

Blacksteel Energy Inc.
FINANCIAL STATEMENTS
For the Years Ended
April 30, 2018 and 2017

Management's Report

To the shareholders of Blacksteel Energy Inc.:

Management is responsible for the preparation and presentation of the accompanying financial statements and the preparation and presentation of other financial information and its consistency with the financial statements. Management is responsible for significant accounting judgements and estimates in accordance with International Financial Reporting Standards, including selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors is responsible for overseeing management in the performance of its financial reporting responsibilities, and for reviewing and approving the financial statements and other financial reports. The Audit Committee, consisting of independent directors, has the responsibility for reviewing the financial statements and other financial reports and recommending them to the Board of Directors for approval, of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues, and for recommending the appointment of the Company's external auditors.

Collins Barrow Calgary LLP, an independent firm of Chartered Professional Accountants, is appointed by the shareholders to audit the financial statements and report directly to them. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

(signed) "Les Treitz"

Chief Executive Officer

(signed) "Derek Batorowski"

Chief Financial Officer

August 28, 2018

Independent Auditors' Report

To the Shareholders
Blacksteel Energy Inc.

We have audited the accompanying financial statements of Blacksteel Energy Inc., which comprise the balance sheets as at April 30, 2018 and April 30, 2017, and the statements of loss and comprehensive loss, statements of changes in shareholders' equity (deficiency) and statements of cash flows for the years ended April 30, 2018 and April 30, 2017, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Blacksteel Energy Inc. as at April 30, 2018 and April 30, 2017, and its financial performance and its cash flows for the years ended April 30, 2018 and April 30, 2017 in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to note 2(a) to the financial statements which describes conditions that indicates the existence of a material uncertainty that may cast significant doubt about the Corporation's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

A handwritten signature in black ink that reads "Collins Barrow Calgary LLP". The signature is written in a cursive, flowing style.

CHARTERED PROFESSIONAL ACCOUNTANTS

Calgary, Canada
August 28, 2018

Blacksteel Energy Inc.

Balance Sheets

(Amounts in Canadian Dollars)

	Notes	April 30, 2018	April 30, 2017
Assets			
Current assets			
Cash		\$ 100,660	\$ 249,932
Accounts receivable	4(b)	28,755	24,130
Deposits and prepaid expenses		30,037	9,976
Loans receivable	5	400,000	400,000
Total current assets		559,452	684,038
Loans receivable	5	235,000	372,627
Property and equipment	7	965,452	891,907
Total assets		\$ 1,759,904	\$ 1,948,572
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	4(d)	\$ 78,767	\$ 105,500
Non-current liabilities			
Convertible debentures	8	1,716,061	1,547,788
Decommissioning provisions	9	394,960	257,280
Total non-current liabilities		2,111,021	1,805,068
Total liabilities		2,189,788	1,910,568
Shareholders' Equity (Deficiency)			
Share capital	10(b)	14,937,629	15,166,660
Warrants	10(c)	874,235	924,148
Contributed surplus		4,260,274	3,901,564
Equity component of convertible debentures	8	458,266	458,266
Deficit		(20,960,288)	(20,412,634)
Total shareholders' equity (deficiency)		(429,884)	38,004
Total liabilities and shareholders' equity		\$ 1,759,904	\$ 1,948,572

Going concern (note 2(a))

Subsequent events (note 17)

See accompanying notes to the financial statements.

Approved by the Board of Directors:

(signed) "Les Treitz"

Les Treitz
CEO & Director

(signed) "Chris Scase"

Chris Scase
Director

Blacksteel Energy Inc.

Statements of Loss and Comprehensive Loss

(Amounts in Canadian dollars)

For the years ended April 30,	Notes	2018	2017
Revenue			
Oil revenue		\$ 535,700	\$ 98,800
Less: Royalty Expenses		172,687	29,446
Net revenue		363,013	69,354
Expenses			
Production, operating and transportation		263,979	50,091
General and administrative expenses	12	156,222	150,770
Stock-based compensation	11(b)	101,906	109,603
Depletion and depreciation	7	110,423	11,962
Exploration and evaluation expenses		-	3,660
Total expenses		632,530	326,086
Operating loss		(269,517)	(256,732)
Loan receivable impairment	5	(5,274)	(312,946)
Finance income, being interest		69,740	77,422
Finance expense	13	(342,603)	(322,222)
Loss and comprehensive loss for the year		\$ (547,654)	\$ (814,478)
Loss per share			
Basic and diluted	14	\$ (0.02)	\$ (0.02)

See accompanying notes to the financial statements.

Blacksteel Energy Inc.

Statements of Changes in Shareholders' Equity (Deficiency)

(Amounts in Canadian dollars)

	Notes	Number of Class A shares	Class A Share capital stated value	Number of warrants	Warrants stated value	Contributed surplus	Equity component of convertible debentures	Deficit	Total shareholders' equity (deficiency)
Balance, April 30, 2016		36,108,451	\$ 15,166,660	9,645,568	\$ 922,584	\$ 3,793,525	\$ 458,266	\$(19,598,156)	\$ 742,879
Expiry of warrants	10(c)	-	-	(3,050,825)	(108,039)	108,039	-	-	-
Extension of warrant life	10(d)	-	-	-	109,603	-	-	-	109,603
Loss for the year		-	-	-	-	-	-	(814,478)	(814,478)
Balance, April 30, 2017		36,108,451	\$ 15,166,660	6,594,743	\$ 924,148	\$ 3,901,564	\$ 458,266	\$(20,412,634)	\$ 38,004
Expiry of warrants	10(c)	-	-	(1,473,833)	(46,403)	46,403	-	-	-
Extension of warrants life	10(d)	-	-	-	101,906	-	-	-	101,906
Exercise of warrants	10(b), 10(c)	550,965	215,609	(550,965)	(105,416)	-	-	-	110,193
Cancellation of common shares	10(b)	(1,058,000)	(444,640)	-	-	312,307	-	-	(132,333)
Loss for the year		-	-	-	-	-	-	(547,654)	(547,654)
Balance, April 30, 2018		35,601,416	\$ 14,937,629	4,569,945	\$ 874,235	\$ 4,260,274	\$ 458,266	\$(20,960,288)	\$ (429,884)

See accompanying notes to the financial statements.

