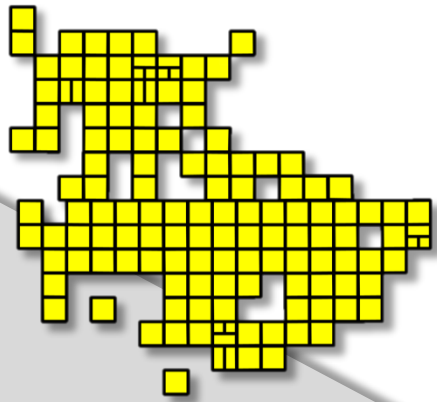




# BB BLACKBIRD ENERGY

FIRST QUARTER 2019 MANAGEMENT'S DISCUSSION AND ANALYSIS



FOR THE THREE MONTHS ENDED OCTOBER 31, 2018 AND 2017



## Blackbird Energy Inc. First Quarter 2019 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 December 20, 2018. This MD&A is a review of the operational results of Blackbird. All financial information is presented in Canadian dollars unless otherwise stated.

This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements for the periods ended October 31, 2018 and 2017 and with the Company's audited consolidated financial statements for the financial years ended July 31, 2018 and 2017, prepared under International Financial Reporting Standards ("IFRS"). Readers are cautioned that this MD&A contains "Non-IFRS Financial 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 condensate and natural gas exploration, development and production from its Pipestone / Elmworth Montney project ("Pipestone / Elmworth" or "Pipestone / Elmworth Montney"), which is located 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". The Company's listed warrants are publicly traded on the TSX-V under the symbol "BBI.WT".

Blackbird's strategic platform for growth includes the exploration and development of its Pipestone / Elmworth Montney property, which is located near Grande Prairie, Alberta, as well as strategic acquisitions. In addition to Blackbird's Pipestone / Elmworth property the Company holds non-core assets in Saskatchewan and Alberta.

Pipestone / Elmworth consisted of 110.3 net sections (70,592 net acres) of highly prospective Montney lands as at October 31, 2018. This land is in close proximity to lands currently being developed by several competitors. The Pipestone / Elmworth property is located in a condensate and liquids-rich gas corridor of the Montney which has up to 200 metres of aggregate net pay in at least three potential zones: the Upper; Middle; and Lower Montney.

### KEY TOPICS OF THIS MD&A

In this MD&A Blackbird will discuss the critical topics related to its 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 quarter; and the Company's operational results for the quarter.



## HIGHLIGHTS FOR THE FIRST QUARTER ENDED OCTOBER 31, 2018

### RECORD FINANCIAL AND OPERATIONAL PERFORMANCE

Blackbird achieved record revenue from its Pipestone / Elmworth project during the first quarter of 2019. The Company reported \$7.4 million of petroleum and natural gas sales during the three months ended October 31, 2018 which represents a 186% increase from the comparative three months ended October 31, 2017. Approximately 72% of revenues were attributable to the Company's high-quality liquids production during the quarter. The Company produced for approximately 91% of the quarter with limited third-party gas processing plant downtime experienced. These results generated \$2.2 million of adjusted funds flow for the three months ended October 31, 2018.

During the three months ended October 31, 2018, the Company achieved a record average total production rate of 1,736 boe/d comprised of 47% liquids. During the quarter, Blackbird produced 5.5 mmcf/d of natural gas, 723 bbls/d of condensate and oil, 98 bbls/d of NGLs and 2 boe/d of non-core production. The Company produced for approximately 84 days during the first quarter of 2019 compared to 92 total calendar days in the quarter due to third-party gas processing plant downtime.

### EQUITY FINANCINGS

During the quarter the Company completed a non-brokered private placement consisting of 6,249,181 common shares issued on a "Canadian Development Expenses flow-through" basis (the "CDE Flow-Through Shares") at a price of \$0.37 per CDE Flow-Through Share and 16,000,000 common shares issued on a "Canadian Exploration Expenses flow-through" basis (the "CEE Flow-Through Shares") at a price of \$0.40 per CEE Flow-Through Share for total combined gross proceeds of \$8.7 million.

### AVAILABLE FUNDING

The Company maintained a strong balance sheet with positive working capital of \$3.8 million at October 31, 2018, which included \$11.7 million of cash and no bank debt. The working capital surplus combined with the undrawn loan facility provides Blackbird with approximately \$23.0 million of future available funding at October 31, 2018.

### CAPITAL INVESTMENT

Blackbird invested \$11.4 million during the three months ended October 31, 2018, drilling 3 gross (3 net) Montney wells and furthering its infrastructure development north of the Wapiti River. All three wells were drilled from Blackbird's 9-14-71-7W6 northern pad-site and implemented an extended reach lateral program. The Company drilled its 102/2-27-71-7W6 Upper Montney, 103/14-22-71-7W6 Upper Montney and 100/2-27-71-7W6 Middle Montney wells in an average of 24.5 days and with an average horizontal length of 3,031 meters. Subsequent to October 31, 2018, Blackbird moved its drilling rig east to the 12-36-70-6W6 pad to drill the 100/11-12-71-6W6 Middle Montney well. The drilling of the 100/11-12-71-6W6 well allows Blackbird to validate up to 20 sections of land while also delineating the Company's unexplored northeastern acreage. The Company began ordering its long lead time equipment required for its Pipestone / Elmworth northern infrastructure development during the quarter. Blackbird expects that construction will commence on this project in January 2019.



## PIPESTONE / ELMWORTH MONTNEY LAND BASE

At October 31, 2018, Blackbird's core Pipestone / Elmworth Montney property consisted of 131 gross sections (83,840 gross acres) or 110.3 net sections (70,592 net acres).

During the three months ended October 31, 2018, the Company did not acquire any additional sections of undeveloped Pipestone / Elmworth Montney land (October 31, 2017 – acquired 8 net sections for cash consideration of \$1.4 million).

The Company expects to manage material land expiries going forward through the execution of its drilling program.

## TRANSPORTATION, PROCESSING AND MARKETING

During the quarter ended October 31, 2018, Blackbird shipped the majority of its sales gas to Chicago via its Alliance commitments which allowed the Company to realize premium pricing on its natural gas relative to AECO. The Alliance firm full path natural gas take-or-pay marketing agreement allows for the transportation of 5.0 mmcf/d of processed natural gas to the Alliance Chicago Exchange Hub until October 31, 2020. Blackbird had a take-or-pay gas handling agreement with a third-party for the firm transportation and processing of sour natural gas produced from the Pipestone / Elmworth project during the quarter. The agreement provided firm service transportation to the third-party's sour gas plant and processing of 6.0 mmcf/d of raw natural gas and associated liquids. The term of this gas handling agreement ended on October 31, 2018. The Company has subsequently entered an agreement with this third-party to flow its production on an intermittent basis as capacity is available at the gas processing plant. This agreement contains similar terms to its predecessor.

Effective October 1, 2017, the Company entered into a firm service agreement which provides for the transportation of 1,000 bbls/d of condensate through Pembina's pipeline system for a term of 10 years. Effective October 1, 2017, the Company also entered into a firm service agreement which provides for the transportation of 3.5 mmcf/d of natural gas through the TransCanada Pipelines system for terms ranging from 1 to 3 years, with renewal options available. These agreements are expected to support Blackbird's current and near-term production.

During the second quarter of fiscal 2018 Blackbird secured a long-term processing solution for its raw natural gas which is expected to support the Company's future growth objectives while enabling Blackbird to become a low-cost producer relative to its peers. In November 2017 Blackbird executed an agreement with Tidewater Midstream and Infrastructure Ltd. ("Tidewater") for firm processing of raw gas produced from the Company's condensate rich Pipestone / Elmworth Montney play. The agreement has an initial term of five years with firm capacity (and corresponding delivery commitment by Blackbird) of 20.0 mmcf/d expected to commence around the second quarter of calendar 2019 (following a short ramp-up period), increasing to 25.0 mmcf/d twelve months after plant start-up and to 30.0 mmcf/d eighteen months after plant start-up.

Blackbird will have an option to acquire a working interest of up to 20% in Tidewater's proposed deep cut sour gas processing facility located near Wembley, Alberta (the "Tidewater Facility"), which is expected to significantly reduce processing fees. The Tidewater Facility is expected to have an initial processing capacity of 100.0 mmcf/d, with Blackbird serving as an anchor tenant. Tidewater is currently working toward a gas gathering system for Blackbird north of the Wapiti River. Additionally, Blackbird and Tidewater are evaluating the construction of a gathering system that would tie-in volumes from the Company's current 100% owned and operated Pipestone / Elmworth facility located at 12-14-70-7W6 to the Tidewater Facility.



