.

The Stage system was recently deployed by Blackbird on its Elmworth water disposal well, where its capabilities were demonstrated. This well was drilled and completed on-time and below budget. During the year ended July 31, 2016, the Company incurred drilling and completion costs of approximately \$0.8 million on the Elmworth water disposal well compared to the budget of \$1.0 million.

The Transaction is a related party transaction as such term is defined under Multilateral Instrument 61-101-*Protection of Minority Security Holders in Special Transactions* as Mr. Garth Braun, the Company's Chairman, Chief Executive Officer and President is also a director of Stage and 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.



#7

Market Cap: \$165.1 million (Sept 29, 2016) – **245% INCREASE** from August 4, 2015**LOAN FACILITY APPROVAL**

On September 29, 2016, the Company entered into a \$1.0 million revolving operating loan facility with Alberta Treasury Branches.

#8

COMMENCEMENT OF FALL DRILL PROGRAM

On September 29, 2016, Blackbird announced the commencement of its fall drill program. The drill program will consist of the Company's fourth 100% working interest Elmworth Montney horizontal well targeting the Upper Montney. The well will be spud from surface location 10-8-70-07W6 with a lateral length of approximately 2,150 meters to location 02/02-20-70-7W6 (the "02/02-20 well"). The 02/02-20 well was spud at the beginning of October, 2016.

The Company is planning a large scale 02/02-20 well completion program using Stage's Bowhead II fracturing system. The slickwater completion program will place approximately 4,000 tonnes of proppant through approximately 71 individual fracs.

#9

The 02/02-20 well will be tied-in and placed on production upon the commissioning of the Company's Elmworth infrastructure, eliminating costly flow back and production testing.

REGULATORY APPROVAL FOR INFRASTRUCTURE DEVELOPMENT

On September 29, 2016, Blackbird announced that it had received regulatory approval from the Alberta Energy Regulator for its 100% owned and operated Elmworth facility (the "Facility") and pipeline gathering system (the "Gathering System"). The Company commenced construction on these projects immediately following the receipt of approval. Prior to the regulatory approval all front end engineering had been completed, and all long lead items were ordered.

Blackbird's Facility located at 12-14-70-7W6 will have an initial capacity of approximately 10 mmcf/d of natural gas plus associated liquids of approximately 1,500 bbls/d, for aggregate throughput of approximately 3,150 boe/d. The Facility includes liquids recovery and stabilization. The Facility has been designed to allow for future production expansion.

Blackbird's Gathering System will encompass approximately 10 km of pipeline and will facilitate the tie-in of Blackbird's behind pipe and future production from at least seven well pads located at its western acreage south of the Wapiti River. The Gathering System will mitigate environmental disruption as much as possible through the use of existing cut lines and extensive underground boring.



**REGULATORY APPROVAL FOR INFRASTRUCTURE DEVELOPMENT (CONTINUED)**

The estimated completion date for this project is the end of December, 2016. This timing will allow for Blackbird to tie-in its Elsworth Montney wells and transition to a producer utilizing the transport, processing and marketing agreements executed on May 19, 2016 and February 25, 2016, respectively. Blackbird's estimated behind pipe production, based on test results to date, are as follows:

Well	Flowing Casing Pressure (kPa)	Raw Gas (mmcf/d) ⁽¹⁾	Liquids Production (bbls/d) ⁽¹⁾	Total Production (boe/d) ⁽¹⁾	Liquids/Gas Ratio (bbls/MMcf) ⁽¹⁾	Total Flow Time (Days)	Test Time (Hours)	Load Fluid Recovery to Date
05-26 (Upper Montney Test)	2,100	0.9	313	466	341	26	48	32.3%
06-26 (Middle Montney) – Unrestricted Rate ⁽²⁾	19,440 (Bottom-Hole)	3.0 – 3.5 unrestricted	399 – 466 unrestricted	899 – 1,049 unrestricted	133	22	48	21.7%
02-20 (Middle Montney) – Restricted Rate	~8,000	6.8	641	1,768	94	31	24	43%
Total	N/A	~10.70 – 11.20	~1,353 – 1,420	~3,133 – 3,283	~126 – 127	N/A	N/A	N/A

Notes:

- 1) Rates over final hours or Test Time disclosed in table (48 hours for 5-26 and 6-26 wells, 24 hours for 2-20 well), as disclosed in Blackbird press releases dated March 4, 2015 and January 28, 2016.
- 2) Estimated unrestricted rate is based on a third party reservoir deliverability estimate, actual raw gas test rate of 1.36 mmcf/d of natural gas, 181 bbls/d of liquid hydrocarbons, and 407 boe/d at 19,440 kPa flowing casing pressure.

At July 31, 2016, approximately \$17.6 million of budgeted costs remained to be spent on the Facility and Gathering System.

OUTLOOK

During fiscal 2016 Blackbird achieved many milestones despite the significant macro-economic challenges facing the oil and gas exploration and production industry. These critical milestones were the result of the Company's mandate of transitioning Blackbird from an exploration stage company to a development and production stage company.



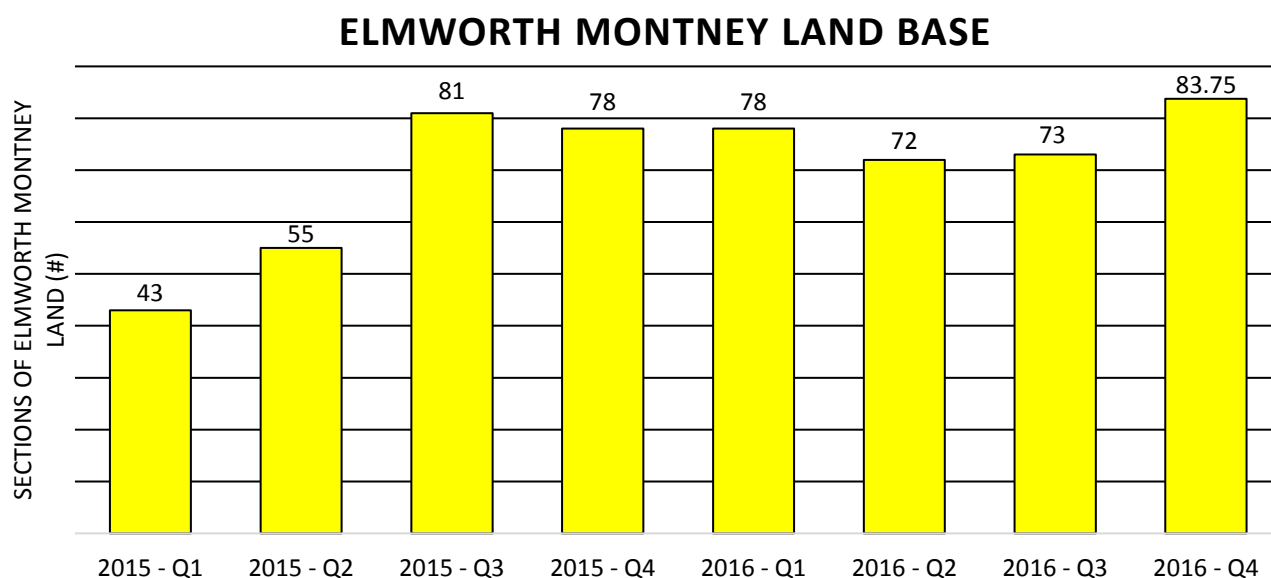
OUTLOOK (CONTINUED)

With the successful execution of the milestones above, Blackbird will now embark upon the next critical steps in the Company's evolution. Blackbird will leverage its strong balance sheet to construct the infrastructure discussed above, to tie-in the Company's behind pipe production, and to conduct the 02/02-20 drilling and completion operations. The cash-flow that production will provide will be allocated to the further delineation of our resource, with a focus on increasing Blackbird's reserves and increasing our access to non-dilutive capital.

The strong results of peer companies to the south and west of the Company's lands, in conjunction with Blackbird's results, have created positive momentum for Blackbird. Accelerating this momentum and providing continued value to Blackbird's shareholders during fiscal 2017 will require the strong performance from Blackbird's team, the continued performance of our Elsworth Montney asset, and access to capital at a decreased cost. Based on the Company's past success, management believes that executing on these objectives is achievable – creating a very positive outlook for the Company.

ELSWORTH MONTNEY LAND BASE

At July 31, 2016, Blackbird held a 100% working interest in 83.75 sections (53,600 acres) at the Company's core Elsworth Montney property. 72 sections of these Elsworth lands are subject to a gross overriding royalty of 2%.

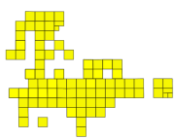


Note:

(1) This table includes land expiries.

