

Blacksteel Energy Inc.
Condensed Interim Financial Statements
For the three months ended July 31, 2019 and 2018
(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying unaudited condensed interim financial statements of Blacksteel Energy Inc. have been prepared by management and the Audit Committee and Board of Directors have approved them for issuance. Blacksteel Energy Inc.'s independent auditors have not performed a review of these unaudited condensed interim financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Blacksteel Energy Inc.
Condensed Interim Balance Sheets
(Amounts in Canadian Dollars)
(Unaudited)

	Notes	July 31, 2019	April 30, 2019
Assets			
Current assets			
Cash		\$ 40,492	\$ 29,162
Accounts receivable	3(b)	32,524	24,641
Deposits and prepaid expenses		30,037	30,037
Loans receivable	4	512,000	512,000
Total current assets		615,053	595,840
Exploration and evaluation assets	6	66,127	66,127
Property and equipment	7	1,101,490	1,110,944
Total assets		\$ 1,782,670	\$ 1,772,911
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	3(d)	\$ 360,240	\$ 305,903
Convertible debentures	8	1,928,533	1,884,334
		2,288,773	2,190,237
Non-current liabilities			
Decommissioning provisions	9	392,398	390,318
Total non-current liabilities		392,398	390,318
Total liabilities		2,681,171	2,580,555
Shareholders' deficiency			
Share capital	10(b)	15,182,583	15,182,583
Contributed surplus		5,014,755	5,014,755
Equity component of convertible debentures	8	458,266	458,266
Deficit		(21,554,105)	(21,463,248)
Total shareholders' deficiency		(898,501)	(807,644)
Total liabilities and shareholders' deficiency		\$ 1,782,670	\$ 1,772,911

Going concern (note 2(a))

See accompanying notes to the condensed interim financial statements.

Approved by the Board of Directors:

(signed) "Les Treitz"

(signed) "Chris Scase"

Les Treitz
CEO & Director

Chris Scase
Director

Blacksteel Energy Inc.**Condensed Interim Statements of Loss and Comprehensive Loss***(Amounts in Canadian dollars)**(Unaudited)*

		Three months ended July 31,	
	Notes	2019	2018
Revenue			
Oil revenue		\$ 107,375	\$ 192,066
Less: Royalty Expenses		32,539	74,539
Net revenue		74,836	117,527
Expenses			
Production, operating and transportation		59,495	79,595
General and administrative expenses	12	12,727	20,398
Depletion and depreciation	7	23,400	27,500
Total expenses		95,622	127,493
Operating loss		(20,786)	(9,966)
Finance income, being interest		17,818	11,440
Finance expense	13	(87,889)	(81,788)
Loss and comprehensive loss for the period		\$ (90,857)	\$ (80,314)
Loss per share			
Basic and diluted	14	\$ (0.00)	\$ (0.00)

See accompanying notes to the condensed interim financial statements.

Blacksteel Energy Inc.

Condensed Interim Statements of Changes in Shareholders' Equity Deficiency

(Amounts in Canadian dollars)

(Unaudited)

	Notes	Number of Class A shares	Class A share capital stated value	Number of warrants	Warrants stated value	Contributed surplus	Equity component of convertible debenture	Deficit	Total shareholders' deficiency
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)
Exercise of warrants	8(b), 8(c)	626,000	244,954	(626,000)	(119,754)	-	-	-	125,200
Expiry of warrants	8(c)	-	-	(3,943,945)	(754,481)	754,481	-	-	-
Effect of IFRS 9 adoption	4	-	-	-	-	-	-	(93,000)	(93,000)
Loss for the period		-	-	-	-	-	-	(80,314)	(80,314)
Balance, July 31, 2018		36,227,416	\$ 15,182,583	-	\$ -	\$ 5,014,755	\$ 458,266	\$ (21,133,602)	\$ (477,998)
Loss for the period		-	-	-	-	-	-	(329,646)	(329,646)
Balance, April 30, 2019		36,227,416	\$ 15,182,583	-	\$ -	\$ 5,014,755	\$ 458,266	\$ (21,463,248)	\$ (807,644)
Loss for the period		-	-	-	-	-	-	(90,857)	(90,857)
Balance, July 31, 2019		36,227,416	\$ 15,182,583	-	\$ -	\$ 5,014,755	\$ 458,266	\$ (21,554,105)	\$ (898,501)

See accompanying notes to the interim condensed financial statements.

Blacksteel Energy Inc.

Condensed Interim Statements of Cash Flows

(Amounts in Canadian dollars)

(Unaudited)

		Three months ended July 31,	
	Notes	2019	2018
Cash provided by (used in):			
Cash flows from operating activities			
Loss for the period		\$ (90,857)	\$ (80,314)
Adjustments for:			
Depletion and depreciation		23,400	27,500
Non cash finance expense	13	46,279	40,181
Changes in non-cash working capital		46,454	137,062
Net cash provided by operating activities		25,276	124,429
Cash flows from investing activities			
Expenditures on property and equipment	7	(13,946)	(120,420)
Net cash used in investing activities		(13,946)	(120,420)
Cash flows from financing activities			
Proceeds from warrant exercises	10(c)	-	125,200
Net cash from financing activities		-	125,200
Change in cash		11,330	129,209
Cash, beginning of period		29,162	100,660
Cash, end of period		\$ 40,492	\$ 229,869

See accompanying notes to the condensed interim financial statements.

