

Blacksteel Energy Inc.
FINANCIAL STATEMENTS
For the Years Ended
April 30, 2019 and 2018

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.

RSM Alberta 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, 2019

RSM Alberta LLP

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Independent Auditor's Report

To the Shareholders of
Blacksteel Energy Inc.

Opinion

We have audited the financial statements of Blacksteel Energy Inc. (the "Corporation"), which comprise the balance sheets as at April 30, 2019 and the statements of loss and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at April 30, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to note 2(a) of the financial statements, which indicates that the Corporation incurred a loss of \$409,960 during the year ended April 30, 2019 and had a working capital deficiency of \$1,594,397 at April 30, 2019. As stated in note 2(a), these events or conditions indicate that a material uncertainty exists that may cast doubt on the Corporation's ability to continue as a going concern. Our opinion is not modified in this matter.

Other Matter

The financial statements of the Corporation for the year ended April 30, 2018 were audited by another firm of chartered professional accountants who expressed an unqualified opinion on those financial statements on August 28, 2018.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Kirk Roworth.

RSM Alberta LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Calgary, Canada
August 28, 2019

Blacksteel Energy Inc.

Balance Sheets

(Amounts in Canadian Dollars)

	Notes	April 30, 2019	April 30, 2018
Assets			
Current assets			
Cash		\$ 29,162	\$ 100,660
Accounts receivable	4(b)	24,641	28,755
Deposits and prepaid expenses		30,037	30,037
Loans receivable	5	512,000	400,000
Total current assets		595,840	559,452
Loans receivable	5	-	235,000
Exploration and evaluation assets	7	66,127	-
Property and equipment	8	1,110,944	965,452
Total assets		\$ 1,772,911	\$ 1,759,904
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	4(d)	\$ 305,903	\$ 78,767
Convertible debentures	9	1,884,334	-
		2,190,237	78,767
Non-current liabilities			
Convertible debentures	9	-	1,716,061
Decommissioning provisions	10	390,318	394,960
Total non-current liabilities		390,318	2,111,021
Total liabilities		2,580,555	2,189,788
Shareholders' Equity			
Share capital	11(b)	\$ 15,182,583	\$ 14,937,629
Warrants	11(c)	-	874,235
Contributed surplus		5,014,755	4,260,274
Equity component of convertible debentures	9	458,266	458,266
Deficit		(21,463,248)	(20,960,288)
Total shareholders' deficit		(807,644)	(429,884)
Total liabilities and shareholders' equity		\$ 1,772,911	\$ 1,759,904

Going concern (note 2(a))

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	2019	2018
Revenue			
Oil revenue		\$ 509,318	\$ 535,700
Less: Royalty Expenses		179,313	172,687
Net revenue		330,005	363,013
Expenses			
Production, operating and transportation		236,437	263,979
General and administrative expenses	13	133,017	156,222
Stock-based compensation	12(b)	-	101,906
Depletion and depreciation	8	93,790	110,423
Exploration and evaluation expenses		-	-
Total expenses		463,244	632,530
Operating loss		(133,239)	(274,791)
Loan receivable impairment	5(a)	-	(5,274)
Finance income, being interest		66,317	69,740
Finance expense	14	(343,038)	(342,603)
Income (loss) before tax		(409,960)	(547,654)
Income tax expense		-	-
Loss and comprehensive loss for the year		\$ (409,960)	\$ (547,654)
Loss per share			
Basic and diluted	15	\$ (0.01)	\$ (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, 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	11(c)	-	-	(1,473,833)	(46,403)	46,403	-	-	-
Extension of warrants life	11(d)	-	-	-	101,906	-	-	-	101,906
Exercise of warrants	11(b), 11(c)	550,965	215,609	(550,965)	(105,416)	-	-	-	110,193
Cancellation of common shares	11(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	4,569,045	\$ 874,235	\$ 4,260,274	\$ 458,266	\$(20,960,288)	\$ (429,884)
Expiry of warrants	10(c)	-	-	(3,943,945)	(754,481)	754,481	-	-	-
Exercise of warrants	10(b), 10(c)	626,000	244,954	(626,000)	(119,754)	-	-	-	125,200
Effect of IFRS 9 adoption	5	-	-	-	-	-	-	(93,000)	(93,000)
Loss for the year		-	-	-	-	-	-	(409,960)	(409,960)
Balance, April 30, 2019		36,227,416	\$ 15,182,583	-	\$ -	\$ 5,014,755	\$ 458,266	\$(21,463,248)	\$ (807,644)