Blacksteel Energy Inc.

Statements of Cash Flows

(Amounts in Canadian dollars)

For the years ended April 30,	Notes	2018	2017
Cash provided by (used in):			
Cash flows from operating activities:			
Loss for the year		\$ (547,654)	\$ (814,478)
Adjustments for:			
Non-cash finance expenses	13	176,173	173,732
Loan receivable impairment	5	5,294	312,946
Stock-based compensation	11(b)	101,906	109,603
Depletion and depreciation	7	110,423	11,962
Changes in non-cash working capital	6	(53,457)	(69,857)
Net cash used in operating activities		(207,315)	(276,092)
Cash flows from investing activities:			
Loan advance		-	(400,000)
Expenditures on property and equipment		(54,188)	(759,869)
Changes in non-cash working capital	6	(5,915)	19,666
Net cash used in investing activities		(60,103)	(1,140,203)
Cash flows from financing activities:			
Proceeds from warrant exercise	10(b),10(c)	110,193	-
Change in non-cash working capital	6	7,953	(7,952)
Net cash from (used in) financing activities		118,146	(7,952)
Change in cash		(149,272)	(1,424,247)
Cash, beginning of year		249,932	1,674,179
Cash, end of year		\$ 100,660	\$ 249,932

See accompanying notes to the financial statements.

Blacksteel Energy Inc.
Notes to the Financial Statements
For the years ended April 30, 2018 and 2017
(Amounts in Canadian dollars)

1. General business description

Blacksteel Energy Inc. ("**Blacksteel**" or the "**Corporation**") is engaged in the exploration for, development of and production of oil and natural gas. Blacksteel Energy Inc. is a publicly traded company, incorporated and domiciled in Canada. The address of business of the Corporation is 2204 6 AVE NW, Calgary, Alberta, Canada, T2N 0W9. These financial statements were approved and authorized for issuance by the Board of Directors on August 28, 2018.

2. Basis of preparation

(a) Statement of compliance and going concern

These financial statements present Blacksteel's financial position as at April 30, 2018, and April 30, 2017 and financial performance for the years ended April 30, 2018 and 2017. They have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") and interpretations of the IFRS Interpretations Committee.

Going concern

The Corporation had working capital at April 30, 2018 of \$480,685 (2017 – \$578,538), but has incurred net losses and negative cash flow from operating activities in the years ended April 30, 2018 and 2017. The Corporation has a small amount of oil and gas production revenue, but the currently producing wells are not generating sufficient cash flows to support operations in the long-term. These factors indicate a material uncertainty that may cast significant doubt on the ability of the Corporation to continue as a going concern. The accompanying financial statements have been prepared with the assumption that the Corporation will realize its assets and discharge its liabilities in the normal course of business. The Corporation believes it has sufficient cash reserves to continue as a going concern. If the going concern assumption is not appropriate, adjustments may be necessary to the carrying values of assets and liabilities, reported revenues and expenses, and the balance sheet classifications used in the financial statements.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain financial assets and financial liabilities, which are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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Notes to the Financial Statements
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Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

The following discussion sets forth management's most critical estimates and assumptions in determining the value of assets, liabilities and equity:

Depletion and valuation of property and equipment

The amounts recorded for depletion and depreciation of property and equipment and the valuation of property and equipment are based on estimates. These estimates include proved and probable reserves, production rates, future oil and natural gas prices, future development costs, remaining lives and periods of future benefits of the related assets and other relevant assumptions.

Oil and natural gas interests, exploration and evaluation assets and other corporate assets are aggregated into cash-generating units ("CGUs") based on their ability to generate largely independent cash flows and are used for impairment testing. The classification of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users, shared infrastructures and the way in which management monitors the Corporation's operations. The determination of the Corporation's CGUs is subject to management's judgement.

The Corporation's reserve estimates are evaluated annually pursuant to the parameters and guidelines stipulated under *National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities*.

Valuation and classification of exploration and evaluation assets

The valuation of exploration and evaluation assets are dependent upon the discovery of economically recoverable reserves which in turn is dependent on future oil and natural gas prices, future capital expenditures and environmental and regulatory restrictions. The decision to transfer exploration and evaluation assets to property and equipment is based upon management's determination of an area's technical feasibility and commercial viability based on proved and/or probable reserve estimates.

Convertible debentures

The allocation between the debt and equity components of convertible debentures is based on estimates of the interest rate the Corporation would pay on non-convertible debt instruments with similar terms.

Decommissioning provisions

The value of decommissioning provisions depends on estimates of current risk-free interest rates, future restoration and reclamation expenditures and the timing of those expenditures.

Valuation of accounts receivable and loans receivable

The valuation of accounts receivable is based on management's best estimate of the provision for doubtful accounts.

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Income taxes

The amounts recorded for deferred income taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. They are also based on estimates of the probability of the Corporation utilizing certain tax pools and assets which, in turn, is dependent on estimates of proved and probable reserves, production rates, future petroleum and natural gas prices and changes in legislation, tax rates and interpretations by taxation authorities. The availability of tax pools and the Corporation's classification of expenditures eligible for renouncement under flow-through shares are subject to audit and interpretation by taxation authorities.

Stock-based compensation

The amounts recorded relating to the fair value of stock options and warrants issued or modified are based on estimates of the future volatility of the Corporation's share price, market price of the Corporation's shares at grant date, expected lives of the options and warrants, expected forfeiture rates, expected dividends and other relevant assumptions.

3. Significant accounting policies

(a) Business combinations

Business combinations are accounted for using the acquisition method where the acquisitions of companies and assets meet the definition of a business under IFRS. The acquired identifiable net assets are measured at their fair value at the date of acquisition. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Following initial recognition, goodwill is recognized at cost less any accumulated impairment losses. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in net earnings. Associated transaction costs are expensed when incurred.

(b) Jointly controlled assets

Many of the Corporation's oil and natural gas activities involve jointly controlled assets and are conducted under joint operating agreements. The financial statements include the Corporation's share of these jointly controlled assets, the relevant revenue and related costs. As all these agreements are classed as joint operations under IFRS.