Blacksteel Energy Inc.
Notes to the Condensed Interim Financial Statements
For the three months ended July 31, 2019 and 2018
(Amounts in Canadian dollars)
(Unaudited)

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 condensed interim financial statements were approved and authorized for issuance by the Board of Directors on September 30, 2019.

2. Basis of preparation

(a) Statement of compliance and going concern

These condensed interim financial statements present Blacksteel's financial position as at July 31, 2019, and April 30, 2019 and financial performance for the three month periods ended July 31, 2019 and 2018. 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 as applicable to interim financial statements including International Accounting Standards ("**IAS**") 34, Interim Financial Reporting.

The Corporation has working capital deficit at July 31, 2019 of \$1,673,720, and April 30, 2019 of \$1,594,397, and has incurred net losses and negative cash flow from operating activities for the period ended July 31, 2019, and in the year ended April 30, 2019. 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 8) 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 once 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) Accounting policies

In preparation of these condensed interim financial statements, Blacksteel used the same accounting policies and methods of computation as in the annual financial statements for the year ended April 30, 2019 except as described in note 2(b). These condensed interim financial statements should be read in conjunction with Blacksteel's annual audited financial statements for the year ended April 30, 2019. The disclosure provided is incremental to that included with the

Blacksteel Energy Inc.
Notes to the Condensed Interim Financial Statements
For the three months ended July 31, 2019 and 2018
(Amounts in Canadian dollars)
(Unaudited)

annual financial statements. Certain information and disclosures included in the notes to the financial statements is condensed or disclosed only on an annual basis.

New standards adopted by the Corporation

i) IFRS 16, "Leases"

The Corporation adopted IFRS 16 Leases ("**IFRS 16**"), which replaces IAS 17 Leases, for its annual period beginning May 1, 2019 using the modified retrospective approach whereby no restatement of comparative periods is required. Under IAS 17, leases of property, plant and equipment were recognized as finance leases when substantially all the risks and rewards of ownership of the underlying assets were transferred. All other leases were classified as operating leases. IFRS 16 requires lessees to recognize right-of-use assets, representing its right to use the underlying asset, and lease liabilities, representing its obligation to make payments. Right-of-use assets are measured at cost, comprised of the initial measurement of the corresponding lease liabilities, lease payments made on or before the commencement date and any initial direct costs. They are subsequently depreciated and reduced by impairment losses, if any. Right-of-use assets may also be adjusted to reflect the re-measurement of related lease liabilities. Lease liabilities are initially measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Corporation's incremental borrowing rate. Subsequently, the lease liability is measured at amortized cost using the effective interest rate method and adjusted for interest and lease payments.

On transition, the Corporation did not identify any leases within the scope of IFRS 16 and as such has not recognized any lease liabilities or right-of-use assets. As permitted by IFRS 16, the Corporation elected not to recognize lease liabilities and right-of-use assets for short term leases (lease term of 12 months or less) and leases of low-value assets. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets as at the transition date.

3. 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 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

Blacksteel Energy Inc.
Notes to the Condensed Interim Financial Statements
For the three months ended July 31, 2019 and 2018
(Amounts in Canadian dollars)
(Unaudited)

to the fair value measure in its entirety.

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) Risk Management

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.

(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 July 31, 2019, the maximum exposure to credit risk was \$585,016 (April 30, 2019 - \$565,803) being the carrying value of its cash, accounts receivable and loans receivable.

Cash consist 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 period ended July 31, 2019 or the year ended April 30, 2018. The Corporation considers all receivables greater than 90 days to be past due. There were no past due receivables as at July 31, 2019 and April 30, 2019.

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 as well as the Corporation's directors (note 4). The joint venture partner 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 July 31, 2019, and April 30, 2018 the Corporation's accounts receivable were comprised of the following:

	July 31, 2019	April 30, 2019
Joint Venture	\$ -	\$ -
Goods and Services Tax	3,878	3,870
Interest	28,646	20,771
Total	\$ 32,524	\$ 24,641

(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:

Blacksteel Energy Inc.
Notes to the Condensed Interim Financial Statements
For the three months ended July 31, 2019 and 2018
(Amounts in Canadian dollars)
(Unaudited)

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 period ended July 31, 2019, and year ended April 30, 2019. The Corporation manages this risk by monitoring commodity prices and factoring any changes into operational decisions.

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 July 31, 2019, and April 30, 2019, 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 period ended July 31, 2019, or year ended April 30, 2019.

(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.