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	2019	2018
Cash provided by (used in):			
Cash flows from operating activities:			
Loss for the year		\$ (409,960)	\$ (547,654)
Adjustments for:			
Non-cash finance expenses	14	176,603	176,173
Loan receivable impairment	5	-	5,294
Stock-based compensation	12(b)	-	101,906
Depletion and depreciation	8	93,790	110,423
Changes in non-cash working capital	6	(81,120)	(53,457)
Net cash used in operating activities		(220,687)	(207,315)
Cash flows from investing activities:			
Receipt of loan receivable	5	30,000	-
Expenditures on exploration and evaluation assets	7	(66,127)	-
Expenditures on property and equipment	8	(252,254)	(54,188)
Changes in non-cash working capital	6	312,370	(5,915)
Net cash used in investing activities		23,989	(60,103)
Cash flows from financing activities:			
Proceeds from warrant exercise	11(b), 11(c)	125,200	110,193
Change in non-cash working capital	6	-	7,953
Net cash used in financing activities		125,200	118,146
Change in cash		(71,498)	(149,272)
Cash, beginning of year		100,660	249,932
Cash, end of year		\$ 29,162	\$ 100,660
Interest paid		\$ 166,435	\$ 158,477
Interest received		\$ 60,306	\$ 59,748

See accompanying notes to the financial statements.

Blacksteel Energy Inc.

Notes to the Financial Statements

For the years ended April 30, 2019 and 2018

(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, 2019.

2. Basis of preparation

(a) Statement of compliance and going concern

These financial statements present Blacksteel's financial position as at April 30, 2019, and April 30, 2018 and financial performance for the years ended April 30, 2019 and 2018. They have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**").

Going concern

The Corporation had working capital deficit at April 30, 2019 of \$1,594,397 (2018 – surplus of \$480,685), and has incurred net losses and negative cash flow from operating activities in the years ended April 30, 2019 and 2018. 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. In addition, the Corporation's convertible debentures (note 9) with a face value of \$1,958,000 mature on September 30, 2019. The Corporation does not currently have the resources to pay out these debentures on maturity if they are not converted into shares by the holders. The Corporation is currently pursuing alternatives to address these concerns including pursuing a previously announced reverse takeover transaction with a private energy company ("Drakkar"), as well as entering into dialog with debenture holders to either convert to common shares prior to maturity or extend the maturity date of the convertible debentures. There is no guarantee the Corporation will be successful in these endeavours. During the year, 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 of Blacksteel which would result in the shareholders of Drakkar controlling the combined entity. The Corporation is still actively pursuing this transaction. 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 a historical cost basis, except for certain financial assets and liabilities which are measured at fair value.

Blacksteel Energy Inc.
Notes to the Financial Statements
For the years ended April 30, 2019 and 2018
(Amounts in Canadian dollars)

(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.

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, judgements 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 at the time of issuance.

Blacksteel Energy Inc.
Notes to the Financial Statements
For the years ended April 30, 2019 and 2018
(Amounts in Canadian dollars)

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 loans receivable

The expected credit loss model requires the recognition of credit losses based on up to 12 months of expected losses for performing loans and the recognition of lifetime expected losses on performing loans that have experienced a significant increase in credit risk since origination as well as loans that are in default. The determination of a significant increase in credit risk takes into account many different factors and varies for each individual loan. The main factors considered in making this determination are expected change in performance on the borrower since origination, which would have an impact on the borrower's probability of default. The assessment of a significant increase in credit risk requires experienced credit judgment. In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses, the Corporation must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses.