## TRANSPORTATION, PROCESSING AND MARKETING (CONTINUED)

During the third quarter of fiscal 2018 the Company agreed to terms for multiple natural gas transportation agreements. Effective April 1, 2021, the Company entered into a firm service agreement which provides for the transportation of 15.0 mmcf/d of natural gas on the TransCanada Pipelines NGTL System (the “NGTL System”) from the Pipestone / Elmworth area for a term of 8 years. Commencing November 1, 2021, Blackbird entered into a firm service agreement which provides for the transportation of 10,000 GJ/d of natural gas on the NGTL System to the Empress hub at the Alberta / Saskatchewan border for a term of 18 years. From the Empress hub Blackbird will have multiple options to contract further transportation and sell its gas into premium markets outside of Alberta. See “Contingencies and Commitments” below in the MD&A.

Subsequent to October 31, 2018, the Company entered into a natural gas transportation agreement which commences on November 1, 2021 for a term of 11 years and provides for 5,000 GJ/d on the Empress to North Bay and North Bay to Iroquois TransCanada mainline system. The Company will continue to secure transportation to underpin its future production commitments associated with the Tidewater agreement and focus on diversifying its natural gas markets.

## 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. The combined efforts of Blackbird and its stakeholders has resulted in 126,579 trees planted to date. These trees will restore boreal forest on conserved land that was historically cleared for farming.

## OUTLOOK

On October 30, 2018, the Company announced that it had entered into an agreement with Pipestone Oil Corp. (“Pipestone Oil”) that provides for the strategic combination of Blackbird and Pipestone Oil (the “Transaction”).

On December 19, 2018, Blackbird held its special meeting of shareholders (the “Blackbird Shareholders”) whereby the Transaction was formally approved. In addition, the Blackbird Shareholders approved the continuance of Blackbird from British Columbia into Alberta (the “Continuance”), which is necessary for the Transaction to proceed as proposed. The Transaction was structured as a plan of arrangement under section 193 of the Business Corporations Act (Alberta) and as such also required the approval of the Alberta Court of Queen's Bench, which has been received. The Transaction has also been conditionally accepted by the TSX Venture Exchange, subject to the filing of customary documentation.

Concurrent with the Transaction, Blackbird and Pipestone Oil have entered into agreements with certain of their existing shareholders who have committed to common equity financings totaling \$111.0 million and Pipestone Oil has arranged \$198.5 million of debt financing (collectively, the “Financings”). The Transaction and Continuance will result in the strategic combination of two adjacent and contiguous Pipestone Montney land bases under a single well-capitalized, high growth company that will operate under the name Pipestone Energy Corp. (“Pipestone Energy”).

The Transaction and Financings are expected to close on or about January 4, 2019. For additional information relating to the Transaction and guidance on Pipestone Energy’s future plans please refer to the Company’s website at [www.blackbirdenergyinc.com](http://www.blackbirdenergyinc.com) or to SEDAR at [www.sedar.com](http://www.sedar.com).



# FIRST QUARTER 2019 – FINANCIAL AND OPERATIONAL HIGHLIGHTS

The following table presents certain financial and operational information:

| (CDN\$ thousands, except where otherwise noted)   | Three months ended October 31 |              |            |
|---------------------------------------------------|-------------------------------|--------------|------------|
|                                                   | 2018                          | 2017         | % Change   |
| <b>Financial</b>                                  |                               |              |            |
| Petroleum and natural gas sales                   | 7,397                         | 2,582        | 186        |
| Cash provided by (used in) operating activities   | 1,009                         | (2,114)      | (148)      |
| Net loss and comprehensive loss                   | (1,132)                       | (1,737)      | (35)       |
| Net loss per share – basic and diluted (\$/share) | (0.00)                        | (0.00)       | -          |
| Working capital                                   | 3,759                         | 21,317       | (82)       |
| Available funding <sup>(1)</sup>                  | 23,041                        | 22,317       | 3          |
| Capital expenditures                              | 11,368                        | 29,241       | (61)       |
| <b>Operating</b>                                  |                               |              |            |
| <i>Production</i>                                 |                               |              |            |
| Condensate & oil (bbls/d)                         | 723                           | 328          | 120        |
| NGLs (bbls/d)                                     | 98                            | 30           | 227        |
| Natural gas (mcf/d)                               | 5,478                         | 2,112        | 159        |
| Non-core (boe/d)                                  | 2                             | 2            | -          |
| <b>Total (boe/d)</b>                              | <b>1,736</b>                  | <b>712</b>   | <b>144</b> |
| Liquids ratio (%)                                 | 47                            | 50           | (6)        |
| Condensate & oil gas ratio (bbls/mmcf)            | 132                           | 155          | (15)       |
| Total liquids gas ratio (bbls/mmcf)               | 150                           | 170          | (12)       |
| <i>Average Montney realized selling prices</i>    |                               |              |            |
| Condensate & oil (\$/bbl)                         | 76.57                         | 60.50        | 27         |
| NGLs (\$/bbl)                                     | 29.28                         | 30.26        | (3)        |
| Natural gas (\$/mcf)                              | 4.04                          | 3.44         | 17         |
| <i>Netbacks (\$/boe)</i>                          |                               |              |            |
| Petroleum and natural gas sales                   | 46.31                         | 39.41        | 18         |
| Royalties                                         | (2.16)                        | (2.09)       | 3          |
| Operating expenses                                | (6.27)                        | (10.62)      | (41)       |
| Transportation and processing expenses            | (14.76)                       | (12.33)      | 20         |
| <b>Operating netback<sup>(1)</sup></b>            | <b>23.12</b>                  | <b>14.37</b> | <b>61</b>  |
| General and administrative expenses               | (9.04)                        | (14.05)      | (36)       |
| Financing costs                                   | (0.25)                        | -            | -          |
| Interest income                                   | 0.09                          | 1.89         | (95)       |
| <b>Corporate netback<sup>(1)</sup></b>            | <b>13.92</b>                  | <b>2.21</b>  | <b>530</b> |

Note:

(1) See “Non-IFRS Financial Measures”.

**DAILY PRODUCTION**

|                                        | Three months ended |                    | % Change |
|----------------------------------------|--------------------|--------------------|----------|
|                                        | October 31<br>2018 | October 31<br>2017 |          |
| Condensate & oil (bbls/d)              | 723                | 328                | 120      |
| NGLs (bbls/d)                          | 98                 | 30                 | 227      |
| Natural gas (mcf/d)                    | 5,478              | 2,112              | 159      |
| Non-core (boe/d)                       | 2                  | 2                  | -        |
| Total (boe/d)                          | 1,736              | 712                | 144      |
| Condensate & oil gas ratio (bbls/mmcf) | 132                | 155                | (15)     |
| Total liquids gas ratio (bbls/mmcf)    | 150                | 170                | (12)     |
| Liquids ratio (%)                      | 47                 | 50                 | (6)      |

During the three months ended October 31, 2018, total production averaged 1,736 boe/d compared to 712 boe/d for the same period in 2017. The increase in production levels from the comparative period was a result of the better run-times experienced at the Company's third-party gas processing plant which allowed Blackbird to produce more consistently throughout the quarter. The Company produced for approximately 84 days during the first quarter of 2019 compared to only 35 days during the comparative period.

During the quarter, Blackbird produced 5.5 mmcf/d of natural gas, 723 bbls/d of condensate and oil, 98 bbls/d of NGLs and 2 boe/d of non-core production. Production for the three months ended October 31, 2018 was comprised of 47% liquids.

During the three months ended October 31, 2018, total production averaged 1,736 boe/d compared to 1,148 boe/d for the three months ended July 31, 2018. The increase in production from the previous quarter was a result of Blackbird producing for a greater number of days in the current period due to minimal third-party sour gas processing plant downtime (gas processing firm service was available for approximately 84 days in the current quarter compared to 53 days in the comparative quarter).

**COMMODITY PRICING****AVERAGE BENCHMARK PRICES**

|                                             | Three months ended |                    | % Change |
|---------------------------------------------|--------------------|--------------------|----------|
|                                             | October 31<br>2018 | October 31<br>2017 |          |
| Oil – WTI (US\$/bbl)                        | 69.56              | 49.84              | 40       |
| Natural gas – Chicago Citygate (US\$/MMBTU) | 2.96               | 2.82               | 5        |
| Average exchange rate – US\$ to CDN\$       | 0.77               | 0.80               | (4)      |

Blackbird's condensate and NGLs are trucked from its facility and sold to the Edmonton, Alberta market. The price that Blackbird receives for its condensate production is primarily driven by the price of WTI and Edmonton differentials, adjusted for foreign exchange rates and quality.