(c) Cash

Cash consists of amounts on deposit with a major Canadian bank. Bank overdrafts that are repayable on demand and form an integral part of the Corporation's cash management are included as a component of cash.

(d) Exploration and evaluation expenditures and property and equipment

(i) Exploration and evaluation assets

Pre-licence expenditures incurred before the Corporation has obtained legal rights to explore an area are expensed.

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Exploration and evaluation costs include the costs of acquiring licences, exploratory drilling, geological and geophysical activities, acquisition of mineral and surface rights and technical studies. Exploration and evaluation costs are capitalized as exploration and evaluation assets when the technical feasibility and commercial viability of extracting oil and natural gas reserves have yet to be determined. Exploration and evaluation assets are measured at cost and are not depleted or depreciated. Exploration and evaluation assets, net of any impairment loss, are transferred to property and equipment when proved and/or probable reserves are determined to exist.

Exploration and evaluation assets are assessed for impairment, separate from property and equipment, when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Exploration and evaluation assets are also assessed for impairment upon their reclassification to property and equipment.

Exchanges or swaps that involve only exploration and evaluation assets are accounted for at cost. Any gains or losses from the divestiture of exploration and evaluation assets are recognized in net earnings.

(ii) Property and equipment

All costs directly associated with the development and production of oil and natural gas interests are capitalized on an area-by-area basis as oil and natural gas interests and are measured at cost less accumulated depletion and depreciation and net impairment losses. These costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include property acquisitions with proved and/or probable reserves, development drilling, completion, gathering and infrastructure, decommissioning liabilities and transfers of exploration and evaluation assets.

Costs of replacing parts of property and equipment are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in income as incurred. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in income as incurred.

Exchanges or swaps of property and equipment are measured at fair value unless the transaction lacks commercial substance or neither the fair value of the asset received nor the asset given up can be reliably estimated. When fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gains or losses from the divestiture of property and equipment are recognized in net income.

(iii) Depletion and depreciation

Oil and natural gas interests are depleted using the unit-of-production method by reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of natural gas to one barrel of oil. Changes in estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations, do not give rise to prior period adjustments and are dealt with on a prospective basis.

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Processing facilities and well equipment will be depleted using the unit-of-production method along with the related reserves when the assets are designed to have a life similar to the reserves of the related wells with little to no residual value. Where facilities and equipment, including major components, have differing useful lives, they are depreciated separately on a straight-line basis over the estimated useful life of the facilities and equipment and other related components.

Other assets, referred to as corporate and other, are depreciated on a declining balance basis at annual rates, approximating their estimated useful lives, of 20% and 30%, for office equipment and computer equipment, respectively.

(e) Impairment of non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than exploration and evaluation, property and equipment and deferred tax assets, are reviewed for indicators of impairment at each reporting date. If indicators of impairment exist, the recoverable amount of the asset is estimated. Exploration and evaluation assets are assessed for impairment when they are reclassified to property and equipment and if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purposes of assessing impairment, exploration and evaluation assets and property and equipment are grouped into separate cash-generating units ("CGUs"), defined as the lowest levels for which there are separately identifiable independent cash inflows. Goodwill if any, is allocated to the CGUs that are expected to benefit from the synergies of the business combination creating the goodwill.

The recoverable amount of a CGU is the greater of its fair value less costs of disposal and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction between knowledgeable and willing parties. Fair value less costs of disposal may be determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs and including future development costs. These cash flows are discounted at an appropriate discount rate which would be applied by a market participant. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the cash-generating unit in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. An impairment loss recognized in respect of a CGU is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. Impairment losses are recognized in the statement of loss.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized. A goodwill impairment loss is not reversed.

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(f) Provisions and contingent liabilities

Provisions are recognized by the Corporation when it has a legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of that obligation. Provisions are stated at the present value of the expenditure expected to settle the obligation. The obligation is not recorded and is disclosed as a contingent liability if it is not probable that an outflow will be required, if the amount cannot be estimated reliably or if the existence of the outflow can only be confirmed by the occurrence of a future event.

(i) *Decommissioning provisions*

Decommissioning provisions are recognized for decommissioning and restoration obligations associated with the Corporation's exploration and evaluation assets and property and equipment. The best estimate of the expenditure required to settle the present obligation at the balance sheet date is recorded on a discounted basis using the pre-tax risk-free interest rate. The future cash flow estimates are adjusted to reflect the risks specific to the liability. The value of the obligation is added to the carrying amount of the associated exploration and evaluation or property and equipment asset and is depleted or amortized over the useful life of the asset. The provision is accreted over time through charges to Financing Expenses. Changes in the future cash flow estimates resulting from revisions to the estimated timing or amount of undiscounted cash flows or the discount rate are recognized as changes in the decommissioning provision and related asset. Actual decommissioning expenditures up to the recorded liability at the time are charged against the provision as the costs are incurred. Any differences between the recorded provision and the actual costs incurred is recorded as a gain or loss in the statement of loss.

(g) Flow-through shares

From time to time, the Corporation finances a portion of its exploration and development activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to subscribers. The stated capital recorded on flow-through share issuances is equal to the estimated fair value of the Common Shares, exclusive of the flow-through component, on the date of issue. The difference between the gross proceeds received and the stated capital recorded is a liability ("flow-through share premium") until qualifying expenditures are incurred. When the expenditures are incurred the resulting deferred tax liability is recorded through income tax expense less the reversal of the flow-through share premium previously reported.

(h) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of income except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

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Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(i) Revenue

Revenue from the production of oil and natural gas is recognized when title passes from the Corporation to the customer. Revenue represents the Corporation's share and is recorded net of royalty obligations to governments and other mineral interest owners. Transportation costs are reported as a separate expense and are not netted against revenue.

(j) Finance income and expenses

Finance income, consisting of interest income, is recognized as it accrues in the statement of loss, using the effective interest rate method.

Finance expense comprises interest expense on borrowings, accretion of discounts on convertible debentures and accretion of the discount on decommissioning provisions.

Borrowing costs incurred for the acquisition or construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. A qualifying asset is one that takes a substantial period of time to get ready for use or sale.

Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Corporation during the period.

All other borrowing costs are recognized in the statement of income in the period in which they are incurred using the effective interest method.