Due to the nature of provisions, a considerable part of their determination is based on estimates and judgments, including assumptions concerning the likelihood of future events occurring. The actual outcome of these uncertain events may be materially different from provisions recorded on the Corporation's financial statements. With regard to the expected credit loss provision, management exercises judgment to determine the probability of default, the loss given default and the exposure at default (note 3(n) Financial Instruments - *Forward Looking Information*).

Valuation of accounts receivable

Certain amounts included in accounts receivable are based on management's best estimate of the twelve month or lifetime expected credit loss related to these accounts.

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 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.

Blacksteel Energy Inc.
Notes to the Financial Statements
For the years ended April 30, 2019 and 2018
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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 consist of amounts on deposit with a major Canadian bank and in trust with a major law firm. 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.

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.

Blacksteel Energy Inc.
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(Amounts in Canadian dollars)

(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.

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, including exploration and evaluation, and property and equipment, 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.

Blacksteel Energy Inc.
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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 to sell 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 to sell 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.

(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.

Blacksteel Energy Inc.
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(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.

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.

Blacksteel Energy Inc.
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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

(i) Change in accounting policy

On May 1, 2018, the Company adopted IFRS 15, "Revenue from Contracts with Customers". IFRS 15 replaces the existing revenue recognition guidance with a single comprehensive accounting model. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. The Company has adopted IFRS 15 using a modified retrospective approach. In its modified retrospective application of IFRS 15, the Company applied a practical expedient that allows the Company to avoid re-considering the accounting for sales contracts that were completed prior to May 1, 2018 and were accounted for under its previous revenue accounting policy. As a result of the adoption of IFRS 15, no changes to the Company's comparative consolidated financial statements were required. IFRS 15 did not have any impact on the statement of loss and comprehensive loss for the year ended April 30, 2019, or its balance sheet as at April 30, 2019.

(ii) Policy

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 before royalties to governments or other mineral interest owners.

(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, accretion of the discount on decommissioning provisions and impairment charges on loans receivable.

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.

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(k) Stock-based compensation

The Corporation has a Stock Option Plan as described in note 12 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.

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 and accounted for at 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.

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(n) Financial instruments

(i) *Change in accounting policy*

Effective May 1, 2018, the Corporation adopted *IFRS 9 Financial Instruments*. As permitted by the transition provisions of IFRS 9, the corporation elected to use the "modified retrospective approach" not restate the comparative period results. Accordingly, any adjustments to the carrying amounts of financial assets or liabilities at the date of transition were recognized in deficit at May 1, 2018 being the date of initial application. See "Expected credit losses" section of note 5 for the quantitative impact of the transition.

(ii) Classification and measurement of financial instruments

Under IFRS 9, financial assets are measured at initial recognition at fair value, and are classified and subsequently measured at amortized cost, fair value through profit or loss or fair value through other comprehensive income. Financial liabilities are measured at initial recognition at fair value, and are classified and subsequently measured at amortized cost, or fair value through profit or loss.

Financial assets are subsequently measured at amortized cost if the contractual terms of the instrument give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding and it is held within a business model whose objective is to hold assets to collect contractual cash flows. This includes accounts receivable, and loans receivable.

Financial liabilities that are subsequently measured at amortized cost include accounts payable and accrued liabilities and convertible debentures.

The adoption of IFRS 9 required the following reclassification of financial assets and liabilities:

	IFRS 9	IAS 39
Cash	Amortized Cost	Fair value through profit or loss
Accounts receivable	Amortized Cost	Amortized Cost
Loans receivable	Amortized Cost	Amortized Cost
Accounts payable and accrued liabilities	Amortized Cost	Amortized Cost
Convertible debentures	Amortized Cost	Amortized Cost

Expected Credit Losses

The expected credit loss model will result in an allowance for credit losses being recorded on financial assets subsequently measured at amortized cost regardless of whether there has been an actual loss event. This differs from the previous approach where the allowance recorded was designed to capture only losses that were incurred. The most significant impact of the expected credit loss model is on the Corporation's loans receivable. The impact of accounts receivable was determined to be insignificant. The expected credit loss impairment model applies a three-stage approach to measure the allowance for credit losses:

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- Stage 1 - For loans where credit risk has not increased significantly, an impairment is recognized equal to the credit losses expected to result from defaults occurring over the following twelve months.
- Stage 2 - For loans where credit risk has increased significantly, an impairment is recognized equal to the credit losses expected to result from defaults occurring over the life of the loan.
- Stage 3 - For loans which are credit impaired, a loss allowance is recognized equal to the expected lifetime credit loss of the loan.