**COMMODITY PRICING (CONTINUED)**

Blackbird sells the majority of its natural gas production in the United States via the Alliance Pipeline System to Chicago, Illinois. Chicago Citygate prices are currently the primary benchmark for the Company's natural gas sales. Due to a more balanced supply and demand for natural gas in the eastern United States prices received are generally better than those received in western Canadian provinces.

The average price of WTI strengthened in the three months ended October 31, 2018 compared to the same period in 2017 by approximately 40%.

The average price of Chicago Citygate natural gas strengthened in the three months ended October 31, 2018 compared to the same period in 2017 by approximately 5%.

The average price of WTI in the three months ended October 31, 2018 was relatively consistent compared to the three months ended July 31, 2018.

The average price of Chicago Citygate natural gas strengthened in the three months ended October 31, 2018 compared to the three months ended July 31, 2018 by approximately 12%.

**AVERAGE REALIZED SALES PRICE**

|                           | Three months ended |                    | % Change |
|---------------------------|--------------------|--------------------|----------|
|                           | October 31<br>2018 | October 31<br>2017 |          |
| Condensate & oil (\$/bbl) | 76.57              | 60.50              | 27       |
| NGLs (\$/bbl)             | 29.28              | 30.26              | (3)      |
| Natural gas (\$/mcf)      | 4.04               | 3.44               | 17       |
| Non-core (\$/boe)         | 16.99              | 14.15              | 20       |
| Total (\$/boe)            | 46.31              | 39.41              | 18       |

Blackbird's realized condensate prices include adjustments for quality differentials. Tolls on firm service transportation through the Pembina pipeline system for condensate production are recognized through transportation and processing expenses.

Blackbird's realized NGL prices are net of pipeline tariffs and fractionation fees.

The Company's product mix of NGLs was comprised of approximately 52% butane and 48% propane during the three months ended October 31, 2018.

During the three months ended October 31, 2018, Blackbird's average realized sales price was \$46.31 per boe compared to \$50.43 per boe for the three months ended July 31, 2018.

**PETROLEUM AND NATURAL GAS SALES**

|                          | Three months ended |                    | % Change |
|--------------------------|--------------------|--------------------|----------|
|                          | October 31<br>2018 | October 31<br>2017 |          |
| <i>(CDN\$ thousands)</i> |                    |                    |          |
| Condensate & oil         | 5,092              | 1,827              | 179      |
| NGLs                     | 264                | 84                 | 214      |
| Natural gas              | 2,037              | 669                | 204      |
| Non-core                 | 4                  | 2                  | 100      |
| Total                    | 7,397              | 2,582              | 186      |

During the three months ended October 31, 2018, Blackbird's petroleum and natural gas sales were \$7.4 million compared to \$2.6 million for the same period in 2017. The increase in revenues from the comparative period was a result of the Company's increased production levels coupled with higher realized sales prices. Approximately 72% of revenues were attributable to the Company's high-quality liquids production during the current quarter.

During the three months ended October 31, 2018, Blackbird's petroleum and natural gas sales were \$7.4 million compared to \$5.3 million for the three months ended July 31, 2018. The increase in revenues from the previous quarter was a result of greater total production during the period, partially offset by a lower average realized sales price per boe due to the differentials widening on certain condensate and oil products sold. The realized sales price of gas marketed during the current quarter improved slightly due to seasonal trends.

**SENSITIVITIES**

The following sensitivity analysis is provided to demonstrate the impact of changes in commodity prices and production volumes on core petroleum and natural gas sales for the quarter ended October 31, 2018, and is based on the balances disclosed in this MD&A and the Company's condensed consolidated interim financial statements for the quarter ended October 31, 2018:

| <i>(CDN\$ thousands)</i>                                        | Petroleum and<br>Natural Gas Sales <sup>(1)</sup> |
|-----------------------------------------------------------------|---------------------------------------------------|
| Change in the average sales price for natural gas by \$1.00/mcf | 504                                               |
| Change in the average sales price for liquids by \$1.00/bbl     | 76                                                |
| Change in natural gas production by 1 mmcf/d <sup>(2)</sup>     | 372                                               |
| Change in liquids production by 100 bbls/d <sup>(2)</sup>       | 653                                               |

Notes:

(1) Reflects the change in petroleum and natural gas sales for the quarter ended October 31, 2018.

(2) Reflects the change in production multiplied by Blackbird's average sales prices for the quarter ended October 31, 2018.

While on production during the quarter ended October 31, 2018, Blackbird generated approximately \$80 thousand of operated petroleum and natural gas sales per day on average from its Pipestone / Elmworth property. During the quarter the Company lost approximately 8 days of production due to third-party outages which resulted in approximately \$0.6 million of lost potential revenues based on the averages of actual results for the quarter.



## ROYALTIES

Blackbird pays royalties to provincial governments and overriding royalty owners.

Crown royalties on Alberta natural gas and liquids 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. Blackbird's wells approved for early opt-in and those spud on or after January 1, 2017, are subject to Alberta's Modernized Royalty Framework ("MRF"). The MRF applies a flat 5% royalty rate on early production until a well's total revenue, from all hydrocarbon products, equals its Drilling and Completion Cost Allowance ("C\*"). The C\*, based on industry average drilling and completion costs, is a proxy for well costs. Once C\* is reached, the Company will be subject to higher royalty rates based on the resource produced and market rates. Royalty rates will be further adjusted to match declining production rates when the well reaches its Maturity Threshold.

Blackbird is also subject to a gross overriding royalty of 2% which applies to 72 gross (72.0 net) sections of its Pipestone / Elmworth Montney lands.

|                                                        | Three months ended |                    |          |
|--------------------------------------------------------|--------------------|--------------------|----------|
|                                                        | October 31<br>2018 | October 31<br>2017 | % Change |
| <i>(CDN\$ thousands, except where otherwise noted)</i> |                    |                    |          |
| Crown royalties                                        | 262                | 97                 | 170      |
| Gas cost allowance (“GCA”)                             | (36)               | -                  | -        |
| Gross overriding royalties                             | 119                | 40                 | 198      |
| Total                                                  | 345                | 137                | 152      |
| Effective royalty rate (%)                             | 5                  | 5                  | -        |
| Royalties (\$/boe)                                     | 2.16               | 2.09               | 3        |

Royalties for the three months ended October 31, 2018 were \$0.3 million or 5% of total petroleum and natural gas sales compared to \$0.1 million or 5% of total petroleum and natural gas sales during the same period in 2017. The royalty rate remained relatively flat period over period with an increase to the amount paid during the current quarter which is correlated to the increased production and commodity pricing.

Royalties for the three months ended October 31, 2018 were \$0.3 million compared to \$0.1 million for the three months ended July 31, 2018. The increase in royalties from the previous quarter was primarily a result of greater total production during the period. In the previous quarter Blackbird also began filing and claiming its GCA which resulted in the annual deduction being claimed which further reduced royalties in the comparative period.



## OPERATING EXPENSES

|                                                        | Three months ended         |                    |          |
|--------------------------------------------------------|----------------------------|--------------------|----------|
| <i>(CDN\$ thousands, except where otherwise noted)</i> | <b>October 31<br/>2018</b> | October 31<br>2017 | % Change |
| Operating expenses                                     | <b>1,002</b>               | 696                | 44       |
| Operating expenses (\$/boe)                            | <b>6.27</b>                | 10.62              | (41)     |

Operating expenses for the three months ended October 31, 2018 were \$1.0 million or \$6.27 per boe compared to \$0.7 million or \$10.62 per boe during the same period in 2017. The increase in operating expenses from the comparative period was primarily a result of the increased variable costs associated with higher production levels. The operating expenses per boe decreased in the current quarter due to a greater production base from the Pipestone / Elmworth property offsetting fixed costs, which makeup a large component of the Company's operating cost structure. The main fixed costs that were better utilized during the quarter include contract operators and equipment rentals.

Operating expenses for the three months ended October 31, 2018 were \$1.0 million compared to \$0.8 million for the three months ended July 31, 2018. The operating expenses increased in the current quarter due to higher production levels and the associated variable costs.