(k) Stock-based compensation

The Corporation has a Stock Option Plan as described in note 11 and stock options and warrants granted to directors, officers, employees and consultants of the Corporation are accounted for using the fair value method under which compensation expense is recorded based on the estimated fair value of the options and warrants at the grant date using the Black-Scholes option pricing model.

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The Corporation measures share-based payments to non-employees at the fair value of the goods and services received at the date of receipt of the goods or services. If the fair value of the goods or services cannot be measured reliably, the value of the options/warrants granted will be, measured using the Black-Scholes option pricing model.

Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation cost is expensed over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(l) Convertible debentures

The Corporation's convertible debentures are considered compound instruments. The components of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the issuance date, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability based on amortized cost until the instrument is converted or matures. The equity component is determined by deducting the liability component from the total fair value of the compound instrument and is recognized as equity, net of income tax effects, with no subsequent re-measurement.

(m) Income (loss) per share

Income (loss) per share is calculated by dividing net income or loss by the weighted average number of common shares outstanding during the period. The Corporation computes the dilutive impact of common shares assuming the proceeds received from the pro forma exercise of in-the-money stock options and warrants are used to purchase common shares at average market prices during the period.

(n) Financial instruments

(i) *Classification and measurement*

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit or loss", "loans and receivables", "available-for-sale", "held-to-maturity", or "financial liabilities measured at amortized cost" as defined by IAS 39, "Financial Instruments: Recognition and Measurement".

Financial assets and financial liabilities at "fair value through profit or loss" are either classified as "held for trading" or "designated at fair value through profit or loss" and are measured at fair value with changes in fair value recognized in the statement of loss. Transaction costs are expensed when incurred. The Corporation has designated cash and derivative commodity contracts, if any, as "held for trading".

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Financial assets and financial liabilities classified as “loans and receivables”, “held-to-maturity”, or “financial liabilities measured at amortized cost” are measured at amortized cost using the effective interest method of amortization. “Loans and receivables” are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. “Held-to-maturity” financial assets are non-derivative investments that an entity has the positive intention and ability to hold to maturity. “Financial liabilities measured at amortized cost” are those financial liabilities that are not designated as “fair value through profit or loss” and that are not derivatives. The Corporation has designated accounts receivable as “loans and receivables”, loans receivable as “held-to-maturity” and accounts payable and accrued liabilities and convertible debentures as “financial liabilities measured at amortized cost”.

Financial assets classified as “available-for-sale” are measured at fair value, with changes in fair value recognized in other comprehensive income. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. The Corporation currently has no assets designated as “available for sale”.

(ii) *Derivative financial instruments*

The Corporation may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. The Corporation's policy is not to utilize derivative financial instruments for speculative purposes. All financial derivative contracts are classified as “fair value through the profit or loss”.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through the statement of income. Changes in the fair value of separable embedded derivatives are recognized immediately in the statement of loss. The Corporation has not identified any embedded derivatives.

(iii) *Equity instruments*

Class A, B, C, D and E Shares and warrants are classified as equity. Incremental costs directly attributable to the issue of Class A, B, C, D and E Shares, stock options, share purchase warrants, and broker options/warrants are recognized as a deduction from equity, net of any tax effects.

(iv) *Impairment*

The Corporation assesses at each balance sheet date whether there is objective evidence that financial assets, other than those designated as “fair value through profit or loss” are impaired. When impairment has occurred, the cumulative loss is recognized in the statement of loss. For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive loss are reclassified to the statement of loss in the period. Impairment losses may be reversed in subsequent periods.

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(o) Recent accounting pronouncements

During the year ended April 30, 2018, there were no material changes to the accounting standards applicable to the Corporation.

Future accounting pronouncements:

- IFRS 9, "Financial Instruments ("IFRS 9"). IFRS 9 provides a comprehensive new standard for accounting for all aspects of financial instruments. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple category and measurement models in IAS 39. The approach in IFRS 9 focuses on how an entity manages its financial instruments in the context of its business model, as well as the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods currently provided in IAS 39.

Requirements for financial liabilities were added to IFRS 9 in October 2010. Although the classification criteria for financial liabilities did not change under IFRS 9, the fair value option requires different accounting for changes to the fair value of a financial liability resulting from changes to an entity's own credit risk.

In December 2013, new hedge accounting requirements were incorporated into IFRS 9 that increase the scope of items that can qualify as a hedged item and change the requirements of hedge effectiveness testing that must be met to use hedge accounting.

In July 2014, the IASB issued final amendments to IFRS 9, replacing earlier versions of IFRS 9. These amendments to IFRS 9 introduce a single, forward-looking 'expected loss' impairment model for financial assets which will require more timely recognition of expected credit losses, and a fair value through other comprehensive income category for financial assets that are debt instruments.

The amendments to IFRS 9 are effective for the Corporation beginning May 1, 2018. The Corporation has determined that the adoption of IFRS 9 will not have a material impact on the measurement and carrying values of the Corporation's financial assets or liabilities.

- IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"). In May 2014, the IASB issued IFRS 15. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect to its revenue recognition criteria. IFRS 15 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Corporation will adopt this standard May 1, 2018 and has determined that the adoption of IFRS 15 will not have a material impact on the Corporation's profit or loss or financial position.
- (i) The IASB has developed a new standard, IFRS 16 "Leases", which supersedes IAS 17 "Leases". The IASB worked jointly with the FASB on this project. IFRS 16 sets out principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). Lessee accounting will change substantially under this new standard while there is little change for the lessor. IFRS 16 eliminates the classification of leases as either operating leases or financing leases and, instead, introduces a single lessee accounting model. A lessee will be required to recognize assets and liabilities for all leases with a term of more than 12 months (unless the underlying asset is of low value) and will be required to present

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depreciation of leased assets separately from interest on lease liabilities in the statement of income (loss). A lessor will continue to classify its leases as operating leases or financing leases, and to account for those two types of leases separately.

IFRS 16 is effective for fiscal periods beginning on or after January 1, 2019 and will be adopted by the Corporation on May 1, 2019. The Corporation is in the process of evaluating the impact that IFRS 16 may have on the Corporation's financial statements.