The calculation of expected credit losses is based on the expected value of multiple probability-weighted scenarios to measure the expected cash shortfalls, discounted at the effective interest rate. A cash shortfall is the difference between the contractual cash flows that are due and the cash flow that the Corporation expects to receive. The key inputs in the measurement of expected credit losses are as follows:

- the probability of default (PD) is an estimate of the likelihood of default over a given time horizon
- the loss given default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time
- the exposure at default (EAD) is an estimate of the exposure at a future default date

Twelve-month expected credit losses are measured using the probability that default will occur within 12 months after the reporting date. Lifetime expected credit losses are measured using the probability that default will occur between now and the maturity of the loan.

Significant increase in credit risk

At each balance sheet date, the Corporation assesses whether a significant increase in credit risk (SICR) has taken place since initial recognition of the loan to determine the migration of loans from stage 1 to stage 2. In assessing whether credit risk has increased significantly, the Corporation considers the following factors:

- whether financial assets are considered to have low credit risk at the reporting date
- the risk of a default occurring on the financial asset as at the reporting date is compared with the risk of a default occurring on the financial asset as at the date of initial recognition
- qualitative information available as at the reporting date
- days past due
- existing default events

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Forward looking information

The measurement of expected credit losses for each stage of the allowance for credit losses and the assessment of SICR considers information about reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

The Corporation incorporates forward-looking information into its measurement of expected credit losses by using a base case forecast as well as multiple probability weighted, forward-looking scenarios. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements.

Fair value measurement

All financial instruments measured at fair value are classified into three fair value hierarchy levels as follows:

- Level 1: valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;
- Level 2: valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived from or corroborated by observable market data by correlation or other means; and
- Level 3: valuation techniques with significant unobservable market inputs.

The Corporation will transfer financial instruments into or out of levels in the fair value hierarchy to the extent the instrument no longer satisfies the criteria for inclusion in the category in question. Level 3 valuations are prepared by the Corporation and reviewed and approved at each reporting date. Valuation results, including the appropriateness of model inputs, are compared to actual market transactions to the extent readily available.

(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.

(o) Accounting pronouncements not yet adopted

New accounting standards, amendments to accounting standards and interpretations effective for annual periods beginning on or after May 1, 2019 are as follows:

In January 2016, the IASB issued IFRS 16, "Leases" to replace IAS 17, "Leases". Under IFRS 16, a single recognition and measurement model will apply for lessees, which will require recognition of assets and liabilities for most leases. IFRS 16 is effective for years beginning on or after January 1, 2019. The standard is required to be adopted either retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect of IFRS as an adjustment to opening retained earnings and applies the standard prospectively. On

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May 1, 2019, the Corporation will adopt IFRS 16 and plans to use the modified retrospective approach.

On adoption, the Corporation currently intends on applying the following practical expedients permitted under the standard. Some expedients are available on a lease-by-lease basis, while others are applicable by class of underlying asset.

- The Corporation will exclude initial direct costs from the measurement of the right-of-use asset of transition for any leases with associated initial direct costs.
- Short-term leases (less than 12 months remaining on transition) and leases of low value assets that have been identified at May 1, 2019, will not be recognized on the balance sheet. Payments for these leases will be disclosed in the notes to the financial statements.

The Company has completed an initial assessment but not yet finalized the potential impact on its consolidated financial statements. The full impact of applying IFRS 16 on the financial statements in the period of initial application will depend on multiple factors and conditions, including but not limited to, the Company's borrowing rate at May 1, 2019, the composition of the Company's lease portfolio at that date and the Company's latest assessment of whether it will exercise any lease renewal or termination options.

Thus far, the Corporation has not identified any significant impacts relating to the adoption of the new standard. The Corporation continues to review all existing contracts in detail. The full extent of the impact has not yet been determined.