## TRANSPORTATION AND PROCESSING EXPENSES

|                                                        | Three months ended         |                    |          |
|--------------------------------------------------------|----------------------------|--------------------|----------|
| <i>(CDN\$ thousands, except where otherwise noted)</i> | <b>October 31<br/>2018</b> | October 31<br>2017 | % Change |
| Transportation and processing expenses                 | <b>2,358</b>               | 808                | 192      |
| Transportation and processing expenses (\$/boe)        | <b>14.76</b>               | 12.33              | 20       |

Blackbird's transportation and processing expenses primarily relate to third-party sour natural gas transportation and processing fees, tolls on the Alliance and Pembina pipeline systems and trucking liquids from the Company's 12-14-70-7W6 facility batteries to terminals.

Transportation and processing expenses for the three months ended October 31, 2018 were \$2.4 million or \$14.76 per boe compared to \$0.8 million or \$12.33 per boe during the same period in 2017. The Company incurred more gas transportation and processing fees in the current quarter due to the minimal third-party gas processing plant shut-downs experienced. The firm service was available for approximately 84 days during the first quarter of 2019 compared to only 35 days during the comparative period. The transportation and processing expenses on a per boe basis increased during the three months ended October 31, 2018 due to Blackbird requiring its available take-away capacity for production and not mitigating large unused portions.

Transportation and processing expenses for the three months ended October 31, 2018 were \$2.4 million compared to \$1.3 million for the three months ended July 31, 2018. The increase in transportation and processing expenses from the previous quarter was a result of Blackbird incurring more take-or-pay sour gas processing fees (service was available for approximately 84 days in the current quarter compared to 53 days in the comparative quarter) and transportation costs for produced volumes.



## GENERAL AND ADMINISTRATIVE (“G&A”) EXPENSES

|                                                        | Three months ended |                    |          |
|--------------------------------------------------------|--------------------|--------------------|----------|
| <i>(CDN\$ thousands, except where otherwise noted)</i> | October 31<br>2018 | October 31<br>2017 | % Change |
| Personnel                                              | 757                | 805                | (6)      |
| Office costs, travel and other                         | 384                | 213                | 80       |
| Professional fees                                      | 467                | 153                | 205      |
| Investor relations and promotion                       | 201                | 60                 | 235      |
| Gross G&A expenses                                     | 1,809              | 1,231              | 47       |
| Capitalized salaries and benefits                      | (366)              | (310)              | 18       |
| Net G&A expenses                                       | 1,443              | 921                | 57       |
| Net G&A expenses (\$/boe)                              | 9.04               | 14.05              | (36)     |

During the three months ended October 31, 2018, gross G&A expenses increased to \$1.8 million from \$1.2 million for the same period in 2017. This increase was primarily a result of additional professional fees incurred in connection with the process of pursuing potential corporate transactions, promotional costs related to Blackbird’s tree planting program and investor relations, corporate insurance and software license renewals.

During the three months ended October 31, 2018, the Company capitalized \$0.4 million (October 31, 2017 - \$0.3 million) of G&A expenses directly attributable to exploration and development activities.

During the three months ended October 31, 2018, gross G&A expense was \$1.8 million compared to \$1.3 million for the three months ended July 31, 2018. This increase was primarily a result of additional professional fees incurred in connection with the process of pursuing potential corporate transactions, promotional costs related to Blackbird’s tree planting program and investor relations, corporate insurance and software license renewals.

## DEPLETION, DEPRECIATION AND AMORTIZATION (“DD&A”)

|                                                        | Three months ended |                    |          |
|--------------------------------------------------------|--------------------|--------------------|----------|
|                                                        | October 31<br>2018 | October 31<br>2017 | % Change |
| <i>(CDN\$ thousands, except where otherwise noted)</i> |                    |                    |          |
| DD&A                                                   | 2,113              | 827                | 156      |
| DD&A (\$/boe)                                          | 13.23              | 12.63              | 5        |

DD&A for the three months ended October 31, 2018 was \$2.1 million or \$13.23 per boe compared to \$0.8 million or \$12.63 per boe during the same period in 2017. The increase in depletion expense was attributable to the increased production at the Company’s Pipestone / Elsworth property during the period. DD&A on a per boe basis increased in the current quarter due to higher finding and development costs associated with the Company’s reserves.

DD&A for the three months ended October 31, 2018 was \$2.1 million compared to \$1.3 million for the three months ended July 31, 2018. The increase in depletion expense was attributable to the increased production at the Company’s Pipestone / Elsworth property during the period.

**SHARE-BASED COMPENSATION**

|                          | Three months ended         |                    | % Change |
|--------------------------|----------------------------|--------------------|----------|
|                          | <b>October 31<br/>2018</b> | October 31<br>2017 |          |
| <i>(CDN\$ thousands)</i> |                            |                    |          |
| Share-based compensation | <b>452</b>                 | 747                | (39)     |

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

During the three months ended October 31, 2018, share-based compensation of \$0.5 million (October 31, 2017 - \$0.7 million) in the form of stock option expense was incurred, with \$0.1 million related to officers and \$0.1 million related to directors (October 31, 2017 - \$0.4 million related to officers and \$0.1 million related to directors). The decrease in share-based compensation was primarily a result of the Company not granting any additional stock options during the three months ended October 31, 2018 compared to the prior period in which 1,500,000 stock options were granted to new employees. No share-based compensation expense was capitalized during the three months ended October 31, 2018 or 2017.

During the three months ended October 31, 2018, share-based compensation of \$0.5 million was recognized compared to \$0.6 million for the three months ended July 31, 2018. Share-based compensation remained relatively consistent quarter to quarter due to a similar number of options outstanding and vesting.

**AMORTIZATION OF FLOW-THROUGH SHARE PREMIUM LIABILITY**

|                                                      | Three months ended         |                    | % Change |
|------------------------------------------------------|----------------------------|--------------------|----------|
|                                                      | <b>October 31<br/>2018</b> | October 31<br>2017 |          |
| <i>(CDN\$ thousands)</i>                             |                            |                    |          |
| Amortization of flow-through share premium liability | <b>646</b>                 | 857                | (25)     |

During the three months ended October 31, 2018, the Company amortized \$0.6 million of flow-through share premium liability compared to \$0.9 million for the same period in 2017. The decrease from the comparative period was due to Blackbird incurring fewer qualifying expenditures related to its flow-through share premium liability during the period.

During the three months ended October 31, 2018, the Company amortized \$0.6 million of flow-through share premium liability compared to \$nil for the three months ended July 31, 2018. The increase was due to the Company not having any flow-through obligations in the prior quarter.



## FINANCING COSTS

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

|                                        | Three months ended |                    | % Change |
|----------------------------------------|--------------------|--------------------|----------|
|                                        | October 31<br>2018 | October 31<br>2017 |          |
| <i>(CDN\$ thousands)</i>               |                    |                    |          |
| Accretion of decommissioning provision | 20                 | 15                 | 33       |
| Loan fees and interest expense         | 41                 | -                  | -        |
|                                        | 61                 | 15                 | 307      |

During the three months ended October 31, 2018, financing costs were \$61 thousand compared to \$15 thousand for the same period of 2017. The increase to financing costs in the current quarter was mainly due to the fees associated with the Company's loan facility and interest on letters of credit outstanding.

During the three months ended October 31, 2018, financing costs were \$61 thousand compared to \$62 thousand for the three months ended July 31, 2018. Financing costs remained consistent period to period due to similar accretion, loan fees and interest expense.

## INTEREST INCOME

|                          | Three months ended |                    | % Change |
|--------------------------|--------------------|--------------------|----------|
|                          | October 31<br>2018 | October 31<br>2017 |          |
| <i>(CDN\$ thousands)</i> |                    |                    |          |
| Interest income          | 14                 | 124                | (89)     |

During the three months ended October 31, 2018, the Company earned \$14 thousand of interest income compared to \$124 thousand for the same period in 2017. The decrease was due to Blackbird carrying a smaller cash balance on average throughout the current quarter compared to the previous.

During the three months ended October 31, 2018, the Company earned \$14 thousand of interest income compared to \$8 thousand for the three months ended July 31, 2018. The increase was due to Blackbird carrying a larger cash balance on average throughout the current quarter due to the private placement flow-through financings closed compared to the previous quarter.

**INCOME TAXES**

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

|                                                                                                    | Three months ended |                    |
|----------------------------------------------------------------------------------------------------|--------------------|--------------------|
|                                                                                                    | October 31<br>2018 | October 31<br>2017 |
| <i>(CDN\$ thousands)</i>                                                                           |                    |                    |
| Income (loss) before taxes                                                                         | 283                | (588)              |
| Expected income tax (recovery)                                                                     | 77                 | (159)              |
| Change in statutory rates and other                                                                | 2                  | -                  |
| Permanent differences                                                                              | (51)               | (29)               |
| Impact of flow-through shares                                                                      | 1,422              | 1,949              |
| Share issue costs                                                                                  | (35)               | -                  |
| Adjustment to prior year's provision versus statutory tax returns and expiry of non-capital losses | -                  | (612)              |
| Deferred income tax expense                                                                        | 1,415              | 1,149              |

During the three months ended October 31, 2018, Blackbird recognized deferred income tax expense of \$1.4 million compared to \$0.2 million for the three months ended July 31, 2018. The increase was due to the impact of issuing flow-through shares and incurring qualifying expenditures during the current quarter.