4. Financial instruments and risk management

(a) Fair Values

The fair values of cash, accounts receivable, short-term loans receivable, and accounts payable and accrued liabilities approximate their carrying value due to the short-term maturity of these instruments. The fair value of long-term loans receivable approximates its carrying value as management believes it currently bears an interest rate reflective of the risk profile of the loans. The fair value of convertible debentures approximates its carrying value as the Corporation believes market discount rates and the Corporation's risk profile have not changed materially since issuance.

IFRS established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described below:

Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.

Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

When the inputs used to measure fair value fall within different level of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measure in its entirety.

At April 30, 2018 cash is measured at fair value of \$100,660 (2017 - \$249,932) and falls under level 1 of the hierarchy.

The fair value less costs of disposal values used to determine the recoverable amounts of property and equipment were based on level 3 value measurements as they are not based on observable market data.

The fair value of the convertible debentures liability was initially determined using a level 3 valuation model at recognition. Inputs include interest rates for similar non-convertible debt and consideration of term to maturity.

- (b)** The Corporation is exposed to financial risks arising from its financial assets and liabilities. The Corporation manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical. The main financial risks affecting the Corporation are credit risk, market risk and liquidity risk.

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(i) Credit Risk

Credit risk is the risk of financial loss to the Corporation of a customer or counterparty to a financial instrument failing to meet its contracted obligations.

At April 30, 2018, the maximum exposure to credit risk was \$764,415 (April 30, 2017 - \$1,046,689) being the carrying value of its cash, accounts receivable and loans receivable.

Cash consists primarily of cash bank balances. The Corporation manages the credit exposure of cash by selecting financial institutions with high credit ratings and monitors all short-term deposits to ensure an adequate return. The Corporation does not invest its excess cash in high risk investment vehicles such as asset backed commercial paper.

There were no receivables allowed for or written off during the years ended April 30, 2018 and 2017. The Corporation considers all receivables greater than 90 days to be past due. There were no past due receivables as at April 30, 2018 and 2017.

The loans receivable are receivable from the Corporation's joint venture partner as part of its working interest acquisition in Girouville oil and gas assets (\$400,000) as well as the Corporation's directors (\$235,000) (note 5). The \$400,000 loan is secured by a claim on a 14% working interest in the Girouville assets. The \$235,000 loan receivable from the directors is deemed collectable as the Corporation also owes the directors \$235,000 under convertible debenture agreements (note 8).

As at April 30, 2018, and 2017 the Corporation's accounts receivable were comprised of the following:

	April 30, 2018	April 30, 2017
Joint Venture	\$ 13,896	\$ 19,263
Goods and Services Tax	-	-
Interest	14,859	4,867
Total	\$ 28,755	\$ 24,130

(ii) Market Risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates will affect the Corporation's net earnings or the value of financial instruments. The objective of the Corporation is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns. Market risks are as follows:

Commodity Price Risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by world and continental/regional economic and other events that dictate the levels of supply and demand. Given the Corporation's limited production, the Corporation has chosen not to hedge any of its oil and natural gas production and consequently, the Corporation had no financial derivative sales contracts in place as at or during the years ended April 30, 2018 and 2017. The Corporation manages this risk by monitoring commodity prices and factoring any changes into operational decisions.

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Foreign Currency Exchange Risk

Foreign currency exchange rate risk is the risk that future cash flows will fluctuate as a result of changes in foreign exchange rates. The Corporation is exposed to foreign currency exchange risk as the underlying market prices in Canada for oil and natural gas fluctuate with changes in the exchange rate between the Canadian and United States dollar. As of April 30, 2018 and 2017, the Corporation did not conduct business transactions in other currencies, had no forward exchange rate contracts in place, and had no working capital items denominated in foreign currencies. The Corporation manages this risk by monitoring foreign currency exchange rates and factoring any changes into operational decisions.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate price risk to the extent that its loans receivable and convertible debentures bear interest at fixed rates. The Corporation had no interest rate swaps or financial contracts in place as at or during the years ended April 30, 2018 or 2017.

(iii) **Liquidity Risk**

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking harm to the Corporation's reputation. The Corporation monitors this risk by preparing capital expenditure forecasts which are regularly monitored and updated as considered necessary. As well, the Corporation utilizes authorizations for expenditures on non-operated projects to manage capital expenditures and liquidity (see also note 2(a)).

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

	April 30, 2018	April 30, 2017
Trade	\$ 64,898	\$ 99,583
Interest	13,869	5,917
Total	\$ 78,767	\$ 105,500

The Corporation's convertible debentures with a face value of \$1,958,000 mature September 30, 2019, if not converted.

(c) **Capital Management**

The Corporation considers its capital structure to include shareholders' equity (deficiency) and long-term debt, if any. The Corporation's objective when managing capital is to safeguard its ability to continue as a going concern (note 2(a)) so that it can continue to maintain investor confidence and to not expose the Corporation to excess risk.

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The Corporation manages its capital structure and makes adjustments to it based upon the level of funds available to support the exploration and development of its petroleum and natural gas properties. The Corporation currently generates negative cash flow from its operations. As such, the Corporation continues to be dependent on external financing to fund its exploration and development activities, and as necessary, to pay general and administrative and other ongoing costs. To date, external financing has included only issuing common shares, common share purchase warrants and convertible debentures.

The Corporation will pursue additional sources of external financing to ensure that it has necessary financial resources available. To the extent that market conditions are not believed to be positive for raising equity or debt, adjustments may be made to the timing of planned capital expenditures and operating costs reduced to the extent possible until those market conditions become acceptable. Management reviews its capital management approach on an ongoing basis. There were no changes in the Corporation's approach to capital management during the years ended April 30, 2018 or 2017.

The Corporation's capital consists of shareholders' equity (deficiency) and long-term debt, if any, as follows:

	April 30, 2018	April 30, 2017
Shareholders' equity (deficiency)	\$ (429,884)	\$ 38,004
Long-term debt	1,716,061	1,547,788
Capital	\$ 1,286,177	\$ 1,585,792

The Corporation is not subject to any externally imposed capital requirements.