4. Financial instruments and risk management

(a) Fair Values

The fair values of cash, accounts receivable, and accounts payable and accrued liabilities approximate their carrying value due to the short term maturity of these instruments. The fair value of loans receivable approximates its carrying value as it has been written down to its approximate fair value using the expected credit loss model. The fair value of convertible debentures approximates its carrying value due to the short-term until maturity and 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 in note 3 (n).

The fair value of the convertible debentures liability is 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) Financial Risks

The Corporation is exposed to financial risks arising from its financial assets and liabilities. 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, 2019, the maximum exposure to credit risk was \$595,840 (April 30, 2018 - \$794,452) being the carrying value of its cash, accounts receivable, deposits 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, 2019 and 2018. The Corporation considers all receivables greater than 90 days to be past due. There were no past due receivables as at April 30, 2019 and 2018.

The loans receivable are receivable from the Corporation's joint venture partner as part of its working interest acquisition in Girouxville oil and gas assets in a prior year as well as from the Corporation's directors (note 5). The joint venture partner loan is secured by a further working interest in the Girouxville assets.

As at April 30, 2019, and 2018 the Corporation's accounts receivable were comprised of the following:

	April 30, 2019	April 30, 2018
Joint Venture	\$ -	\$ 13,896
Goods and Services Tax	3,870	-
Interest	20,771	14,859
Total	\$ 24,641	\$ 28,755

c) 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, 2019 and 2018. 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, 2019 and 2018, 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.

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, 2019 or 2018.

(d) **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. The Corporation currently has a negative working capital position and its convertible debentures mature on September 30, 2019 as further discussed in note 2(a).

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

	April 30, 2019	April 30, 2018
Trade	\$ 292,032	\$ 64,898
Interest	13,871	13,869
Total	\$ 305,903	\$ 78,767

The Corporation's convertible debentures with a face amount of \$1,958,000 (note 5) mature September 30, 2019.

(e) **Capital Management**

The Corporation considers its capital structure to include shareholders' equity 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 minimal 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, 2019 or 2018.

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

	April 30, 2019	April 30, 2018
Shareholders' equity (deficiency)	\$ (807,644)	\$ (429,884)
Long-term debt	-	1,716,061
Capital	\$ (807,644)	\$ 1,286,177

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

5. Loans receivable

(a) Directors' Loans

The Corporation loaned, an unrelated private company ("TERIC") \$610,000 during the year ended April 30, 2016 which bore interest at 8.5% per annum which 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 at \$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 similar terms (i.e. 8.5% interest, unsecured and due September 30, 2019) 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 and additional \$5,274 was included in impairment charges on the cancellation date during the year ended April 30, 2018.

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(b) Drakkar Loan

In connection with the acquisition of a 30% interest in the Girouxville oil and gas assets, Blacksteel also provided a \$400,000 loan to Drakkar Energy Ltd. ("Drakkar") to assist in the purchase of the remaining 70% interest in the assets. The loan matured 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 (14% overall working interest). The loan was not repaid at maturity, and is now effectively a demand loan. In the year ended April 30, 2019, \$30,000 (2018 - \$NIL) of the principal balance was repaid. Subsequent to April 30, 2019, an additional repayment of \$26,000 was received.

(c) Loans Continuity

	2019	2018
Directors' loans		
Balance, beginning and end of year	\$ 235,000	\$ 235,000
Drakkar loan		
Balance, beginning of year	\$ 400,000	\$ 400,000
Expected credit loss provision on adoption of IFRS 9	(93,000)	-
Repayments received	(30,000)	-
Balance, end of year	\$ 277,000	\$ 400,000
Total Loans Receivable	\$ 512,000	\$ 635,000
Current	\$ 512,000	\$ 400,000
Long-term	\$ -	\$ 235,000

(d) Expected Credit Losses

On transition to IFRS 9, a stage 3 ECL provision of \$93,000 was recorded related to the Drakkar loan through retained earnings under the transitional provision of IFRS 9. May 1, 2018, the Corporation performed a comprehensive review of each loan subsequently measured at amortized cost to determine the requirement for an ECL provision.