**NET LOSS**

During the three months ended October 31, 2018, net loss and comprehensive loss totaled \$1.1 million (\$0.00 per share, basic and diluted) compared to net loss and comprehensive loss of \$1.7 million (\$0.00 per share, basic and diluted) for the same period in 2017. The net loss in the current quarter was reduced by greater operating netbacks achieved from the Company's Pipestone / Elmworth project. Changes in G&A, DD&A and deferred income tax expense period to period also significantly impacted the net loss.



## OPERATING AND CORPORATE NETBACK PER BOE

The Company calculates and uses “operating netback” to analyze field-level performance of its oil and natural gas assets, and “corporate netback” to assess overall corporate financial performance. See “Non-IFRS Financial Measures” below in this MD&A. The following table sets out Blackbird’s calculation of operating netback and corporate netback.

|                                                | Three months ended |                    | % Change |
|------------------------------------------------|--------------------|--------------------|----------|
|                                                | October 31<br>2018 | October 31<br>2017 |          |
| (\$/boe)                                       |                    |                    |          |
| Petroleum and natural gas sales                | 46.31              | 39.41              | 18       |
| Royalties                                      | (2.16)             | (2.09)             | 3        |
|                                                | 44.15              | 37.32              | 18       |
| Operating expenses                             | (6.27)             | (10.62)            | (41)     |
| Transportation and processing expenses         | (14.76)            | (12.33)            | 20       |
| <b>Operating netback per boe<sup>(1)</sup></b> | <b>23.12</b>       | 14.37              | 61       |
| G&A expenses                                   | (9.04)             | (14.05)            | (36)     |
| Financing costs                                | (0.25)             | -                  | -        |
| Interest income                                | 0.09               | 1.89               | (95)     |
| <b>Corporate netback per boe<sup>(1)</sup></b> | <b>13.92</b>       | 2.21               | 530      |

Note:

(1) See “Non-IFRS Financial Measures” below.

During the three months ended October 31, 2018, operating netbacks improved to \$23.12 per boe from \$14.37 per boe for the same period in 2017. This was primarily due to improved condensate and oil prices and increased production leading to reduced operating costs on a per boe basis, partially offset by greater transportation and processing expenses incurred to support the increased production levels.

During the three months ended October 31, 2018, corporate netbacks improved to \$13.92 per boe from \$2.21 per boe for the same period in 2017. This was primarily due to increased production leading to reduced G&A expenses on a per boe basis partially offset by reduced interest income.



## ADJUSTED FUNDS FLOW

Blackbird calculates and uses “adjusted funds flow” to assess the Company’s ability to generate cash necessary to finance operating activities and capital expenditures on a continuing basis, by eliminating non-cash charges. See “Non-IFRS Financial Measures” below in this MD&A. The following table reconciles the Company’s cash provided by (used in) operating activities (as determined in accordance with IFRS) to adjusted funds flow:

|                                                        | Three months ended |                    | % Change |
|--------------------------------------------------------|--------------------|--------------------|----------|
|                                                        | October 31<br>2018 | October 31<br>2017 |          |
| <i>(CDN\$ thousands)</i>                               |                    |                    |          |
| <b>Cash provided by (used in) operating activities</b> | <b>1,009</b>       | (2,114)            | (148)    |
| Changes in non-cash working capital                    | <b>1,213</b>       | 2,258              | (46)     |
| <b>Adjusted funds flow<sup>(1)</sup></b>               | <b>2,222</b>       | 144                | 1,443    |

Note:

(1) See “Non-IFRS Financial Measures” below.

For the three months ended October 31, 2018, adjusted funds flow was \$2.2 million compared to \$0.1 million for the same period in 2017. The improvement in adjusted funds flow in the current quarter was a result of the increased production from the Pipestone / Elmworth property combined with higher operating and corporate netbacks per boe.

## DRILLING AND COMPLETIONS ACTIVITY

|                                      | Three months ended |                    | % Change |
|--------------------------------------|--------------------|--------------------|----------|
|                                      | October 31<br>2018 | October 31<br>2017 |          |
| Wells drilled and rig released (net) | <b>3.0</b>         | 1.2                | 150      |
| Average total depth (meters)         | <b>5,400</b>       | 4,801              | 12       |
| Average horizontal length (meters)   | <b>3,031</b>       | 2,264              | 34       |
| Average drilling days per well       | <b>24.5</b>        | 22.9               | 7        |
| Wells completed / recompleted (net)  | -                  | 3.4                | (100)    |
| Average number of intervals          | -                  | 57                 | (100)    |
| Wells tied-in (net)                  | -                  | 2                  | (100)    |

## CAPITAL EXPENDITURES

|                                              | Three months ended |                    | % Change |
|----------------------------------------------|--------------------|--------------------|----------|
|                                              | October 31<br>2018 | October 31<br>2017 |          |
| <i>(CDN\$ thousands)</i>                     |                    |                    |          |
| Drilling, completions and production testing | <b>9,137</b>       | 24,285             | (62)     |
| Plants, facilities and pipelines             | <b>1,846</b>       | 3,053              | (40)     |
| Land and lease                               | -                  | 1,387              | (100)    |
| Capitalized G&A expenses                     | <b>366</b>         | 310                | 18       |
| Seismic                                      | <b>19</b>          | 206                | (91)     |
| <b>Net capital expenditures</b>              | <b>11,368</b>      | 29,241             | (61)     |



## CAPITAL REQUIREMENTS

Blackbird must make substantial capital expenditures in order to achieve its 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 the Pipestone / Elmworth project.

As a result of the Company's current commitments, expected expenditures not yet committed, and further Montney development, management has completed a number of equity financings during the current quarter and in previous fiscal years. 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

|                                                 | October 31<br>2018 | July 31<br>2018 |
|-------------------------------------------------|--------------------|-----------------|
| <i>(CDN\$ thousands)</i>                        |                    |                 |
| Cash                                            | 11,652             | 6,240           |
| Accounts receivable                             | 2,556              | 745             |
| Inventory <sup>(1)</sup>                        | 348                | 522             |
| Prepaid expenses and deposits                   | 591                | 729             |
| Accounts payable and accrued liabilities        | (10,869)           | (3,617)         |
| Flow-through share premium liability            | (519)              | -               |
| Working capital surplus                         | 3,759              | 4,619           |
| Operating loan facility capacity <sup>(2)</sup> | 19,282             | 19,282          |
| Available funding <sup>(3)</sup>                | 23,041             | 23,901          |

Notes:

(1) Inventory includes surface and production casing.

(2) See "Operating Loan Facility" below for details.

(3) See "Non-IFRS Financial Measures" below.

As at October 31, 2018, Blackbird had available funding of \$23.0 million (July 31, 2018 - \$23.9 million) which consisted of undrawn operating loan facility capacity and working capital surplus. The decrease in available funding compared to July 31, 2018 is primarily due to the Company's continued capital investment in its Pipestone / Elmworth Montney project partially offset by the cash provided by operating and financing activities during the quarter.



## OPERATING LOAN FACILITY

At October 31, 2018, the Company had a \$20.0 million revolving operating loan facility (July 31, 2018 - \$20.0 million) with ATB Financial. The loan facility is subject to a redetermination of the borrowing base from time to time, but reviewed at least annually. Blackbird may, at its option, elect to submit an updated reserves evaluation in advance of its required annual review for the purpose of a borrowing base redetermination. The facility is available by way of prime-based loans, letters of credit and corporate credit cards. The Company is required to maintain a positive working capital ratio at all times to satisfy the financial covenants associated with this facility. The calculation of working capital is defined as current assets plus the undrawn availability under the facility divided by current liabilities, excluding any amount drawn under the facility. At October 31, 2018, the Company was in compliance with the covenants of the operating loan facility.

As of October 31, 2018, the loan facility was undrawn and \$0.7 million in letters of credit were issued which reduced the amount that could be borrowed under the loan facility (July 31, 2018 – no balance drawn and \$0.7 million in letters of credit issued).