Of the Company's 83.75 sections of Elsworth Montney land there are 19 sections which have expiry dates occurring within the next fiscal year. The Company is working diligently on strategies to retain these sections. The Company has 1 section of land with an indefinite expiry date, based on the productive life of the well. The remaining 63.75 sections have expiry dates ranging from fiscal 2017 to 2021.

Subsequent to July 31, 2016, the Company purchased 5.0 gross (3.5 net) additional sections of Elsworth Montney lands for cash consideration of \$0.2 million, bringing the total Elsworth Montney land position to 88.75 gross sections (56,800 gross acres) or 87.25 net sections (55,840 net acres).



BUILDING OUR TEAM

Over the past years Blackbird has made several key appointments to its team.

On September 29, 2016, Blackbird appointed Mr. Josh Wylie to the position of Vice President, Land. Mr. Wylie was promoted from his previous position serving as the Company's Land Manager.

On May 20, 2015, Blackbird benefited from the appointment of Mr. Burton Joel Ahrens to its Board. Mr. Ahrens is the President of The Edgehill Corporation and brings to Blackbird a wealth of oil and gas experience focused on venture capital and law. Mr. Ahrens also currently serves as a director of Canadian Energy Services and Technology Corp.

On March 31, 2015, Mr. Don Noakes was appointed Vice President, Operations. Mr. Noakes previously held positions with Murphy Oil Company Ltd., Mosaic Energy Ltd., APL Oil and Gas (1998) Ltd., Bow Valley Energy Ltd., and Culane Energy Corp.

On February 26, 2015, Blackbird announced that Mr. William C. Macdonald ceased to be a member of the Board as he did not stand for re-election at the annual and special meeting of shareholders.

On February 19, 2015, the Company announced the resignation of its former Chief Financial Officer, Mr. Ron Schmitz, in order to facilitate the promotion of Mr. Jeffrey Swainson from the position of Controller to the position of Chief Financial Officer and Corporate Secretary. Mr. Schmitz remains a director of Blackbird.

On January 22, 2015, the Company appointed Mr. Craig Wiebe to the position of Vice President, Exploration and announced that Mr. Ralph Allen, its previous Vice President, Exploration, transitioned to the role of Vice President, Geoscience.

On September 22, 2014, Blackbird benefited from the appointment of Mr. Kevin Andrus to its Board. Mr. Andrus is the Portfolio Manager of Energy Investments at GMT Capital Corp., Blackbird's largest shareholder. Mr. Andrus brings to Blackbird a wealth of capital markets and exploration and production experience.

Blackbird anticipates that these key organizational additions will facilitate the development of its Elmworth Montney asset and its pursuit of strategic opportunities for the benefit of Blackbird's shareholders.

BLACKBIRD'S TREE PLANTING PROGRAM

Blackbird has partnered with The Carbon Farmer Inc., an Alberta owned and operated company, to plant native trees in northwestern Alberta. Several of Blackbird's stakeholders have also committed to plant trees in support of this cause, for a total of 51,329 trees committed to date. These trees will restore boreal forest on conserved land that was historically cleared for farming. Our ultimate goal is for Blackbird and its stakeholders to facilitate the planting of over 100,000 trees over the next few years.



2016 Financial Highlights: Core Operations and Properties

CAPITAL REQUIREMENTS

Blackbird must make substantial capital expenditures in order 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 made any commitment, such as future capital expenditures related to Elsworth.

Blackbird has budgeted approximately \$19.0 million for its infrastructure build-out relating to the Elsworth project, of which \$17.6 million remains to be spent at July 31, 2016. The infrastructure has been designed to be scalable to meet not only the Company's current and near-term capacity requirements but also to support future development and growth.

As a result of the Company's current commitments, expected expenditures not yet committed, costs associated with infrastructure, and further Montney development, management completed the Offering on May 19, 2016. See the "2016 Operating Summary – Prospectus Offering of 176,410,000 Units and 15,410,000 Flow-Through Common Shares" heading above. Blackbird may require further funding in the form of assumption of debt, off-balance sheet financing, further equity financing, or a combination thereof in order to meet its planned long-term growth objectives and to fund future development activities.

LIQUIDITY AND CAPITAL RESOURCES

<i>(CDN\$ thousands)</i>	July 31 2016	July 31 2015
Cash	29,051	22,330
Accounts receivable	219	340
Inventory ⁽¹⁾	181	332
Prepaid expenses and deposits ⁽²⁾	1,019	243
Assets of discontinued operations	-	50
Accounts payable and accrued liabilities	(702)	(586)
Flow-through share premium liability	(314)	-
Working capital surplus	29,454	22,709

Notes:

(1) Casing acquired but not used for a previous well which will be used on Blackbird's future wells.

(2) Includes government "Licensee Liability Rating" program deposits expected to be recovered within a year.

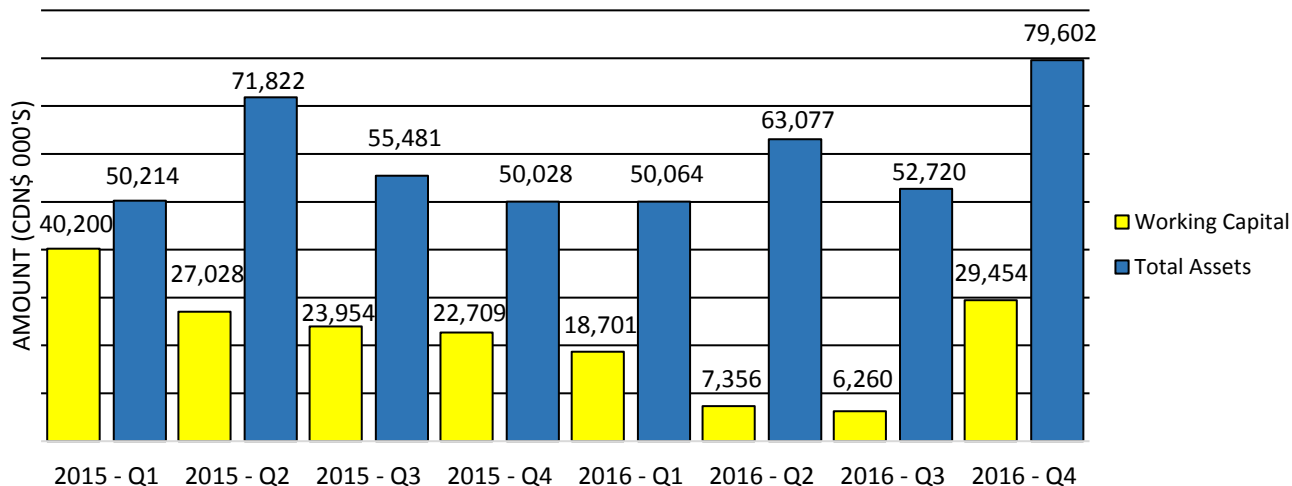
As at July 31, 2016, Blackbird had a working capital surplus of approximately \$29.5 million (July 31, 2014 – \$22.7 million) and no debt. The increase in working capital surplus compared to July 31, 2015 is due to the Offering, partially offset by the drilling, completion, testing, and other post-completion costs incurred related to the 02-20 well, infrastructure expenditures related to the Facility and the Gathering System, and land acquisitions. The Company also incurred general and administrative expenses, partially offset by proceeds received on the exercise of stock options and warrants during the year. From time to time Blackbird may supplement its liquidity with the proceeds from the sale of assets.



2016

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

WORKING CAPITAL AND TOTAL ASSET POSITION



As indicated by the chart above titled “Working Capital and Total Asset Position”, Blackbird’s working capital has increased to \$29.5 million at July 31, 2016 compared to \$22.7 million at July 31, 2015, which is primarily the result of the Offering partially offset by the drilling and completing of the 02-20 Elmworth Montney well. Total assets have increased as a result of the Offering and the capital expenditures associated with Blackbird’s Elmworth Montney development.

SHARE CAPITAL & SHAREHOLDERS’ EQUITY

A reconciliation of the Company’s shareholders’ equity as at July 31, 2016, compared to the Company’s shareholders’ equity as at July 31, 2015, is as follows:

<i>(CDN\$ thousands, except share amounts)</i>	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
Income for the year ⁽¹⁾	-	-	-	69	69
At July 31, 2016	550,023	86,416	11,505	(20,853)	77,068



UNIT AND FLOW-THROUGH FINANCING

During the year ended July 31, 2016, the Company completed the Offering as described under the heading “2016 Operating Summary – Prospectus Offering of 176,410,000 Units and 15,410,000 Flow-Through Common Shares” above, providing net proceeds of \$27.0 million.

EXERCISED STOCK OPTIONS, WARRANTS, AND AGENTS’ WARRANTS

During the year ended July 31, 2016, the Company issued 4,004,024 Common Shares due to the exercise of stock options, warrants, and agents’ warrants. The Company received proceeds of \$0.5 million on the exercises. At July 31, 2016, the Company had 23,592,965 unexercised, vested and in-the-money options and warrants outstanding.