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The changes in expected credit loss provisions are as follows:

	2019	2018
Provision, beginning of year	\$ -	\$ -
Transitional adjustment	93,000	-
Revised provision, beginning of year	93,000	-
Expected credit loss	-	-
Provision at end of year	\$ 93,000	\$ -

6. Supplemental cash flows information

Changes in non-cash working capital is comprised of:

	April 30, 2019	April 30, 2018
Source/(use) of cash:		
Accounts receivable	\$ 4,114	\$ (4,625)
Prepaid expenses and deposits	-	(20,061)
Accounts payable and accrued liabilities	227,136	(26,733)
	\$ 231,250	\$ (51,419)
Related to operating activities	\$ (81,120)	\$ (53,457)
Related to investing activities	312,370	(5,915)
Related to financing activities	-	7,953
Changes in non-cash working capital	\$ 231,250	\$ (51,419)

Cash is comprised of balances on deposit with a bank.

7. Exploration and Evaluation Assets

	2019	2018
Balance, beginning of year	\$ -	\$ -
Additions	66,127	-
Balance, end of year	\$ 66,127	\$ -

Exploration and evaluation assets consist of the Corporation's exploration projects for which proved and/ or probable reserves have not been determined.

Management assesses at each reporting date whether there is any objective evidence that the carrying value of the exploration and evaluation assets may be impaired. At April 30, 2019 management concluded that no indicators of impairment were present. In conducting this review management considered lease expiry dates commodity prices, and management intentions for development.

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8. 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
Cost	interests
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
Additions	252,254
Change in decommissioning liabilities estimate (note 9)	(12,972)
Balance, April 30, 2019	\$ 1,327,119
Accumulated depletion and depreciation	
Balance, April 30, 2017	\$ 11,962
Depletion	110,423
Balance, April 30, 2018	\$ 122,385
Depletion	93,790
Balance, April 30, 2019	\$ 216,175
Net book value	
Balance, April 30, 2018	\$ 965,452
Balance, April 30, 2019	\$ 1,110,944

Depletion

Future development costs of \$4,849,000 (2018 - \$5,191,000) 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, 2019.

Impairment

The Corporation assesses many factors when determining if an impairment test should be performed. For the year ended April 30, 2019, 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 15%. There was no impairment loss required for the CGU for the year ended April 30, 2019. 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, 2019.

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The forecasted commodity prices used in the impairment test at April 30, 2019 were as follows (CDN \$/bbl):

	Remainder 2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2028 and thereafter
Edmonton Light Sweet Crude	72.00	72.73	75.95	79.38	83.13	86.88	89.38	91.88	94.17	96.20	+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.

9. 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.

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, 2017	\$ 1,547,788
Accretion of convertible debenture (note 13)	168,273
Debt component, April 30, 2018	\$ 1,716,061
Accretion of convertible debentures (note 13)	168,273
Debt component, April 30, 2019	\$ 1,884,334
Equity component, April 30, 2018 and 2019	\$ 458,266

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10. 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 \$462,000 at April 30, 2019 (2018 - \$476,000), which has been inflated at 1.63% (2018 – 2%) and discounted using a weighted average risk-free rate of 2.11% at April 30, 2019 (2018 – 2.0%). 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, 2019 and 2018:

	April 30, 2018	April 30, 2017
Decommissioning provisions, beginning of the year	\$ 394,960	\$ 257,280
Accretion (unwinding of discount)	8,330	7,900
Additions (note 7)	-	148,136
Change in estimate (note 7)	(12,972)	(18,356)
Decommissioning provisions, end of year	\$ 390,318	\$ 394,960

11. 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	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
Warrants exercised	626,000	244,954
Balance, April 30, 2019	36,227,416	\$ 15,182,583

⁽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. 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.

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(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, 2017	6,594,743	\$ 0.21	\$ 924,148
Warrant life extension (note 8(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
Expired	(3,943,945)	0.20	(754,481)
Exercised	(626,000)	0.20	(119,754)
Balance, April 30, 2019	-	\$ -	\$ -

(d) Warrant life extension

During the year ended April 30, 2018, the expiry date of 5,120,910 warrants were extended 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% volatility, 1.15% interest rate, less the remaining fair value of the warrants at the time of extensions totalled \$101,906 and was added to the warrants and included in stock-based compensation expense.