5. Loans receivable

The Corporation loaned TERIC \$610,000 during the year ended April 30, 2016, which bore interest at 8.5% per annum, would have matured September 30, 2019 and was secured by a general security agreement providing a first charge over all TERIC's assets. This loan was cancelled during the year ended April 30, 2018 when the Corporation entered into an agreement with TERIC and the Corporation's directors. The agreement resulted in the redemption of 1,058,000 common shares of Blacksteel held by TERIC, with a value of \$0.125 per share, the transfer of face value \$235,000 of convertible debentures from TERIC to the Corporation's directors, the transfer of \$235,000 of loan receivable from TERIC to the Corporation's directors under the same terms and the elimination of the remaining \$375,000 of TERIC loan receivable, and the related accrued interest which totaled \$75,573 at April 30, 2017. The loan receivable was written down to its expected fair value of \$372,627 at April 30, 2017, based on expected future collectability. Interest receivable of \$75,573 on the TERIC loan was also written off, for a total impairment charge of \$312,946. Based on the Corporation's share value on the date of the cancellation an additional \$5,274 was included in impairment charges on the cancellation date during the year ended April 30, 2018.

In connection with the acquisition of a 30% interest in the Girouville oil and gas assets from Drakkar Energy Ltd. ("Drakkar"), Blacksteel also provided a \$400,000 loan to Drakkar. The Loan was to mature on May 25, 2017, accrues interest at a rate of 12% per annum and is secured by a 20% working interest in the Girouxville assets retained by Drakkar. The loan was not repaid at maturity, with the consent of the Company, and is now effectively a demand loan.

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6. Supplemental cash flows information

Changes in non-cash working capital is comprised of:

	April 30, 2018	April 30, 2017
Source/(use) of cash:		
Accounts receivable	\$ (4,625)	\$ (67,611)
Prepaid expenses and deposits	(20,061)	(399)
Accounts payable and accrued liabilities	(26,733)	9,867
	\$ (51,419)	\$ (58,143)
Related to operating activities	\$ (53,457)	\$ (69,857)
Related to investing activities	(5,915)	19,666
Related to financing activities	7,953	(7,952)
Changes in non-cash working capital	\$ (51,419)	\$ (58,143)

Cash and cash equivalent is comprised of balances on deposit with a bank and corporate legal trust accounts.

7. Property and equipment

The Corporation acquired a 30% working interest in 18 sections of contiguous light oil assets around Girouxville in Northwest Alberta during the year ended April 30, 2017.

	Oil and natural gas interests
Cost	
Balance, April 30, 2016	\$ -
Additions	759,869
Decommissioning liabilities (note 9)	144,000
Balance, April 30, 2017	903,869
Additions	54,188
Decommissioning liabilities (note 9)	148,136
Change in decommissioning liabilities estimate (note 9)	(18,356)
Balance, April 30, 2018	\$ 1,087,837
Accumulated depletion and depreciation	
Balance, April 30, 2016	\$ -
Depletion	11,962
Balance, April 30, 2017	11,962
Depletion	110,423
Balance, April 30, 2018	\$ 122,385
Net book value	
Balance, April 30, 2017	\$ 891,907
Balance, April 30, 2018	\$ 965,452

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Depletion

Future development costs of \$5,191,000 (2017 - \$4,366,800) associated with the development of the Corporation's proved plus probable reserves were included in the calculation of depletion for the year ended April 30, 2018.

Impairment

The Corporation assesses many factors when determining if an impairment test should be performed. For the year ended April 30, 2018, the Corporation conducted an assessment of impairment indicators for the Corporation's CGU. In performing the review, management determined that the continued depressed commodity pricing and the impact this has on the economic performance of the Corporation's CGU justified calculation of the recoverable amounts of the CGU. The recoverable amount was estimated at the fair value less costs of disposal based on the net present value of the before tax future net cash flows from oil and natural gas proved and probable reserves using forecasted prices and costs estimated by the external engineers. The future net cash flows were discounted at a rate of 10%. There was no impairment loss required for the CGU for the year ended April 30, 2018. Key assumptions used in the determination of the recoverable amounts of each CGU includes commodity prices and discount rates applied to cash flows from proved and probable reserves. A 5% increase in the assumed discount rate over the life of the reserves independently would not have resulted in an impairment loss at April 30, 2018.

The forecasted commodity prices used in the impairment test at April 30, 2018 were as follows (CDN \$/bbl):

	Remainder 2018	2019	2020	2021	2022	2023	2024	2025	2026	2027 and thereafter
Edmonton										
Light										
Sweet										
Crude	76.45	75.95	76.25	77.16	79.27	81.33	84.34	87.35	90.47	+2%/yr

For purposes of the impairment test, the benchmark commodity prices forecast above are adjusted to reflect varied delivery points and quality differentials in the products delivered.

8. Convertible debentures

On September 16, September 30, October 30, and November 30, 2015, the Corporation completed the issuance of convertible unsecured subordinated debentures (the "**Debentures**") for gross proceeds of \$663,000 (\$609,960 net of finder's fees), \$619,000 (\$569,480 net of finder's fees), \$521,000 (\$480,120 net of finder's fees), and \$155,000 (\$142,600 net of finder's fees) respectively, for total gross proceeds of \$1,958,000 (\$1,802,160 net of finder's fees), at a price of \$1,000 per debenture. The Debentures pay interest at a rate of 8.5% per annum, payable in cash on a semi-annual basis on March 31 and September 30, commencing on March 31, 2016. All Debentures mature on September 30, 2019 (the "**Maturity Date**"). Each Debenture is convertible, at the holder's option, into Class A Common Shares at any time prior to the earlier of the business day immediately preceding the Maturity Date and the business day immediately preceding any date fixed for redemption by the Corporation at a conversion price of \$0.25 per Class A Common Share (the "**Conversion Price**"). The Conversion Price shall be subject to standard anti-dilution adjustments. Prior to the Maturity Date, and after September 30, 2017, the Corporation may: (a) redeem the Debentures through payment of the outstanding principal and any accrued and unpaid interest; and/or (b) force the conversion of the Debentures if the 20 day weighted average volume trading price of the Class A Common Shares is no less than \$0.40.