CANCELLED AND EXPIRED STOCK OPTIONS

During the year ended July 31, 2016, a total of 5,000,000 stock options with a weighted average exercise price of \$0.26 per share were cancelled.

During the year ended July 31, 2016, a total of 750,000 stock options exercisable at \$0.27 per share expired unexercised.

SHARE-BASED COMPENSATION

	Three months ended		Year ended	
	July 31 2016	July 31 2015	July 31 2016	July 31 2015
(CDN\$ thousands)				
Share-based compensation – stock option expense	154	312	1,293	2,518

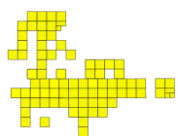
Note:

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

During the three months ended July 31, 2016, share-based compensation of \$154 thousand (July 31, 2015 - \$312 thousand) in the form of stock option expense was incurred, with \$89 thousand related to officers and \$37 thousand related to directors (July 31, 2015 - \$161 thousand related to officers and \$81 thousand related to directors). The decrease in share-based compensation was a result of fewer stock options vesting during the three months ended July 31, 2016, compared to the three months ended July 31, 2015, where a larger portion of expense was recognized due to hiring additional employees and appointing new directors. No share-based compensation expense was capitalized during the three months ended July 31, 2016 or 2015.

During the year ended July 31, 2016, share-based compensation of \$1.3 million (July 31, 2015 - \$2.5 million) in the form of stock option expense was incurred, with \$0.9 million related to officers and \$0.2 million related to directors (July 31, 2015 - \$1.6 million related to officers and \$0.6 million related to directors). The decrease in share-based compensation was a result of the Company not hiring additional employees or appointing new directors during the year ended July 31, 2016, compared to the year ended July 31, 2015, which had substantial activity in that regard. No share-based compensation expense was capitalized during the year ended July 31, 2016 or 2015.

Blackbird believes that compensation tied to shareholder return is critical for attracting top-tier individuals who share the common mandate of generating shareholder value.



OUTSTANDING SHARE CAPITAL

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

	Number of shares issued or issuable
Common shares	550,407,675
Stock options	24,665,711
Warrants	11,817,254
Unit warrants	176,410,000

The Company may incur further dilution if outstanding stock options, warrants, and unit warrants are exercised.

EXPLORATION AND EVALUATION ASSETS AND PROPERTY AND EQUIPMENT

During the year ended July 31, 2016, the Company acquired 10.75 additional net sections of Elmworth Montney undeveloped land for cash consideration of \$0.4 million (July 31, 2015 - \$5.2 million on undeveloped Elmworth Montney and \$0.5 million on undeveloped East Wapiti Montney).

During the years ended July 31, 2016 and 2015, the costs associated with the Company's first three Elmworth wells were transferred to property and equipment, net of impairments, upon establishment of technical feasibility and commercial viability.



EXPLORATION AND EVALUATION ASSETS AND PROPERTY AND EQUIPMENT (CONTINUED)

The following table reconciles exploration and evaluation assets and property and equipment for the years ended July 31, 2016 and 2015:

	Year Ended July 31, 2016			Year Ended July 31, 2015		
	Cost	Accum. impair.	Carrying value	Cost	Accum. impair.	Carrying value
<i>(CDN\$ thousands)</i>						
Exploration and evaluation assets						
Beginning of year	13,239	(4,470)	8,769	1,836	-	1,836
Additions	15,225	-	15,225	28,906	-	28,906
Change in decommissioning provision	192	-	192	367	-	367
Transferred to inventory	-	-	-	(332)	-	(332)
Impairment	-	-	-	-	(4,470)	(4,470)
Transferred to property and equipment	(14,511)	-	(14,511)	(17,538)	-	(17,538)
End of year	14,145	(4,470)	9,675	13,239	(4,470)	8,769
<i>(CDN\$ thousands)</i>						
	Cost	Accum. DD&A and impair.	Carrying value	Cost	Accum. DD&A and impair.	Carrying value
Property and equipment						
Beginning of year	18,143	(591)	17,552	11,611	(1,217)	10,394
Additions	2,166	-	2,166	288	-	288
Dispositions	(3)	-	(3)	(11,378)	2,146	(9,232)
Change in decommissioning provision	93	-	93	75	-	75
Depletion and depreciation	-	-	-	-	(236)	(236)
Transferred from exploration and evaluation assets	14,511	-	14,511	17,538	-	17,538
Impairment reversal (impairment), net	-	4,461	4,461	-	(1,284)	(1,284)
Office furniture	-	-	-	9	-	9
End of year	34,910	3,870	38,780	18,143	(591)	17,552

Note:

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

**EXPLORATION AND EVALUATION IMPAIRMENT**

	Three months ended		Year ended	
	July 31 2016	July 31 2015	July 31 2016	July 31 2015
(CDN\$ thousands)				
Exploration and evaluation impairment	-	4,470	-	4,470

Note:

(1) This table includes only continuing operations related to the Company's Elmworth Cash Generating Unit ("CGU").

During the three months ended July 31, 2016, the Company recognized an impairment of \$nil to exploration and evaluation assets (July 31, 2015 - \$4.5 million). There was no impairment recognized on the transfer of 02-20 well costs to property and equipment in the current period. During the three months ended July 31, 2015, the 06-26 and 05-26 well costs were tested for impairment immediately preceding their transfer to property and equipment and were impaired to the net present value of their proved plus probable reserves as at July 31, 2015.

During the year ended July 31, 2016, the Company recognized an impairment of \$nil to exploration and evaluation assets (July 31, 2015 - \$4.5 million). There was no impairment recognized on the transfer of 02-20 well costs to property and equipment in the current period. During the year ended July 31, 2015, the 06-26 and 05-26 well costs were tested for impairment immediately preceding their transfer to property and equipment and were impaired to the net present value of their proved plus probable reserves as at July 31, 2015.

IMPAIRMENT REVERSAL

	Three months ended		Year ended	
	July 31 2016	July 31 2015	July 31 2016	July 31 2015
(CDN\$ thousands)				
Property and equipment impairment reversal, net	-	-	4,461	-

Note:

(1) This table includes only continuing operations related to the Company's Elmworth CGU.

An impairment test is performed on capitalized property and equipment costs at a CGU level on an annual basis and on a quarterly basis when indicators of impairment or impairment reversal exist. Impairment is calculated as the difference in a CGU's carrying value and its recoverable amount. When there is an indication that an impairment loss may have decreased, the recoverable amount of the CGU is determined. Impairment losses are reversed and recognized in profit or loss to the extent that a CGU's carrying value is increased to its depreciated historical cost had no impairment been recognized previously.

During the three months ended July 31, 2016 and 2015, the Company determined that there was no impairment to the Company's Elmworth CGU.



IMPAIRMENT REVERSAL (CONTINUED)

During the year ended July 31, 2016, the Company recognized a net impairment reversal of \$4.5 million to core property and equipment (July 31, 2015 - \$nil). This impairment and impairment reversal related to the Elmworth CGU. 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, and further supported by the July 31, 2016 report.

The impairment test was carried out at July 31, 2016, using the following benchmark reference prices:

	Inflation	CADUSD Exchange Rate	NYMEX Henry Hub Constant 2016	NYMEX Henry Hub Then Current	Edmonton Propane	Edmonton Butane	Edmonton C5+ Stream Quality
Year	%	USD/CAD ⁽¹⁾	US\$/mmbtu ⁽¹⁾	US\$/mmbtu ⁽¹⁾	CDN\$/bbl ⁽¹⁾	CDN\$/bbl ⁽¹⁾	CDN\$/bbl ⁽¹⁾
2016 Q3-Q4	2.0	0.750	3.00	3.00	14.25	39.62	67.77
2017	2.0	0.775	3.14	3.20	16.61	46.52	71.10
2018	2.0	0.800	3.08	3.20	20.25	50.63	72.23
2019	2.0	0.825	3.20	3.40	24.61	52.73	75.22
2020	2.0	0.850	3.33	3.60	25.53	54.71	78.05
2021	2.0	0.850	3.44	3.80	27.18	58.24	83.08
2022	2.0	0.850	3.55	4.00	28.82	61.76	88.12
2023	2.0	0.850	3.66	4.20	30.47	65.29	93.15
2024	2.0	0.850	3.75	4.39	32.12	68.82	98.19
2025	2.0	0.850	3.75	4.48	32.97	70.65	100.79
2026+ ⁽²⁾	2.0	0.850	3.75	+2.0%/yr.	+2.0%/yr.	+2.0%/yr.	+2.0%/yr.

Notes:

(1) Source: GLJ's price forecast, effective July 1, 2016.

(2) Percentage change represents the change in each year after 2025 to the end of the reserve life.