At October 31, 2018, the available amount to draw on the loan facility was \$19.3 million (July 31, 2018 - \$19.3 million).

## SHARE CAPITAL AND SHAREHOLDERS' EQUITY

A reconciliation of the Company's shareholders' equity as at October 31, 2018, compared to the Company's shareholders' equity as at July 31, 2018, is as follows:

| <i>(CDN\$ thousands, except share amounts, unaudited)</i> | <b>Number of<br/>Common<br/>Shares<br/>(000s)</b> | <b>Share<br/>Capital</b> | <b>Reserves</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income</b> | <b>Deficit</b>  | <b>Total</b>   |
|-----------------------------------------------------------|---------------------------------------------------|--------------------------|-----------------|-----------------------------------------------------------|-----------------|----------------|
| At July 31, 2018                                          | 749,230                                           | 186,536                  | 18,112          | 3,071                                                     | (34,975)        | 172,744        |
| Issuance of flow-through shares                           | 22,249                                            | 8,712                    | -               | -                                                         | -               | 8,712          |
| Flow-through share premium                                | -                                                 | (1,165)                  | -               | -                                                         | -               | (1,165)        |
| Share issue costs                                         | -                                                 | (154)                    | -               | -                                                         | -               | (154)          |
| Exercise of stock options and warrants                    | 2,950                                             | 557                      | (222)           | -                                                         | -               | 335            |
| Share-based compensation                                  | -                                                 | -                        | 452             | -                                                         | -               | 452            |
| Net loss and comprehensive loss                           | -                                                 | -                        | -               | -                                                         | (1,132)         | (1,132)        |
| <b>At October 31, 2018</b>                                | <b>774,429</b>                                    | <b>194,486</b>           | <b>18,342</b>   | <b>3,071</b>                                              | <b>(36,107)</b> | <b>179,792</b> |



## EXERCISE OF STOCK OPTIONS AND WARRANTS

During the three months ended October 31, 2018, the Company issued 2,949,589 common shares (October 31, 2017 – 1,533,333 common shares) on the exercise of stock options and warrants. The Company received proceeds of \$0.3 million (October 31, 2017 - \$0.2 million) from the exercises.

## COMMON SHARES, STOCK OPTIONS AND WARRANTS

The following table summarizes the common shares, stock options and listed warrants as of the date of this MD&A:

|                 | Number of shares issued or issuable |
|-----------------|-------------------------------------|
| Common shares   | 782,085,668                         |
| Stock options   | 35,477,945                          |
| Listed warrants | 175,188,092                         |

Shareholders will incur proportionate dilution if and to the extent that outstanding stock options and listed warrants are exercised.

## CONTINGENCIES AND COMMITMENTS

The Company relies on equity financings, short-term debt, working capital and operating cash-flow to fund its capital requirements and to provide liquidity for operations.

At October 31, 2018, the Company has committed to future payments over the next five calendar years, as follows:

| (CDN\$ thousands)                                  | 2018 | 2019  | 2020   | 2021   | 2022   | Thereafter | Total  |
|----------------------------------------------------|------|-------|--------|--------|--------|------------|--------|
| Office lease                                       | 37   | 130   | -      | -      | -      | -          | 167    |
| Equipment leases                                   | 102  | 610   | 610    | 599    | 119    | -          | 2,040  |
| Canadian dollar portion of gas marketing agreement | 204  | 1,223 | 1,018  | -      | -      | -          | 2,445  |
| Firm transportation and processing                 | 179  | 5,673 | 11,967 | 16,001 | 16,855 | 42,650     | 93,325 |
| Drilling contracts                                 | -    | 708   | -      | -      | -      | -          | 708    |
| Estimated contractual obligations                  | 522  | 8,344 | 13,595 | 16,600 | 16,974 | 42,650     | 98,685 |

| (US\$ thousands)                                            | 2018 | 2019 | 2020 | 2021 | 2022 | Thereafter | Total |
|-------------------------------------------------------------|------|------|------|------|------|------------|-------|
| US dollar portion of gas marketing agreement <sup>(1)</sup> | 131  | 785  | 654  | -    | -    | -          | 1,570 |

Note:

(1) A fluctuation in the October 31, 2018, 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.

**CONTINGENCIES AND COMMITMENTS (CONTINUED)**

In November, 2017 the Company entered into a binding agreement with Tidewater for firm processing of raw gas produced from the Company's Pipestone / Elsworth Montney project. See "Transportation, Processing and Marketing" above in this MD&A. The Tidewater agreement has an initial term of five years with firm capacity (and corresponding delivery commitment by Blackbird) of 20.0 million cubic feet of natural gas per day expected to commence in the second quarter of calendar 2019 (following a short ramp-up period), increasing to 25.0 million cubic feet per day twelve months after plant start-up and to 30.0 million cubic feet per day eighteen months after plant start-up. Blackbird has an option to acquire a working interest of up to 20% in the Tidewater Facility. The future commitments related to this agreement will depend on the Company's course of action with respect to participating in the facility. The amounts disclosed above reflect Blackbird's current take-or-pay commitments per the gas handling agreement without participation in the facility. Should Blackbird acquire a working interest in the facility in the future, the commitments will be adjusted accordingly.

***FLOW-THROUGH SHARES***

The Company is required to incur and renounce \$2.3 million of eligible Canadian Development Expenses by December 31, 2018 in connection with the issuance of the CDE Flow-Through Shares on October 10, 2018. As at October 31, 2018, \$1.9 million of these expenditures had been incurred. Subsequent to October 31, 2018, the Company has incurred the remaining expenditures as required.

The Company is required to incur and renounce \$6.4 million of eligible Canadian Exploration Expenses by December 31, 2018 in connection with the issuance of the CEE Flow-Through Shares on October 1, 2018. As at October 31, 2018, \$3.3 million of these expenditures had been incurred. Subsequent to October 31, 2018, the Company has incurred the remaining expenditures as required.

***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.



## RELATED PARTY TRANSACTIONS

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

Blackbird has determined that the key management personnel of the Company consist of its directors and officers, including those who formerly held such positions. During the three months ended October 31, 2018 and 2017, the Company paid or accrued compensation to key management as follows:

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Three months ended |                    |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | October 31<br>2018 | October 31<br>2017 |
| <i>(CDN\$ thousands)</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                    |                    |
| Share-based compensation                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 237                | 523                |
| Compensation paid to key management personnel that was expensed                                                                                                                                                                                                                                                                                                                                                                                                                                   | 145                | 62                 |
| Compensation paid to key management personnel that was capitalized to exploration and development activities                                                                                                                                                                                                                                                                                                                                                                                      | 173                | 162                |
| Fees paid to ASI Accounting Services for interim Chief Financial Officer services performed, a company in which Mr. Ron Schmitz, Director and former Chief Financial Officer, is President                                                                                                                                                                                                                                                                                                        | -                  | 42                 |
| Legal fees paid to Macdonald Tuskey, a law firm in which Mr. William L. Macdonald, Director, is a Principal                                                                                                                                                                                                                                                                                                                                                                                       | 35                 | 10                 |
| Fees paid to Canadian Energy Services and Technology Corp. for drilling services performed, a company in which Mr. Burton Ahrens, Director, is also a Director                                                                                                                                                                                                                                                                                                                                    | -                  | 694                |
| Fees paid to Stage for completions equipment and services performed, a company in which Mr. Garth Braun, Blackbird's Chairman, Chief Executive Officer and President is also a Director and owns an indirect minority interest in Stage, certain of Blackbird's other officers own non-controlling interests in Stage, and Mr. Sean Campbell, a Director of Blackbird, holds an indirect controlling interest in Stage and is also the President, Chief Executive Officer and a Director of Stage | 155                | 166                |
| Office space rent received from Stage                                                                                                                                                                                                                                                                                                                                                                                                                                                             | (9)                | (15)               |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 736                | 1,644              |

As of October 31, 2018, there was \$3 thousand outstanding in accounts receivable related to the above noted parties (July 31, 2018 - \$19 thousand).