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The Debentures are compound financial instruments and have been classified as debt (net of issuance costs) with the residual value allocated, representing the conversion feature, to shareholders' equity. The fair value of the debt portion of the Debentures was determined by discounting the future cash flows using an interest rate for a similar debt instrument without a conversion feature, estimated to be 18% per annum. The issuance costs will be amortized over the term of the Debentures and the debt portion will accrete to the principle balance at maturity. The accretion of issuance costs and the interest paid are expensed on the statement of loss and comprehensive loss.

Debt component, April 30, 2016	\$ 1,379,516
Accretion of convertible debenture (note 13)	168,272
Debt component, April 30, 2017	\$ 1,547,788
Accretion of convertible debentures (note 13)	168,273
Debt component, April 30, 2018	\$ 1,716,061
Equity component, April 30, 2017 and 2018	\$ 458,266

9. Decommissioning provisions

The Corporation's decommissioning provisions result from its ownership interest in oil and natural gas assets including well sites and gathering systems. The total decommissioning provision is estimated based on the Corporation's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The total estimated, inflated undiscounted risked cash flows required to settle the provisions, before considering salvage, is approximately \$476,600 at April 30, 2018 (2017 - \$289,000), which has been discounted using a weighted average risk-free rate of approximately 2.0% at April 30, 2018 (2017 - 1.4%). These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to 11 years into the future and will be funded from general corporate resources at the time of abandonment.

The following table summarizes changes in the decommissioning provisions for the years ended April 30, 2018 and 2017:

	April 30, 2018	April 30, 2017
Decommissioning provisions, beginning of the year	\$ 257,280	\$ 107,820
Accretion (unwinding of discount)	7,900	5,460
Additions (note 7)	148,136	144,000
Change in estimate (note 7)	(18,356)	-
Decommissioning provisions, end of year	\$ 394,960	\$ 257,280

The change in estimate is primarily due to an increase in the risk-free discount rate from 2017 to 2018.

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10. Share capital and warrants

- (a) Authorized
 Unlimited number of voting Class A and non-voting Class B common shares
 Unlimited number of voting Class C, and non-voting Class D and E preferred shares
- (b) Issued common shares

Class A common shares issued and outstanding	Number of shares	Stated Value
Balance, April 30, 2017 and 2016	36,108,451	\$ 15,166,660
Common shares cancellation ⁽¹⁾	(1,058,000)	(444,640)
Warrants exercised	550,965	215,609
Balance, April 30, 2018	35,601,416	\$ 14,937,629

(1) On August 4, 2017, the Corporation entered into a securities exchange agreement with TERIC and the Corporation's directors. The agreement resulted in the redemption of 1,058,000 common shares held by TERIC (note 5). The excess of the stated value of the redeemed shares of \$444,640 over the consideration paid of \$132,333, through the forgiveness of the loan receivable, was credited to contributed surplus.

- (c) Warrants

The following table summarizes information about the Corporation's Class A common share purchase warrants:

Class A common share purchase warrants outstanding			
	Number of Share purchase warrants	Weighted average exercise price	Warrant Assigned Value
Balance, April 30, 2016	8,132,743	\$ 0.22	\$ 862,985
Warrant life extension (note 10(d))	-	-	109,603
Expired	(1,538,000)	0.25	(48,440)
Balance, April 30, 2017	6,594,743	\$ 0.21	\$ 924,148
Warrant life extension (note 10(d))	-	-	101,906
Expired	(1,473,833)	0.25	(46,403)
Exercised	(550,965)	0.20	(105,416)
Balance, April 30, 2018	4,569,945	\$ 0.20	\$ 874,235

- (d) Warrant life extension

During the year ended April 30, 2018, the expiry date of 5,120,910 (2017 – 5,120,910) warrants were extended (2017 – twice) with the new expiry date being June 30, 2018. The fair value of these warrants extensions, using the Black-Scholes option-pricing model, assuming 90% (2017 – 90%) volatility, 1.15% (2016 – 1.15%) interest rate, less the remaining fair value of the warrants at the time of extensions totalled \$101,906 (2017 - \$109,603) and was added to the warrants and included in stock-based compensation expense.

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(e) Warrants issued on common share financing

On September 16, October 30, November 30, 2015, and March 29, 2016, the Corporation completed non-brokered private placements of 2,976,000 Units (the "Unit"), 1,744,666, 432,000, and 871,000 Units respectively at a price of \$0.15 per Unit. Each Unit consists of one common share of the Corporation (the "Common Share") and one half of one Common Share purchase warrant (the "Warrant"). Each whole Warrant is exercisable for one Common Share at a price of \$0.25 for a period of 18 months following the closing of this financing. The fair value of the Warrants was estimated to be \$0.03 per Warrant, calculated based on the Black-Scholes-option-pricing model, assuming a share value of \$0.13, 90% volatility, 0.50% interest rate, expected life of 18 months and no dividends paid.

The remaining 1,473,833 warrants expired unexercised during the year ended April 30, 2018.

11. Stock-based compensation

(a) Stock option plan

The Corporation has established a stock option plan that covers all officers, directors, employees and consultants of the Corporation (the "Plan"). The Plan is administered by the Board of Directors who determines to whom options should be granted, including the terms and the vesting periods of the options. The aggregated number of common shares issuable upon the exercise of all options granted under the Plan shall not exceed 10% of the issued and outstanding common shares of the Corporation at any given time. No one person can receive options within a one-year period entitling the person more than 5% of issued common shares. Under the Plan, stock options have a maximum ten-year term and normally vest over a two-year period and have an exercise price based on the then market price of the Corporation's shares.

The following options have been awarded under the stock option plan:

	Year ended April 30, 2018		Year ended April 30, 2017	
	Number	Exercise Price	Number	Exercise Price
Outstanding, beginning of year	1,245,000	\$ 0.10	1,245,000	\$ 0.10
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding	1,245,000	\$ 0.10	1,245,000	\$ 0.10
Exercisable	1,245,000	\$ 0.10	1,245,000	\$ 0.10

The following table summarizes the expiry terms and exercise prices of the Corporation's outstanding stock options as at April 30, 2018:

Date of grant	Date of Expiry	Outstanding Options	Weighted Average Remaining Contractual life (years)	Number of Stock Options Exercisable
August 24, 2012	August 24, 2022	1,245,000	4.3	1,245,000
		1,245,000	4.3	1,245,500

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(b) Stock-based compensation expense

Compensation costs of \$101,906 for the year ended April 30, 2018 (2017 - \$109,603) have been expensed. \$101,906 (2017 - \$109,603) of this relates to the extension to the expiry date of warrants and resulted in a corresponding increase in warrants as at April 30, 2018 (note 10(d)). \$Nil (2017 - \$Nil) of this relates to stock options.