The Company's reserves were evaluated as at July 31, 2016, by GLJ. The evaluation by GLJ was conducted in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook and is compliant with National Instrument 51-101 – Standards of Disclosure For Oil and Gas Activities. The Company's Form 51-101F1 – Statement of Reserves Data and Other Oil and Gas Information as at July 31, 2016 can be viewed on SEDAR at www.sedar.com.



CAPITAL EXPENDITURES AND DIVESTITURES

	Three months ended		Year ended	
	July 31 2016	July 31 2015	July 31 2016	July 31 2015
<i>(CDN\$ thousands)</i>				
Drilling, completions and production testing	865	251	15,387	22,200
Plants, facilities and pipelines	754	106	1,109	559
Seismic	-	-	-	145
Land and lease	397	27	449	5,977
Capital well workovers	-	10	-	90
Capitalized general and administrative expense	185	204	731	663
Dispositions	-	(185)	(3)	(9,232)
Net capital expenditures	2,201	413	17,673	20,402

	Three months ended		Year ended	
	July 31 2016	July 31 2015	July 31 2016	July 31 2015
<i>(CDN\$ thousands)</i>				
Elmworth	2,201	598	17,676	29,066
Net capital expenditures from continuing operations	2,201	598	17,676	29,066
Saskatchewan and Bigstone	-	-	-	568
Dispositions	-	(185)	(3)	(9,232)
Net capital expenditures from discontinued operations	-	(185)	(3)	(8,664)
Net capital expenditures	2,201	413	17,673	20,402



NON-CORE ASSET DIVESTITURES

All discontinued operations discussed in this MD&A are related to the Bigstone and Saskatchewan CGUs below.

SASKATCHEWAN

On June 1, 2015, the Company completed the sale of 18 wellbores and associated mineral rights from its Dankin, Flaxcombe, and Alsask properties, which comprised the majority of the Saskatchewan Minor CGU, for cash proceeds of \$50 thousand resulting in a gain on disposition of \$793 thousand due to the extinguishment of \$927 thousand of decommissioning liabilities and assets of \$184 thousand, included in loss from discontinued operations during the year ended July 31, 2015. The Company continues to own its Alsask assets that are located in Alberta (west of the 4th meridian). A reconciliation of the gain on disposition is as follows:

Proceeds from disposition	<i>(CDN\$ thousands)</i>
Cash receivable	50
Transaction costs	-
Proceeds net of transaction costs	50
Assets and liabilities disposed at carrying value	
Decommissioning provision	(927)
Assets	184
Net gain on disposition	793

BIGSTONE

On September 15, 2014, the Company completed the sale of its Bigstone CGU in west central Alberta for cash proceeds of \$8.8 million. This CGU had a carrying value of \$8.9 million resulting in a loss on disposition of \$0.1 million, included in loss from discontinued operations during the year ended July 31, 2015. A reconciliation of the loss on disposition is as follows:

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



CONTINGENCIES AND COMMITMENTS

The Company relies on equity financings and working capital to fund its capital requirements and to provide liquidity for operations.

At July 31, 2016, the Company has committed to future payments over the next five calendar years, as follows:

(CDN\$ thousands)	2016	2017	2018	2019	2020	Thereafter	Total
Office rent ⁽¹⁾	103	246	246	144	-	-	739
Canadian dollar portion of gas marketing agreement	308	1,223	1,223	1,223	1,018	-	4,995
Transportation and processing	-	3,405	2,836	-	-	-	6,241
	411	4,874	4,305	1,367	1,018	-	11,975

Note:

(1) Subsequent to July 31, 2016, the Company entered into a head lease for its current office space while terminating the existing sublease without penalty. The annual office rent commitments are disclosed above.

(US\$ thousands)	2016	2017	2018	2019	2020	Thereafter	Total
US dollar portion of gas marketing agreement ⁽¹⁾	198	785	785	785	654	-	3,207

Note:

(1) A fluctuation in the July 31, 2016, 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.

FLOW-THROUGH SHARES

The Company is required to incur and renounce \$2.3 million of eligible Canadian Development Expenses by December 31, 2016 in connection with the issuance of the Flow-Through Shares during the year ended July 31, 2016. As at July 31, 2016, \$0.7 million of these expenditures have been incurred. The remaining \$1.6 million of qualifying expenditures must be incurred by December 31, 2016.

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.



GENERAL AND ADMINISTRATIVE EXPENSE

	Three months ended		Year ended	
	July 31 2016	July 31 2015	July 31 2016	July 31 2015
<i>(CDN\$ thousands, except where otherwise noted)</i>				
Gross general and administrative expense	794	723	2,985	3,259
Capitalized general and administrative expense	(185)	(204)	(731)	(663)
Net general and administrative expense	609	519	2,254	2,596
General and administrative expense (\$/boe)	778	244	1,062	200

Note:

(1) All general and administrative expense is related to continuing operations.

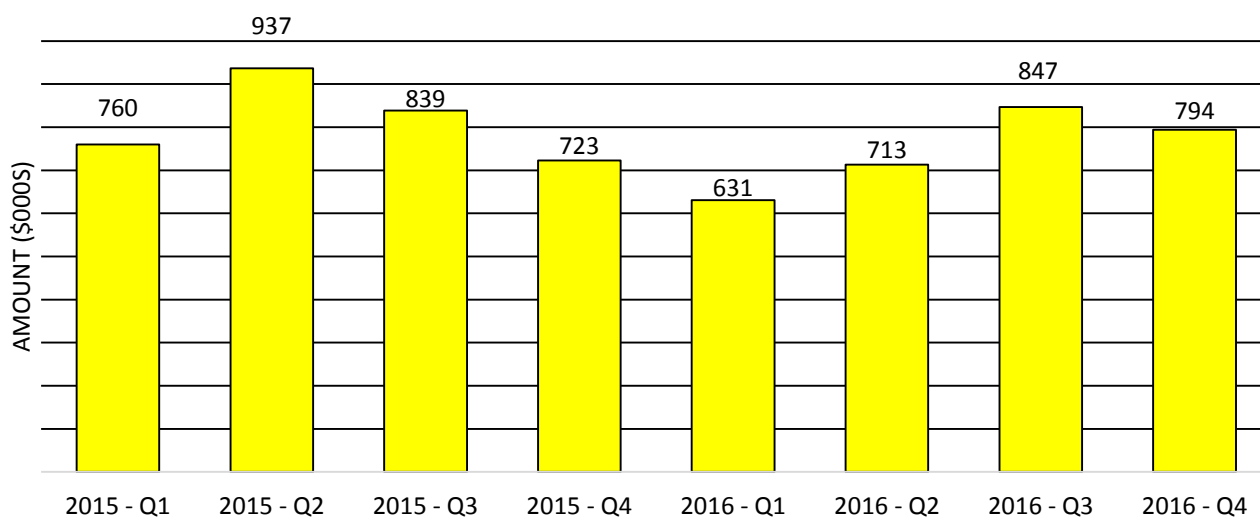
During the three months ended July 31, 2016, gross general and administrative (“G&A”) expense increased to \$0.8 million from \$0.7 million for the same period in 2015. This increase was primarily a result of greater professional fees incurred related to the legal consultation required for regulatory approvals and accounting services.

During the three months ended July 31, 2016, the Company capitalized \$0.2 million (July 31, 2015 - \$0.2 million) of directly attributable G&A expenses related to the Elmworth project.

During the year ended July 31, 2016, gross G&A expense decreased to \$3.0 million from \$3.3 million for the same period in 2015. This decrease was primarily a result of decreased investor relations in addition to consulting and management fees.

During the year ended July 31, 2016, the Company capitalized \$0.7 million (July 31, 2015 - \$0.7 million) of directly attributable G&A expenses related to the Elmworth project.

GROSS G&A EXPENSE





FINANCING COSTS

Financing costs for the Company during the periods ended July 31, 2016 and 2015 were as follows:

	Three months ended		Year ended	
	July 31 2016	July 31 2015	July 31 2016	July 31 2015
<i>(CDN\$ thousands)</i>				
Accretion of decommissioning provision ⁽¹⁾	5	3	17	26
Interest on loan payable	-	-	-	11
	5	3	17	37

Note:

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

OPERATING NETBACK AND FUNDS USED FOR CONTINUING OPERATIONS

	<i>(CDN\$ thousands)</i>			<i>(\$/boe)</i>		
<i>Year ended July 31</i>	2016	2015	% change	2016	2015	% change
Petroleum and natural gas	33	157	(79)	16	33	(53)
Royalties	-	(8)	(100)	-	(2)	(100)
Operating, production and transportation	33	149	(78)	16	31	(51)
	(273)	(187)	(46)	(129)	(39)	(226)
Operating netback⁽¹⁾	(240)	(38)	(532)	(113)	(8)	(1,311)
General and administrative	(2,254)	(2,596)	(13)	(1,061)	(547)	(94)
Property evaluation	(300)	-	100	(141)	-	(100)
Financing costs	-	(8)	(100)	-	(2)	(100)
Interest income	203	309	(34)	96	65	47
Funds used for operations⁽¹⁾	(2,591)	(2,333)	(11)	(1,219)	(492)	(148)
Changes in non-cash working capital	(265)	(75)	(253)	(125)	(16)	(689)
Funds (used) from discontinued operations	-	(110)	(100)	-	(23)	(100)
Cash used in operating activities	(2,856)	(2,518)	(13)	(1,344)	(531)	(153)

(1) Non-IFRS measure.