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## Quarterly Financial Summary

| <i>(CDN\$ thousands, except per share amounts, production and land sections)</i> | <b>2019<br/>Q1</b> | 2018<br>Q4 | 2018<br>Q3 | 2018<br>Q2 | 2018<br>Q1 | 2017<br>Q4 | 2017<br>Q3 | 2017<br>Q2 |
|----------------------------------------------------------------------------------|--------------------|------------|------------|------------|------------|------------|------------|------------|
| Petroleum and natural gas sales                                                  | <b>7,397</b>       | 5,331      | 6,414      | 6,036      | 2,582      | 2,797      | 3,312      | 110        |
| Cash provided by (used in) operating activities                                  | <b>1,009</b>       | 3,868      | 2,811      | 3,536      | (2,114)    | 1,285      | (1,122)    | (1,727)    |
| Cash provided by (used in) operating activities per share - basic and diluted    | <b>0.00</b>        | 0.01       | 0.00       | 0.00       | (0.00)     | 0.00       | (0.00)     | (0.00)     |
| Net (loss) income and comprehensive (loss) income                                | <b>(1,132)</b>     | 3,038      | (47)       | (1,705)    | (1,737)    | (3,164)    | (1,500)    | (4,877)    |
| Net (loss) income and comprehensive (loss) income per share - basic and diluted  | <b>(0.00)</b>      | 0.00       | (0.00)     | (0.00)     | (0.00)     | (0.00)     | (0.00)     | (0.01)     |
| Total assets                                                                     | <b>205,311</b>     | 189,145    | 184,926    | 192,184    | 194,587    | 191,906    | 189,398    | 110,215    |
| Working capital                                                                  | <b>3,759</b>       | 4,619      | 5,336      | 6,969      | 21,317     | 48,759     | 71,823     | 2,262      |
| Total production (boe/d)                                                         | <b>1,736</b>       | 1,148      | 1,447      | 1,273      | 712        | 782        | 868        | 28         |
| Pipestone / Elmworth Montney land sections (net)                                 | <b>110.3</b>       | 113.5      | 113.5      | 114.5      | 114.9      | 108.9      | 102.9      | 94         |

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

- (a) Petroleum and natural gas sales increased in Q1 2019, Q4 2018, Q3 2018, Q2 2018, Q1 2018, Q4 2017 and Q3 2017 due to initial production at the Company's Pipestone / Elmworth project, which commenced on January 30, 2017;
- (b) In Q1 2019, Q4 2018, Q3 2018, Q2 2018 and Q4 2017 cash was provided by operating activities due to positive operating results and changes in non-cash working capital;
- (c) In Q4 2018 the Company reported net income and comprehensive income of \$3.0 million due to the unrealized gain recognized, net of deferred taxes, on the investment in securities. In Q3 2018 the Company reported net loss and comprehensive loss of \$47 thousand as a result of reduced share-based compensation and deferred income tax expense recognized. In Q4 2017 the Company reported net loss and comprehensive loss of \$3.2 million as a result of deferred income tax expense of \$2.3 million recognized. In Q2 2017 the Company reported net loss and comprehensive loss of \$4.9 million as a result of share-based compensation of \$1.9 million recognized;
- (d) Total assets increased quarter over quarter, with the exception of Q4 2018, Q3 2018 and Q2 2018, as a result of the cash proceeds raised from equity financings;



## Quarterly Financial Summary (Continued)

- (e) Working capital changes quarter over quarter are a result of the cash proceeds raised from equity financings offset by capital expenditures and other cash flows from operating activities;
- (f) Total production increased in Q1 2019, Q4 2018, Q3 2018, Q2 2018, Q1 2018, Q4 2017 and Q3 2017 due to initial production at the Company's Pipestone / Elmworth project, which commenced on January 30, 2017; and
- (g) Pipestone / Elmworth Montney land sections increased quarter over quarter, with the exception of Q1 2019, Q4 2018, Q3 2018 and Q2 2018, as a result of additional investment made by the Company in undeveloped land partially offset by minor expiries.

Please refer to the other sections of this MD&A for the detailed discussions on changes for the period ended October 31, 2018.

## Risk Factors

Readers should refer to the risk factors set out under the heading "Risk Factors" in the Company's most recent Annual Information Form for the year ended July 31, 2018, which is available under Blackbird's issuer profile on the SEDAR website at [www.sedar.com](http://www.sedar.com).

The Blackbird management team conducts focused strategic planning and has identified 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 reserves base, executing a successful exploration program and acquiring additional reserves.

The Company mitigates the risk of finding and developing 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 Pipestone / Elmworth Montney resource, balancing higher-risk exploratory drilling with lower-risk development drilling.



## RESERVES AND RESOURCE ESTIMATES (CONTINUED)

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 mitigates this risk by generating exploration prospects internally, targeting high quality projects, operating projects, and 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.

Estimates of the Company's reserves and the net present value of future net revenue attributable to the Company's reserves as at July 31, 2018, are based upon the McDaniel & Associates Consultants Ltd. ("McDaniel") report dated September 12, 2018. The estimates of reserves provided are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves will be greater than or less than the estimates provided, and the differences may be material. The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation. Estimates of net present value of future net revenue attributable to the Company's reserves do not represent the fair market value of the Company's reserves and there is uncertainty that the net present value of future net revenue will be realized. There is no assurance that the forecast price and cost assumptions applied by McDaniel in evaluating Blackbird's reserves will be attained and variances could be material. See "Oil and Gas Metrics and Definitions" below for more details.

## 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, management can provide no assurance that there will be no title disputes or undetected deficiencies in title.



## OPERATIONAL MATTERS (CONTINUED)

The Company's production processed through facilities owned by third parties may be affected as these facilities may discontinue or decrease operations either as a result of normal servicing requirements or as a result of unexpected events. A discontinuation or decrease of operations could have a materially adverse effect on Blackbird's ability to process its production and deliver the same for sale. As described above in this MD&A, the Company experienced certain production disruptions during the period ended October 31, 2018 and 2017 as a result of third-party sour gas processing plant downtime, which adversely affected its financial performance for these periods.

## 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, significant increases in domestic oil and natural gas production in the United States, actions taken by the Organization of the Petroleum Exporting Countries and other oil exporting nations, 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 regulatory change and uncertainty, and by disputes between different levels of government over matters directly affecting oil and gas development. In particular, the continued 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.

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 October 31, 2018 to manage these risks (October 31, 2017 – none).

## INTEREST RATE RISK

The Company's exposure to fluctuations in interest rates and resulting impact on its net loss and comprehensive loss, assuming reasonably likely 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 trade receivables, joint interest billings, goods and services tax receivable and cash. As at October 31, 2018, the Company had \$0.2 million net receivable from the Canada Revenue Agency for GST with the remaining balance collectible from trade receivables. The Company's allowance for doubtful accounts at October 31, 2018, was \$31 thousand (July 31, 2018 - \$31 thousand). The Company expects to collect all other outstanding receivables.

At October 31, 2018 and 2017 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, supplemented by operating cash flows.

## **CAPITAL MANAGEMENT**

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

The Company monitors metrics such as the Company's debt-to-equity and debt-to-cash flow ratios, among others to measure the status of its capital structure. The Company has currently not established fixed quantitative thresholds for such metrics. Depending on market conditions, the Company's capital structure may be adjusted from time to time by issuing or repurchasing shares, issuing or repurchasing debt, borrowing under or refinancing existing debt or current credit facilities, 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 unaudited condensed interim financial statements and financial information for the period ended October 31, 2018 and 2017 as contained in this MD&A have been prepared on a historical cost basis, except for financial instruments which are stated at fair value. 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 unaudited condensed interim financial statements, except for the required policy changes made under IFRS. This MD&A should be read in conjunction with the audited consolidated financial statements and notes thereto as at and for the years ended July 31, 2018 and 2017 filed on SEDAR and available under Blackbird's issuer profile on the SEDAR website at [www.sedar.com](http://www.sedar.com). The Company's financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiary.

## 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.



## Critical Accounting Estimates (Continued)

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, operating and transportation and processing 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; DD&A; 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, 2018 and 2017.

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 reserves evaluation 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, ACCOUNTS RECEIVABLE, INVESTMENT IN SECURITIES AND ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

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



## **CASH, ACCOUNTS RECEIVABLE, INVESTMENT IN SECURITIES AND ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (CONTINUED)**

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

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

The fair value of accounts receivable and accounts payable and accrued liabilities approximates their carrying values due to the short-term nature of these instruments at October 31, 2018. Cash is measured at fair value using level 1 fair value inputs. The investment in securities are a level 3 instrument measured at fair value. 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 October 31, 2018 unaudited condensed interim financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future value for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying 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 certain lease arrangements, all of which are reflected in the contingencies and commitments table, which were entered into in the normal course of operations. All leases have been treated as operating leases whereby the lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease.

## **Non-IFRS Financial Measures**

This MD&A contains references to “operating netback”, “corporate netback”, “adjusted funds flow” and “available funding”, which are not measures defined under IFRS as issued by the International Accounting Standards Board. Although such measures are commonly used by the Company and others in the oil and gas industry, they are non-IFRS financial measures and do not have any standardized meaning or method of calculation prescribed by IFRS or applicable law and are, therefore, unlikely to be comparable to similar measures presented by other issuers.