12. General & Administrative ("G&A") expenses

For the years ended April 30,	2018	2017
Management consulting services	\$ 15,000	\$ 30,000
Professional fees	108,157	81,268
Shareholders services	14,634	34,769
Other	18,431	4,733
Total	\$ 156,222	\$ 150,770

13. Finance expense

	2018	2017
Interest on convertible debentures	\$ 166,430	\$ 148,490
Accretion on convertible debentures	168,273	168,272
Accretion of decommissioning provisions	7,900	5,460
Total	\$ 342,603	\$ 322,222

14. Loss per share

The following table summarizes the common shares used in calculating earnings (loss) per share:

Outstanding Weighted Average Common Shares	2018	2017
Basic	35,374,555	36,108,451
Diluted	35,374,555	36,108,451

No convertible debentures, stock options, share purchase warrants or broker warrants have been included in the calculation of diluted shares outstanding as their inclusion would be anti-dilutive.

15. Related party transactions

- (i) During the year ended April 30, 2018, the Corporation incurred a total of \$59,251 (2017 - \$67,033) related to legal services to a law firm in which a director of the Corporation was a partner during the year. Of these costs \$59,251 (2017 - \$67,033) were recorded to general and administrative expenses \$Nil (2017 - \$Nil) to share issuance costs and \$Nil (2017 - \$Nil) to debenture issuance costs. As at April 30, 2018, \$17,056 (2017 - \$20,000) of the amount above was included in accounts payable and accrued liabilities.
- (ii) During the year ended April 30, 2018, the Corporation incurred a total of \$15,000 (2017 - \$30,000) related to consulting services to a firm in which an officer of the Corporation is an owner. These costs were recorded to general and administrative expenses. As at April 30, 2018, \$8,000 (2017 - \$15,000) of the amount above was included in accounts payable and accrued liabilities.

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- (iii) During the year ended April 30, 2018, the Corporation earned \$19,975 (2017 - \$NIL) of interest income on loans receivable from directors totalling \$235,000 (note 5) of which \$14,759 (2017 - \$NIL) is in accounts receivable at April 30, 2018.
- (iv) During the year ended April 30, 2018, the Corporation incurred \$19,975 (2017 - \$NIL) of cash interest expense and \$20,196 (2017 - \$NIL) of non-cash accretion expense on convertible debentures held by directors (note 8) of which \$1,665 (2017 - \$NIL) remains in accounts payable and accrued liabilities at April 30, 2018.
- (v) The remuneration of key management personnel of the Corporation, which includes all directors of the Corporation, along with the President, Chief Executive Officer and Chief Financial Officer is detailed below:

For the years ended April 30,	2018	2017
Consulting fees	\$ 15,000	\$ 30,000
Stock based compensation ⁽¹⁾	-	-
	\$ 15,000	\$ 30,000

⁽¹⁾ Includes the amortization of share-based compensation expense recorded in the financial statements.

16. Income taxes

Income tax recovery differs from that which would be expected from applying the combined effective Canadian federal and provincial tax rate of 27.00 percent (2016 – 27.00 percent) to loss before income taxes as follows:

For the years ended April 30,	2018	2017
Loss before income taxes	\$ (547,654)	\$ (814,478)
Combined federal and provincial income tax rates	27.00%	27.00%
Expected income tax recovery	(147,867)	(219,909)
Differences resulting from:		
Statutory rate changes and other rate differences	135,894	(70,374)
Non-deductible stock-based compensation	27,515	29,593
Tax assets not recognized	(15,542)	260,690
Deferred income tax recovery	\$ -	\$ -

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The components of the deferred income tax asset at April 30, 2018 and April 30, 2017 are as follows:

For the years ended April 30,	2018	2017
Temporary differences related to exploration and evaluation assets and decommissioning provisions	\$ (1,252,988)	\$ (1,225,568)
Convertible debentures	65,324	110,757
Loss carry-forwards	(1,091,692)	(1,160,408)
Share issue costs	(29,196)	(48,875)
	(2,308,552)	(2,324,094)
Deferred tax asset not recognized	2,308,552	2,324,094
	\$ -	\$ -

The Corporation has non-capital loss carry-forwards of \$4,043,302 available to reduce future years' income for tax purposes. The non-capital loss carry-forwards expire between 2026 and 2038.

As at April 30, 2018, the Corporation had cumulative income tax deductions with no expiry of approximately \$5,319,322 in addition to the loss carry-forwards noted above, available to reduce future taxable income.

The benefits relating to these tax deductions have been reflected in these financial statements only to the extent required to bring the deferred tax liability to nil.

Corporate tax returns and other filings are subject to audit and reassessment by taxation authorities. The results of any reassessment will be accounted for in the year in which they are determined.

17. Subsequent events

Subsequent to April 30, 2018, 626,000 of the Corporation's common share warrants were exercised at \$0.20 per warrant for total gross proceeds of \$125,200.

Subsequent to April 30, 2018, 3,943,945 warrants expired unexercised.

Subsequent to April 30, 2018 the Corporation and Drakkar announced that they have entered into a non-binding letter of intent dated July 3, 2018 for a proposed transaction between the two companies. The proposed transaction contemplates that the Corporation and Drakkar will enter into a business combination whereby each Drakkar shareholder would receive one common share of the post transaction entity for each one Class A common share of Drakkar. Each common shareholder of the Corporation would receive one common share of the post transaction entity for each 3.25 common shares. Blacksteel currently has 36,227,416 Common Shares issued and outstanding and Drakkar will have approximately 21,114,040 Drakkar Common Shares outstanding immediately before completion of the transaction which would result in Blacksteel shareholders owing approximately 34.55% of the combined entity. The proposed transaction is an arm's length transaction.