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

For the year ended July 31, 2016, funds used for operations was \$2.6 million compared to funds used for operations of \$2.3 million for the same period in 2015. The increase in the current year was primarily a result of decreased operating netback, increased property evaluation expense and decreased interest income earned in the current year compared the previous year due to a smaller cash balance being held at the Company's financial institution. The increase in funds used for operations was partially offset by lower G&A expense in the current year compared to the prior year.



Tax Pools

At July 31, 2016, Blackbird had the following deductible temporary differences, unused tax credits and unused tax losses that have not been recognized on the statements of financial position:

<i>(CDN\$ thousands)</i>	July 31 2016	Expiry Dates	July 31 2015	Expiry Dates
Temporary differences				
Property, equipment, and resource assets	3,224	No expiry date	1,269	No expiry date
Share issue costs	-	-	115	2036 to 2039
Allowable capital losses	91	No expiry date	92	No expiry date
Non-capital losses available for future years	1,334	2030 to 2036	8,389	2026 to 2035

Related Party Transactions

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

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



Related Party Transactions (Continued)

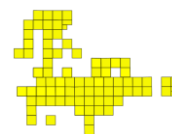
Blackbird has determined that the key management personnel of the Company consist of its directors and officers, including those who formerly held such positions. During the years ended July 31, 2016 and 2015, the Company engaged in the following transactions with key management:

	Years Ended	
	July 31 2016	July 31 2015
<i>(CDN\$ thousands)</i>		
Management fees paid to G.K. Braun Limited, a company owned by Mr. Garth Braun, Chairman, Chief Executive Officer and President	-	39
Legal fees paid to Macdonald Tuskey LLP, a law firm in which Mr. William L. Macdonald, Director, is a Principal	51	144
Share issue costs paid to Macdonald Tuskey LLP	92	92
Accounting fees paid to ASI Accounting Services, a company in which Mr. Ron Schmitz, Director and former Chief Financial Officer, is President	-	119
Consulting fees paid and expensed related to companies owned by Mr. Ralph Allen, Vice President, Geoscience and Mr. Joshua Mann, Vice President, Business Development	-	28
Consulting fees paid and capitalized to exploration and development activities related to companies owned by Mr. Craig Wiebe, Vice President, Exploration, Mr. Randy Schmautz, former Vice President, Drilling and Completions and Mr. Allen	-	146
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	372	-
Fees paid to Stage Completions Inc. for completion services performed, a company in which Mr. Braun and Mr. Sean Campbell, Director, are the Managing Director and President of, respectively	28	-
Fees paid to Directors	45	-
Salaries paid to key management personnel that were expensed	468	462
Salaries paid to key management personnel that were capitalized to exploration and development activities	528	400
Share-based compensation	1,152	2,202
	2,736	3,632

At July 31, 2014, the Company had a convertible debentures balance of \$0.4 million that remained payable. During the year ended July 31, 2015, the Company issued 3,452,840 Common Shares valued at \$0.4 million pursuant to the conversion of 345 convertible debentures, of which 595,402 Common Shares valued at \$0.1 million were issued to key management.

During the year ended July 31, 2016, the Company paid \$nil in land consulting fees to Bilmac Resources Limited (July 31, 2015 - \$10 thousand), a company in which Mr. William C. Macdonald, former director, is President.

As of July 31, 2016, there was \$19 thousand outstanding in accounts payable related to these service providers (July 31, 2015 - \$26 thousand), which is Blackbird's only on-going commitment to them.



2016 Financial Highlights: Non-Core Operations and Properties

Blackbird's non-core properties include operated and non-operated wells located in Saskatchewan and Alberta. All production in the year was derived from these properties.

A description of the remaining non-core properties at July 31, 2016, by CGU is as follows:

ALBERTA MINOR PROPERTIES

PEMBINA

The Company holds a 24% working interest in certain petroleum and natural gas ("P&NG") rights in one section of land and a standing Nisku formation sour gas/condensate well in the Pembina Field, Alberta.

FERRIER

The Company currently holds a 26.6% working interest subject to a 7.1% non-convertible gross overriding royalty in one well in Ferrier, Alberta.

WATTS

The Company currently holds 50% working interests in certain P&NG rights in two sections of land and a reversionary working interest of 50% before payout and 25% after payout in a producing gas well and 25% interest in certain P&NG rights in Watts, Alberta.

SASKATCHEWAN MINOR PROPERTIES

ALSASK

The Company currently holds a 100% working interest in one section of land with two non-producing Basal Mannville oil wells, one abandoned well, and one water disposal well in Alsask, Alberta.



NON-CORE PRODUCTION

	Three months ended		Year ended	
	July 31 2016	July 31 2015	July 31 2016	July 31 2015
Commodity				
Natural gas (mcf/d)	48	1	32	35
Crude oil (bbls/d)	-	5	-	5
Natural gas liquids (bbls/d)	1	1	-	1
Total production from continuing operations (boe/d) (6:1)	9	6	6	12
Total production from discontinued operations (boe/d) (6:1)	-	18	-	25
Total production (boe/d) (6:1)	9	24	6	37

	Three months ended		Year ended	
	July 31 2016	July 31 2015	July 31 2016	July 31 2015
Region				
Alberta and Saskatchewan Minor (boe/d)	9	6	6	12
Total production from continuing operations (boe/d) (6:1)	9	6	6	12
Bigstone (boe/d) (discontinued operations)	-	-	-	1
Saskatchewan Minor (boe/d) (discontinued operations)	-	18	-	24
Total production (boe/d) (6:1)	9	24	6	37

CONTINUING OPERATIONS

During the three months ended July 31, 2016, production from continuing operations averaged 9 boe/d compared to 6 boe/d for the same period in 2015. The increase in production levels from the prior period was a result of the Company's non-operated wells producing higher natural gas volumes.

During the year ended July 31, 2016, production from continuing operations averaged 6 boe/d compared to 12 boe/d for the same period in 2015. The reduction in production levels from the prior period was a result of operated wells being shut-in and no further capital expenditures being allocated to replace production in these properties.

DISCONTINUED OPERATIONS

During the three months ended July 31, 2016, there was no production from discontinued operations compared to 18 boe/d for the same period in 2015. The decrease during the three months ended July 31, 2016 was due to the Saskatchewan disposition, as discussed above under the heading "Non-Core Asset Divestitures".

During the year ended July 31, 2016, there was no production from discontinued operations compared to 25 boe/d for the same period in 2015. The decrease during the year ended July 31, 2016 was due to the Saskatchewan and Bigstone dispositions, as discussed above under the heading "Non-Core Asset Divestitures".



NON-CORE PETROLEUM AND NATURAL GAS REVENUE

	Three months ended		Year ended	
	July 31 2016	July 31 2015	July 31 2016	July 31 2015
<i>(CDN\$ thousands, except where otherwise noted)</i>				
Petroleum and natural gas revenue				
Natural gas	6	1	26	50
Crude oil	-	15	3	89
Natural gas liquids	2	1	4	18
Royalties	-	(5)	-	(8)
Petroleum and natural gas revenue from continuing operations	8	12	33	149
Bigstone, net of royalties <i>(discontinued operations)</i>	-	-	-	1
Saskatchewan Minor, net of royalties <i>(discontinued operations)</i>	-	45	-	388
Total petroleum and natural gas revenue, net of royalties	8	57	33	538
Average sales price				
Natural gas (\$/mcf)	1.41	3.68	2.20	3.94
Crude oil (\$/bbl)	39.16	37.40	42.60	50.71
Natural gas liquids (\$/bbl)	35.19	62.98	33.52	71.88
Average sales price (\$/boe)	10.22	36.54	15.21	46.29
Benchmark prices				
AECO Gas (\$/mcf) ⁽¹⁾	2.14	3.13	2.14	3.13
SaskEnergy Gas (\$/mcf) ⁽¹⁾	2.10	2.99	2.10	2.99
Hardisty Heavy Oil (\$/bbl) ⁽¹⁾	35.06	55.24	35.06	55.24
Edmonton Butane (\$/bbl) ⁽¹⁾	35.03	41.27	35.03	41.27
Edmonton Pentanes Plus (\$/bbl) ⁽¹⁾	59.93	73.03	59.93	73.03

Note:

(1) Source: GLJ.