## OPERATING AND CORPORATE NETBACK

“Operating netback” is calculated as the total of petroleum and natural gas sales less royalties, operating expenses and transportation and processing expenses calculated on a per boe basis. Operating netback is utilized by Blackbird to analyze the performance of its oil and natural gas assets at the field-level by isolating the impact of changes in production volumes. “Corporate netback” is calculated as the operating netback further adjusted for corporate overhead by deducting G&A expenses and financing costs and adding back interest income earned on a per boe basis to determine overall corporate performance.

## ADJUSTED FUNDS FLOW

“Adjusted funds flow” is defined as cash provided by (used in) operating activities adjusted for changes in non-cash working capital. Management of Blackbird considers adjusted funds flow to be a useful supplemental cash flow measure for assessing the Company’s ability to generate cash necessary to finance operating activities and capital expenditures on a continuing basis by eliminating non-cash charges. Adjusted funds flow as presented does not and is not intended to represent, and should not be considered an alternative to or more meaningful than, cash provided by (used in) operating activities or other measures of cash flow calculated in accordance with IFRS. Readers should refer to the table under “Adjusted Funds Flow” above for a reconciliation of adjusted funds flow to cash provided by (used in) operating activities, the most comparable measure calculated in accordance with IFRS.

## AVAILABLE FUNDING

“Available funding” is calculated as the Company’s working capital plus the undrawn capacity of its operating loan facility. Working capital is comprised of current assets less current liabilities. The available funding measure allows management and other users to evaluate Blackbird’s short-term liquidity and ability to fund future capital expenditures. Also refer to the “Liquidity and Capital Resources” section of this MD&A for further details.

## Oil and Gas Metrics and Definitions

Production and reserves information is commonly reported in units of barrel of oil equivalent (“boe”). For purposes of computing such units, natural gas volumes are converted to barrels of oil equivalent 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 or at the plant gate. Such disclosure of boe’s may be misleading, particularly if used in isolation. Although the 6:1 conversion ratio is an industry accepted norm, it is not reflective of price or market value differentials between product types. Based on current commodity prices, the value ratio between crude oil and natural gas is significantly different from the energy equivalency ratio of 6:1. Accordingly, 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”). Condensate, oil and natural gas liquids are expressed in barrels (“bbls”).

Terms that are used in this MD&A that are not otherwise defined herein are provided below:

Developed producing reserves are those gross reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.



## Oil and Gas Metrics and Definitions (Continued)

Developed non-producing reserves are those reserves that either have not been on production, or have previously been on production, but are shut in, and the date of resumption of production is unknown.

Developed reserves are those gross reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.

Gross means (i) in relation to the Company's interest in production or reserves, its "company gross reserves", which are the Company's working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests of the Company; and (ii) in relation to wells, the total number of wells in which the Company has an interest.

Net means, in relation to the Company's interest in wells or lands, the number of wells or acreage, as the case may be, obtained by aggregating the Company's working interest in each of its gross wells and across its gross land holdings.

Probable reserves are those additional gross reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

Proved reserves are those gross reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on: (i) analysis of drilling, geological, geophysical and engineering data; (ii) the use of established technology; and (iii) specified economic conditions, which are generally accepted as being reasonable. Reserves are classified according to the degree of certainty associated with the estimates.

Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable) to which they are assigned.



## 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:

- Blackbird’s transportation, processing and marketing agreements supporting current and near-term production (if key transportation, processing and marketing agreement volumes are not available as expected based on current terms or come to an end without Blackbird being able to extend them, it may hinder Blackbird’s ability to produce its commodities which could have an adverse impact on the Company’s operating performance);
- The agreement entered with Tidewater providing a long-term processing solution for the Company’s raw natural gas which will support growth objectives and enable Blackbird to become a low-cost producer relative to peers (this statement is based on the current terms of the agreement with Tidewater, changes to the timing of the Tidewater Facility construction and/or commissioning, raw sour gas processing volumes available and/or pricing structure could render this statement untrue and result in Blackbird not achieving its stated goals);
- The initial term, timing and processing volumes associated with the Tidewater agreement (this statement is based on the current agreement with Tidewater; changes could result in Blackbird not having processing available in the planned timeframe or at reduced volumes);
- Reduced processing fees if Blackbird acquires a working interest in the Tidewater Facility (this statement is based on the current agreement with Tidewater; changes could result in Blackbird not achieving its goal of becoming a low-cost producer);
- The construction, initial capacity and timing thereof for the Tidewater Facility and proposed associated gathering systems north and south of the Wapiti River;
- The Company’s planned infrastructure development north of the Wapiti River and timing thereof including the commencement of construction in January 2019;
- The Company’s general business plans and strategies;
- Future development plans;
- The requirement of further funding in the form of assumption of debt, off-balance sheet financing, further equity financing, or a combination thereof;
- Blackbird managing potential Pipestone / Elmworth Montney land expiries and continuations, including the validating of up to 20 sections of land through current drilling activity (the Company expects to manage material land expiries based on current drilling plans, not achieving this could lead to a loss of certain important Montney land sections);
- Changes to future transportation and processing of natural gas produced by the Company on account of the firm transportation and processing agreements with a third-party and the natural gas take-or-pay marketing agreement;
- Future commitments;
- The strategic combination of two adjacent and contiguous Pipestone Montney land bases under a single well-capitalized, high growth company that will operate under the name Pipestone Energy;
- The Financings and amounts to be received; and
- The expected closing date of the Transaction and Financings as well as the satisfying of all conditions to complete them as provided in the definitive agreements.



## Forward-Looking Statements (Continued)

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 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" are by their nature deemed to be forward-looking statements, as they involve the implied assessment based on certain estimates and assumptions that the reserves 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 Statement of Reserves Data and Other Oil and Gas Information for the year ended July 31, 2018. 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, 2018, is filed on SEDAR and is available under the Company's issuer profile on the SEDAR website at [www.sedar.com](http://www.sedar.com). Information can also be obtained on Blackbird's website at [www.blackbirdenergyinc.com](http://www.blackbirdenergyinc.com) or by contacting the Company 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                                                                                                                                                                                                                         |
| mmbbls   | 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 <sup>3</sup>                | metres cubed                                                         |
| e <sup>3</sup> m <sup>3</sup> | 1000 m <sup>3</sup>                                                  |
| 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’s Discussion and Analysis          |
| Q1   | First quarter ended October 31 <sup>st</sup>  |
| Q2   | Second quarter ended January 31 <sup>st</sup> |
| Q3   | Third quarter ended April 30 <sup>th</sup>    |
| Q4   | Fourth quarter ended July 31 <sup>st</sup>    |

**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               |

**CORPORATE INFORMATION****BOARD OF DIRECTORS****Garth Braun<sup>(1)</sup>**

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

**Ron Schmitz<sup>(2)</sup>**

President, ASI Accounting Services Inc.

**Sean Campbell**

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

**William L. Macdonald<sup>(2)</sup>**

Founder & Principal, Macdonald Tuskey, Corporate and  
Securities Lawyers

**Kevin Andrus, CFA<sup>(2)</sup>**

Chief Financial Officer, GMT Exploration Company LLC

**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

**Travis Belak**

Chief Financial Officer

**Craig Wiebe**

Vice President, Exploration

**Don Noakes**

Vice President, Operations

**Ralph Allen, P.Geo.**

Vice President, Geoscience

**HEAD OFFICE**

400, 444 5<sup>th</sup> Ave SW  
Calgary, Alberta T2P 2T8

Phone: 403.699.9929

[www.blackbirdenergyinc.com](http://www.blackbirdenergyinc.com)

**TRANSFER AGENT**

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

**LEGAL COUNSEL**

Bennett Jones LLP  
4500 Bankers Hall East – 855 2<sup>nd</sup> Street SW  
Calgary, Alberta T2P 4K7

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

**BANKERS**

ATB Financial  
600, 585 8<sup>th</sup> Ave SW  
Calgary, Alberta T2P 1G1

**AUDITORS**

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

**INDEPENDENT RESERVES EVALUATOR**

McDaniel & Associates Consultants Ltd.  
2200, 255 5<sup>th</sup> Ave SW  
Calgary, Alberta T2P 3G6

**STOCK EXCHANGE LISTING**

TSX Venture Exchange  
Common Shares “BBI”  
Warrants “BBI.WT”



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

[www.blackbirdenergyinc.com](http://www.blackbirdenergyinc.com)