12. 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.

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

	Year ended April 30, 2019		Year ended April 30, 2018	
	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, 2019:

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	3.3	1,245,000
		1,245,000	3.3	1,245,500

(b) Stock-based compensation expense

Compensation costs of \$NIL for the year ended April 30, 2019 (2018 - \$101,906) have been expensed. \$NIL (2018 - \$101,906) 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)) and \$Nil (2018 - \$Nil) relates to stock options.

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

	2019	2018
Management consulting services	\$ 19,375	\$ 15,000
Professional fees	93,562	108,157
Shareholders services	13,036	14,634
Other	7,044	18,431
Total	\$ 133,017	\$ 156,222

14. Finance expense

	2019	2018
Interest on convertible debentures	\$ 166,435	\$ 166,430
Accretion on convertible debentures	168,273	168,273
Accretion of decommissioning provisions	8,330	7,900
Total	\$ 343,038	\$ 342,603

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15. Loss per share

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

Outstanding Weighted Average Common Shares	2019	2018
Basic	36,201,690	35,374,555
Diluted	36,201,690	35,374,555

No convertible debentures, stock options, share purchase warrants or broker warrants have been included in the calculation of diluted shares outstanding in 2019 and 2018 as their inclusion would be anti-dilutive.

16. Related party transactions

- (i) During the year ended April 30, 2019, the Corporation incurred a total of \$35,392 (2018 - \$59,251) related to legal services to law firms in which a director of the Corporation was a partner during the year. Of these costs \$35,392 (2018 - \$59,251) were recorded to general and administrative expenses. As at April 30, 2019, \$20,037 (2018 - \$17,056) of the amount above was included in accounts payable.
- (ii) During the year ended April 30, 2019, the Corporation incurred a total of \$19,375 (2018 - \$15,000) 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, 2019, \$8,000 (2018 - \$8,000) of the amount above was included in accounts payable.
- (iii) During the year ended April 30, 2019, the Corporation earned \$19,975 (2018 - \$19,975) of interest income on loans receivable from directors totalling \$235,000 (note 5) of which \$13,316 (2018 - \$14,759) is in accounts receivable at April 30, 2019.
- (iv) During the year ended April 30, 2019, the Corporation incurred \$19,975 (2018 - \$19,975) of cash interest expense and \$20,196 (2018 - \$20,196) of non-cash accretion expense on convertible debentures held by directors (note 9) of which \$1,665 (2018 - \$1,665) remains in accounts payable and accrued liabilities at April 30, 2019.
- (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:

	2019	2018
Consulting fees	\$ 19,375	\$ 15,000
	\$ 19,375	\$ 15,000

17. 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:

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	2019	2018
Loss before income taxes	\$ (409,960)	\$ (547,654)
Combined federal and provincial income tax rates	27,001	27.00%
Expected income tax recovery	(110,689)	(147,867)
Differences resulting from:		
Statutory rate changes and other	-	135,894
Non-deductible stock-based compensation	-	27,515
Tax assets not recognized	110,689	(15,542)
Deferred income tax recovery	\$ -	\$ -

The components of the deferred income tax asset at April 30, 2019 and April 30, 2018 are as follows:

	2019	2018
Temporary differences related to exploration and evaluation assets, property and equipment and decommissioning provisions	\$ (1,282,784)	\$ (1,252,988)
Convertible debentures	19,889	65,324
Loss carry-forwards	(1,141,748)	(1,091,692)
Share issue costs	(14,598)	(29,196)
	(2,419,241)	(2,308,552)
Deferred tax asset not recognized	2,419,241	2,308,552
	\$ -	\$ -

The Corporation has non-capital loss carry forwards of \$4,236,935 available to reduce future year's income for tax purposes. The non-capital loss carry forwards expire between 2026 and 2039.

As at April 30, 2019, the Corporation has cumulative income tax deductions with no expiry of approximately \$5,583,637 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.