CONTINUING OPERATIONS

During the three months ended July 31, 2016, petroleum and natural gas revenues from continuing operations, net of royalties, was \$8 thousand compared to \$12 thousand during the same period in 2015. The decrease in revenue was due to reduced oil production volumes, offset by increased gas production volumes from non-operated properties. The decrease was also due to an overall reduction in realized average sales price. Blackbird realized a weighted average sales price of \$10.22 per boe during the three months ended July 31, 2016, compared to \$36.54 per boe in the three months ended July 31, 2015, exclusive of royalties, for gas weighted commodities marketed.

During the year ended July 31, 2016, petroleum and natural gas revenues from continuing operations, net of royalties, was \$33 thousand compared to \$149 thousand during the same period in 2015. The decrease in revenue was due to reduced production volumes caused by shut-in operated wells and lower realized prices. Blackbird realized a weighted average sales price of \$15.21 per boe during the year ended July 31, 2016, compared to \$46.29 per boe in the year ended July 31, 2015, exclusive of royalties, for gas weighted commodities marketed.



NON-CORE PETROLEUM AND NATURAL GAS REVENUE (CONTINUED)

DISCONTINUED OPERATIONS

During the three months ended July 31, 2016, petroleum and natural gas revenue from discontinued operations, net of royalties, was \$nil compared to \$45 thousand during the same period in 2015. The decrease during the three months ended July 31, 2016 was due to the Saskatchewan disposition, as discussed previously.

During the year ended July 31, 2016, petroleum and natural gas revenue from discontinued operations, net of royalties, was \$nil compared to \$389 thousand during the same period in 2015. The decrease during the year ended July 31, 2016 was due to the Saskatchewan and Bigstone dispositions, as discussed previously.

NON-CORE ROYALTIES

	Three months ended		Year ended	
	July 31 2016	July 31 2015	July 31 2016	July 31 2015
<i>(CDN\$ thousands, except where otherwise noted)</i>				
Royalties				
Crown	-	4	-	7
Freehold and overriding	-	1	-	1
Total royalties from continuing operations	-	5	-	8
Bigstone <i>(discontinued operations)</i>	-	-	-	2
Saskatchewan Minor <i>(discontinued operations)</i>	-	10	-	54
Total	-	15	-	64
Royalties (\$/boe)	-	7	-	5
Average royalty rate (%)	-	21	-	11

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 2015 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, currently behind pipe, would qualify for these lower royalty rates.

Royalties for the three months ended July 31, 2016 were \$nil compared to \$15 thousand or 20.8% of total petroleum and natural gas sales during the same period in 2015. The decrease in royalties was due to minimal production in the period and Alberta's Gas Cost Allowance adjustments.

**NON-CORE ROYALTIES (CONTINUED)**

Royalties for the year ended July 31, 2016 were \$nil compared to \$64 thousand or 10.6% of total petroleum and natural gas sales during the same period in 2015. The decrease in royalties was due to minimal production in the period and Gas Cost Allowance adjustments.

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 year ended July 31, 2016, and is based on the balances disclosed in this MD&A and the consolidated financial statements for the year ended July 31, 2016:

<i>(CDN\$ thousands)</i>	Petroleum and Natural Gas Sales ⁽¹⁾
Change in average sales price for natural gas by \$1.00/mcf	12
Change in the average sales price for crude oil and natural gas liquids by \$1.00/bbl	-
Change in natural gas production by 1 mmcf/d ⁽²⁾	803
Change in crude oil and natural gas liquids production by 100 bbls/d ⁽²⁾	1,360

(1) Reflects the change in petroleum and natural gas sales for the year ended July 31, 2016.

(2) Reflects the change in production multiplied by Blackbird's average sales prices for the year ended July 31, 2016.

NON-CORE DEPLETION, DEPRECIATION AND IMPAIRMENT

	Three months ended		Year ended	
<i>(CDN\$ thousands, except where otherwise noted)</i>	July 31 2016	July 31 2015	July 31 2016	July 31 2015
Depletion and depreciation ⁽¹⁾	-	15	-	236
Depletion and depreciation expense (\$/boe) ⁽¹⁾	-	7	-	18

Note:

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

For the three months ended July 31, 2016, there was no depletion and depreciation compared to \$15 thousand or \$7 per boe for the same period in 2015. There was no depletion and depreciation charge booked in the current period as the producing properties had no depletion base. The carrying value of non-core properties (Alberta and Saskatchewan Minor CGUs) was written down to \$nil on July 31, 2015, as management has no intention of further development in these areas, resulting in no expected material future production and cash flows from value in use.

For the year ended July 31, 2016, there was no depletion and depreciation compared to \$236 thousand or \$18 per boe for the same period in 2015. There was no depletion and depreciation charge booked in the current period as the producing properties had no depletion base. The carrying value of non-core properties (Alberta and Saskatchewan Minor CGUs) was written down to \$nil on July 31, 2015, as management has no intention of further development in these areas, resulting in no expected material future production and cash flows from value in use.



NON-CORE DEPLETION, DEPRECIATION AND IMPAIRMENT (CONTINUED)

The calculation of depletion and depreciation for the period ended July 31, 2015, included an estimated \$nil for future development costs associated with non-core properties and excluded \$8.8 million related to exploration and evaluation assets.

	Three months ended		Year ended	
	July 31 2016	July 31 2015	July 31 2016	July 31 2015
<i>(CDN\$ thousands)</i>				
Property and equipment impairment ⁽¹⁾	-	116	-	1,284

Note:

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

During the three months ended July 31, 2016, the Company recognized an impairment of \$nil to non-core property and equipment as these assets have no associated carrying value (July 31, 2015 - \$0.1 million consisting of net impairment of \$0.1 million in the Alberta Minor CGU).

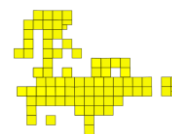
During the year ended July 31, 2016, the Company recognized an impairment of \$nil to non-core property and equipment as these assets have no associated carrying value (July 31, 2015 - \$1.3 million consisting of net impairments of \$0.4 million in the Alberta Minor CGU and \$0.9 million in the Saskatchewan Minor CGU).

Selected Annual Information

	Years ended		
	July 31 2016	July 31 2015	July 31 2014
<i>(CDN\$ thousands except, per share amounts)</i>			
Total assets	79,602	50,028	13,649
Working capital	29,454	22,709	55
Total long-term liabilities	1,518	729	1,384
Cash dividends	-	-	-
Total revenue	33	602	1,269
Total interest income	203	309	11
Income (loss) from continuing operations	586	(7,116)	(2,983)
Basic income (loss) from continuing operations per share	0.00	(0.02)	(0.02)
Diluted income from continuing operations per share	0.00	-	-
Net income (loss) and comprehensive income (loss)	69	(7,579)	(3,527)
Basic income (loss) per share	0.00	(0.02)	(0.02)
Diluted income per share	0.00	-	-

Note:

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



Annual Results

During the year ended July 31, 2016, net income and comprehensive income totaled \$0.1 million (\$0.00 per share, basic and diluted) compared to a net loss and comprehensive loss of \$7.6 million (\$0.02 per share, basic and diluted) for the same period in 2015. Blackbird's net income and comprehensive income for the year ended July 31, 2016, is mostly attributable to the impairment reversal recognized on the Elmworth CGU, amortization of the Flow-Through Share premium liability, and interest income earned. This income was partially offset by G&A expense, share-based compensation recognized, property evaluation expense, inventory write-downs, and deferred income tax expense. Blackbird's net loss and comprehensive loss for the year ended July 31, 2015 is mostly attributable to increased G&A expense and share-based compensation from growth experienced, as well as impairments. These losses were offset partially by the amortization of the Flow-Through Share premium liability and interest income earned. Blackbird was not taxable in either of these years.

Fourth Quarter Results

During the three months ended July 31, 2016, the Company recognized a net loss and comprehensive loss of \$1.3 million.

The Company incurred \$0.6 million of G&A, net of capitalized G&A, for the three months ended July 31, 2016.

The Company recognized \$0.2 million of share-based compensation expense during the three months ended July 31, 2016. This expense related to graded vesting of options previously granted, as no additional options were granted during the period.

During the three months ended July 31, 2016, the Company recognized a write-down of \$0.2 million to inventory which was offset by \$0.2 million of income related to the amortization of the flow-through share premium liability.

During the three months ended July 31, 2016, the Company recognized deferred income tax expense of \$0.5 million.



Quarterly Financial Summary

<i>(CDN\$ thousands, except per share and production amounts)</i>	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2015 Q2	2015 Q1
Total assets	79,602	52,720	63,077	50,064	50,028	55,481	71,822	50,214
Working capital	29,454	6,260	7,356	18,701	22,709	23,954	27,028	40,200
Elmworth Montney land sections ⁽³⁾	83.75	73	72	78	78	81	55	43
East Wapiti Montney land sections	77	77	77	77	77	77	77	77
Elmworth Montney reserves ⁽²⁾	41,275	38,533	38,533	14,850	17,552	-	-	-
Production								
Natural gas (mcf/d)	48	52	1	28	-	-	77	68
Crude oil and natural gas liquids (bbl/d)	1	-	1	-	24	12	33	48
Total (boe/d)	9	9	1	5	24	12	46	59
Petroleum & natural gas revenue	8	13	3	9	81	32	151	338
General and administrative expense, gross	794	847	713	631	723	838	936	759
Net (loss) income and comprehensive (loss) income	(1,331)	(936)	5,705	(3,369)	(4,577)	(1,046)	752	(2,708)
Net (loss) income and comprehensive (loss) income per share - basic and diluted	(0.00)	(0.00)	0.02	(0.01)	(0.02)	(0.01)	0.01	(0.01)
Cash used in operations	(377)	(600)	(1,284)	(595)	(271)	(806)	(551)	(907)
Cash used in operations per share - basic and diluted	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)
Net (loss) income and comprehensive (loss) income from continuing operations	(1,331)	(936)	5,705	(3,369)	(4,267)	(1,046)	752	(2,555)
Net (loss) income and comprehensive (loss) income from continuing operations per share - basic and diluted	(0.00)	(0.00)	0.02	(0.01)	(0.01)	(0.01)	0.01	(0.01)

Notes:

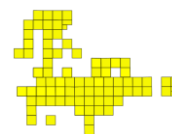
(1) This table includes both continuing operations and discontinued operations in comparative periods.

(2) Q4 2016 and Q4 2015 reserves value from GLJ reserves evaluations dated July 31, 2016 and July 31, 2015, respectively. Q3 2016 and Q2 2016 reserves value from updated GLJ reserves evaluation dated January 31, 2016. Q1 2016 reserves value from Q4 2015 GLJ reserves evaluation updated for commodity prices. All reserves values presented are Net Present Value 10% of Blackbird's proved plus probable reserves.

(3) Subsequent to July 31, 2016, the Company purchased 5.0 gross (3.5 net) additional sections of Elmworth Montney land, bringing the total land position to 88.75 gross sections or 87.25 net sections.

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

- (a) The booking of reserves and adjustments to the carrying value of assets for changes in forecasted commodity prices;



Quarterly Financial Summary (Continued)

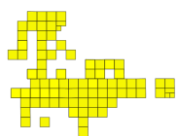
- (b) The capital expenditures related to the Company's operations including drilling, infrastructure and land purchases;
- (c) The disposition of the Saskatchewan Minor and Bigstone properties on June 1, 2015 and September 15, 2014, respectively;
- (d) Fluctuations in petroleum and natural gas revenue. Revenue is directly impacted by Blackbird's ability to replace existing production and add incremental production through its capital expenditure program. The Elmworth property is not yet producing;
- (e) Equity financings;
- (f) Fluctuations in interest income earned from the Company's cash held at financial institutions;
- (g) Fluctuations in Blackbird's revenues, royalties, operating costs, G&A, depletion and depreciation, share-based compensation, impairments, and amortization of flow-through share premium liabilities;
- (h) Completion of the plan of arrangement with Pennant Energy Inc. on April 17, 2014; and
- (i) Acquisition of Ruger Energy Inc. on December 14, 2012.

Please refer to the other sections of this MD&A for the detailed discussions on changes for the period ended July 31, 2016.

Subsequent Events

Except for events disclosed elsewhere in this MD&A, the following events occurred subsequent to July 31, 2016:

- (a) The Company received \$2 thousand from the exercise of 15,000 warrants with an exercise price of \$0.15 per share;
- (b) The Company received \$72 thousand from the exercise of 370,000 stock options with a weighted average exercise price of \$0.19 per share;
- (c) The Company granted 500,000 stock options to an employee with an exercise price of \$0.33 per share. One third of these options vested immediately with the remaining thirds vesting equally on the anniversary date of the grant in the following two years. The options granted have a five year expiry; and
- (d) The Company purchased 4.0 gross (3.0 net) additional sections of Elmworth Montney land for cash consideration of \$0.2 million.



Annual and Special Meeting

Blackbird's latest annual and special meeting of the shareholders was held on March 7, 2016, in Calgary, Alberta. All proposed resolutions were passed.

Risk Factors

Readers should refer to the risk factors summarized under the heading "Risk Factors" in the Company's most recent Annual Information Form.

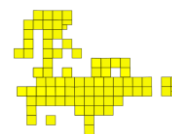
The Blackbird management team conducts focused strategic planning and has identified the key risks, uncertainties and opportunities associated with the Company's business that can affect its financial results. These key risks and uncertainties include, but are not limited to, the following:

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 Elmworth 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.

Blackbird has retained an independent reserves evaluator 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.



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.

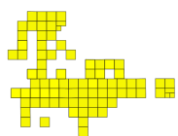
Blackbird's mandate includes the ongoing development of procedures, standards and systems to allow Blackbird staff to make the best decisions possible and to ensure that those decisions are in compliance with the Company's environmental, health and safety policies. Although management takes all reasonable steps to verify and ensure title to properties in which Blackbird has an interest in, management can provide no assurance that there will be no title disputes or undetected deficiencies in title.

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.

Recent market events and conditions, including global excess oil and natural gas supply, recent actions taken by the Organization of the Petroleum Exporting Countries, slowing growth in China and other emerging economies, market volatility and disruptions in Asia, and sovereign debt levels in various countries, have caused significant weakness and volatility in commodity prices. These events and conditions have caused a significant decrease in the valuation of oil and gas companies and a decrease in confidence in the oil and gas industry. These difficulties have been exacerbated in Canada by the recent changes in government at a federal level and, in case of Alberta, the provincial level and the resultant uncertainty surrounding regulatory, tax and royalty changes that may be implemented by the new governments. In addition, the inability to obtain the necessary approvals to build pipelines and other facilities to provide the oil and gas industry in Western Canada better access to markets has led to additional uncertainty and reduced confidence in the oil and gas industry in Western Canada.

The economics of producing from some wells has changed, and is anticipated to continue to change as a result of lower commodity prices, which could result in reduced production of oil or natural gas and a reduction in the volumes of the Company's reserves. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on the Company's carrying value of its proved reserves, borrowing capacity, revenues, profitability and cash flows from operations. The Company might also elect not to produce from certain wells due to a prolonged period of adverse market conditions. Volatile oil and natural gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.



COMMODITY PRICE RISK (CONTINUED)

Given the current market conditions in the Canadian oil and gas industry, the Company may have difficulty raising additional funds in the future or if it is able to do so, it may be on unfavorable and highly dilutive terms. The Company does not have any financial risk management contracts in place at July 31, 2016 to manage these risks (July 31, 2015 – none).

INTEREST RATE RISK

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

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.

CREDIT RISK

The Company's credit risk exposure is related to joint interest billings, goods and services tax receivable, and cash. As at July 31, 2016, the Company had \$140 thousand net receivable from GST/HST with the remaining balance collectible from trade receivables. The Company's allowance for doubtful accounts at July 31, 2016, was \$31 thousand (July 31, 2015 - \$nil). The Company expects to collect all other outstanding receivables.

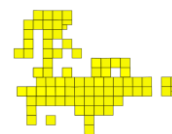
At July 31, 2016 and 2015 all cash was held with large Canadian financial institutions.

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 heavily upon these financing activities.

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.



CAPITAL MANAGEMENT (CONTINUED)

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.

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

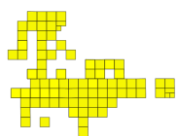
In the future, income tax laws or other laws may be changed or interpreted in a manner that adversely affects Blackbird or its shareholders. Tax authorities having jurisdiction over Blackbird or its shareholders may disagree with how Blackbird calculates its income for tax purposes to the detriment of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

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 for the period ended July 31, 2016 and 2015 as contained in this MD&A have been prepared on a historical cost basis, except for financial instruments which are classified as fair value through profit or loss. In addition, the 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 audited consolidated financial statements. The audited consolidated 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, 2015 and 2014 filed on SEDAR. The Company's financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries.

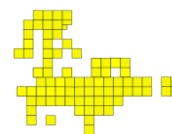
Critical Accounting Estimates

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 consolidated financial statements for the years ended July 31, 2016 and 2015.

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, DEPOSITS, ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The fair value of cash, accounts receivable, deposits, accounts payable and accrued liabilities approximated their carrying value at July 31, 2016, due to the short term nature of these instruments.

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. Cash is measured at fair value using level 1 fair value inputs.

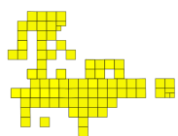
Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which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

Management's Responsibility for Financial Statements

Information provided in this MD&A, including information from the audited consolidated 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 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, cash used in operations per share, and operating netback, which are not defined under IFRS as issued by the International Accounting Standards Board. These measures are 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. Readers should refer to "2016 Financial Highlights: Non-Core Operations and Properties – Operating Netback and Funds Used for Continuing Operations" for a reconciliation of funds used in operations and operating netback to cash from operating activities, the most comparable measure calculated in accordance with IFRS.

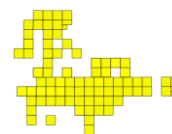
BOE Presentation

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

This MD&A contains certain forward-looking statements and forward-looking information (collectively, the "forward-looking statements") within the meaning of applicable Canadian securities laws. Readers are cautioned not to put undue reliance on forward-looking statements. Forward-looking statements consist of statements that are not purely historical, including any statements regarding beliefs, plans, expectations or intentions regarding the future. These statements relate to future events or the Company's future performance, business prospects or opportunities. In particular, this MD&A contains forward-looking statements pertaining to the following:

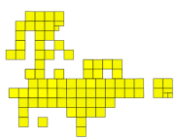
- The Company's general business plans and strategies;
- Future development plans and budgets;
- The requirement of further funding in the form of assumption of debt, off-balance sheet financing, further equity financing, or a combination thereof;
- Potential Elmworth land expiries and continuations;



Forward-Looking Statements (Continued)

- Blackbird's estimated drilling, completions, equipping and tie-in costs of \$5.5 million per location, under a development scenario;
- The Company's methods and ability to finance operations, capital expenditure programs, and working capital requirements;
- The intended use of the net proceeds from the Offering;
- Future production expansion and mitigation of environmental disruption on account of the Facility and the Gathering System, respectively;
- Benefits from the Stage acquisition including cost plus administration pricing, preferential access and anticipated growth of the investment;
- Changes to future transportation and processing of natural gas produced by the Company on account of the firm transportation and processing agreement with a third party and the natural gas take-or-pay marketing agreement;
- The timing and success of development and exploitation activities, including the productivity and estimated behind pipe production of the Company's three Elsworth Montney wells based on test results to date;
- The expected timing and ability of Blackbird to tie-in Montney wells and more specifically, its ability to build infrastructure on-time and on budget;
- Budgeted remaining costs of infrastructure;
- The initial and future capacity of infrastructure;
- The expected future cash flow generated from the tie-in of the Elsworth Montney property;
- Access to non-dilutive capital;
- Blackbird's momentum and positive outlook for 2017;
- Future commitments; and
- The expected timing and design of the Company's fourth Elsworth Montney well, including expected costs and production results.

With respect to forward-looking statements contained in this MD&A, management has made assumptions regarding future production levels; future oil and natural gas prices; future operating costs; the timing and amount of capital expenditures; the ability to obtain financing on acceptable terms; the availability of skilled labour and drilling and related equipment; general economic and financial market conditions; continuation of existing tax, royalty and regulatory regimes; and the ability to market oil and natural gas successfully. Although management considers these assumptions to be reasonable based on information currently available, they may prove to be incorrect.



Forward-Looking Statements (Continued)

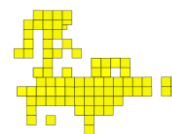
Forward-looking statements are subject to risks and uncertainties that may cause actual results, performance or developments to differ materially from those contained in the statements. No assurance can be given that any of the events anticipated by the forward-looking statements will occur or, if they 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) an increase in royalty rates applicable to the Company's production, (5) 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, (6) the risk that the Company does not execute its business plan, (7) inability to retain key employees, (8) inability to finance operations and growth, and (9) other factors beyond the Company's control.

Statements relating to "reserves" or "resources" are by their nature deemed to be forward-looking statements, as they involve the implied assessment based certain estimates and assumptions that the reserves and resources described can be profitably produced in the future. 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 and *National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities* report for the year ended July 31, 2016. In addition, information is available in Blackbird's other reports on file with Canadian securities regulatory authorities.

Additional Information

Additional information relating to Blackbird, including Blackbird's Annual Information Form for the year ended July 31, 2016, 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 400, 444 – 5th Avenue S.W., Calgary, Alberta, Canada T2P 2T8.

**ABBREVIATIONS****CRUDE OIL AND NATURAL GAS LIQUIDS**

bbl	barrel
mbbls	thousand barrels
bbls/d	barrels per day
bbls/mmc	barrels per million cubic feet
boe	barrels of oil equivalent of natural gas and crude oil on the basis of 1 bbl for 6 mcf of natural gas (this conversion factor is an industry accepted norm and is not based on either actual energy content or current prices)
mboe	thousand barrels of oil equivalent
boe/d	barrels of oil equivalent per day
kPa	kilopascal
psi	pounds per square inch
NGL	natural gas liquids
2D	two dimensional seismic
WTI	West Texas Intermediate

NATURAL GAS

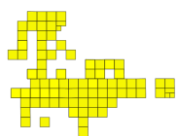
mcf	thousand cubic feet
mmcf	million cubic feet
bcf	billion cubic feet
mcf/d	thousand cubic feet per day
mmcf/d	million cubic feet per day
GJ	gigajoules
GJ/d	gigajoules per day
m ³	metres cubed
e ³ m ³	1000 m ³
mmbtu	million British Thermal Units
3D	three dimensional seismic
bwpd	barrels of water per day
M\$	thousands of dollars
AECO-C	Alberta Energy Company "C" Meter Station of the Nova Pipeline System

FINANCIAL

IFRS	International Financial Reporting Standards
MD&A	Management Discussion and Analysis
Q1	First quarter ended October 31 st
Q2	Second quarter ended January 31 st
Q3	Third quarter ended April 30 th
Q4	Fourth quarter ended July 31 st

CONVERSION OF UNITS**IMPERIAL = METRIC**

1 mcf	= 28.2 cubic metres
0.035 mcf	= 1 cubic metre
1 bbl	= 0.159 cubic metres
6.29 bbls	= 1 cubic metre
1 foot	= 0.3408 metres
3.281 feet	= 1 metre
1 mile	= 1.61 kilometres
0.62 miles	= 1 kilometre
1 acre	= 0.4 hectares
2.5 acres	= 1 hectare
1 mmbtu	= 1.054 GJ
0.949 mmbtu	= 1 GJ



2016

CORPORATE INFORMATION

BOARD OF DIRECTORS

Garth Braun⁽¹⁾

Chairman, Chief Executive Officer & President,
Blackbird Energy Inc.

Ron Schmitz⁽²⁾

President, ASI Accounting Services Inc.

Sean Campbell

President, Chief Executive Officer & Director, Stage
Completions Inc.

William L. Macdonald⁽²⁾

Founder & Principal, Macdonald Tuskey, Corporate and
Securities Lawyers

Kevin Andrus, CFA⁽²⁾

Portfolio Manager of Energy Investments, GMT Capital
Corp.

Burton Joel Ahrens, J.D.

President, The Edgehill Corporation

Notes

(1) *Chairman of the board.*

(2) *Member of the Audit Committee.*

OFFICERS

Garth Braun

Chairman, Chief Executive Officer & President

Jeff Swainson

Chief Financial Officer & Corporate Secretary

Ralph Allen, P.Geo.

Vice President, Geoscience

Joshua Mann

Vice President, Business Development

Craig Wiebe

Vice President, Exploration

Don Noakes

Vice President, Operations

Joshua Wylie

Vice President, Land

HEAD OFFICE

400, 444 5th Ave SW
Calgary, Alberta T2P 2T8

Phone: 403.699.9929

www.blackbirdenergyinc.com

TRANSFER AGENT

Computershare Investor Services Inc.
510 Burrard Street, 3rd Floor
Vancouver, British Columbia V6C 3B9

LEGAL COUNSEL

Macdonald Tuskey, LLP
409, 221 W. Esplanade
North Vancouver, British Columbia V7M 3J3

Osler, Hoskin & Harcourt, LLP
2500, 450 1st Street SW
Calgary, Alberta T2P 5H1

BANKERS

ATB Financial
600, 585 8th Ave SW
Calgary, Alberta T2P 1G1

AUDITORS

Davidson & Company LLP
1200, 609 Granville Street
Vancouver, British Columbia V7Y 1G6

INDEPENDENT RESERVES EVALUATOR

GLJ Petroleum Consultants
400, 3rd Ave SW
Calgary, Alberta T2P 4H2

STOCK EXCHANGE LISTING

Toronto Stock Exchange Venture
Common Shares "BBI"
Warrants "BBI.WT"



SUITE 400, 444 FIFTH AVENUE SOUTH WEST
CALGARY, ALBERTA T2P 2T8
PH: (403) 699-9929

www.blackbirdenergyinc.com