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

	July 31, 2019	April 30, 2019
Trade	\$ 304,759	\$ 292,032
Interest	55,481	13,871
	\$ 360,240	\$ 305,903

The Corporation's convertible debentures mature September 30, 2019, if not converted.

(c) *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

Blacksteel Energy Inc.
Notes to the Condensed Interim Financial Statements
For the three months ended July 31, 2019 and 2018
(Amounts in Canadian dollars)
(Unaudited)

going concern (note 2(a)) so that it can continue to maintain investor confidence and to not expose the Corporation to excess risk.

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 period ended July 31, 2019 or year ended April 30, 2019.

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

	July 31, 2019	April 30, 2019
Shareholders' deficiency	\$ (898,501)	\$ (807,644)
Long-term debt	-	-
Capital	\$ (898,501)	\$ (807,644)

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

Blacksteel Energy Inc.
Notes to the Condensed Interim Financial Statements
For the three months ended July 31, 2019 and 2018
(Amounts in Canadian dollars)
(Unaudited)

4. 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 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.

(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 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 principle balance was repaid. Subsequent to July 31, 2019, an additional repayment of \$26,000 (2018 - \$NIL) was received.

Directors' loans	
Balance, April 30, 2018, July 31, 2018 and July 31, 2019	\$ 235,000
Drakkar loan	
Balance, April 30, 2018	\$ 400,000
Expected credit loss provision on adoption of IFRS 9	(93,000)
Balance, July 31, 2018	\$ 307,000
Repayments	(30,000)
Balance, April 30, 2019 and July 31, 2019	\$ 277,000
Total Loans receivable, current	\$ 512,000

(c) Expected Credit Losses

On transition to IFRS 9, a stage 3 Expected Credit Loss ("ECL") provision of \$93,000 was recorded 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.

The changes in expected credit loss provisions are as follows:

Blacksteel Energy Inc.
Notes to the Condensed Interim Financial Statements
For the three months ended July 31, 2019 and 2018
(Amounts in Canadian dollars)
(Unaudited)

Provision, April 30, 2018	\$ -
Transitional adjustment	93,000
Revised provision, April 30, 2019	93,000
Expected credit loss	-
Provision, July 31, 2019	\$ 93,000

5. Supplemental cash flows information

Changes in non-cash working capital is comprised of:

	July 31, 2019	July 31, 2018
Source/(use) of cash:		
Accounts receivable	\$ (7,883)	\$ (22,101)
Prepaid expenses and deposits	-	-
Accounts payable and accrued liabilities	54,337	159,163
	\$ 46,454	\$ 137,62
Related to operating activities	\$ 46,454	\$ 137,062
Related to investing activities	-	-
Related to financing activities	-	-
Changes in non-cash working capital	\$ 46,454	\$ 137,062

Cash is comprised of balances on deposit with a bank.

6. Exploration and Evaluation Assets

Balance, April 30, 2018	\$ -
Additions	66,127
Balance, April 30, 2019	\$ 66,127
Additions	-
Balance, July 31, 2019	\$ 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 July 31, 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.

Blacksteel Energy Inc.
Notes to the Condensed Interim Financial Statements
For the three months ended July 31, 2019 and 2018
(Amounts in Canadian dollars)
(Unaudited)

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 period ended July 31, 2019.

Cost:	Oil and natural gas interests
Balance, April 30, 2018	\$ 1,087,837
Additions	252,254
Change in decommissioning liabilities estimate (note 7)	(12,972)
Balance, April 30, 2019	\$ 1,327,119
Additions	13,946
Balance, July 31, 2019	\$ 1,341,065
Accumulated depletion and depreciation:	
Balance, April 30, 2018	\$ 122,385
Depletion	93,790
Balance, April 30, 2019	\$ 216,175
Depletion	23,400
Balance, July 31, 2019	\$ 239,575
Net book value:	
Balance, April 30, 2019	\$ 1,110,944
Balance, July 31, 2019	\$ 1,101,490

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.

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.

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.

Blacksteel Energy Inc.
Notes to the Condensed Interim Financial Statements
For the three months ended July 31, 2019 and 2018
(Amounts in Canadian dollars)
(Unaudited)

Debt component, April 30, 2018	\$ 1,716,061
Accretion of convertible debentures	168,273
Debt component, April 30, 2019	\$ 1,884,334
Accretion of convertible debentures (note 13)	44,199
Debt component, July 31, 2019	\$ 1,928,533
Equity component, April 30, 2018, and 2019, and July 31, 2019	\$ 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 \$462,000 at July 31, 2019 (April 30, 2019 - \$462,000), which has been inflated at 1.63% (April 30, 2019 - 1.63%) discounted using a weighted average risk-free rate of 2.11% at July 31, 2019 (April 30, 2019 - 2.11%). 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 period ended July 31, 2019 and the year ended April 30, 2019:

	July 31, 2019	April 30, 2019
Decommissioning provisions, beginning of the period	\$ 390,318	\$ 394,960
Accretion (note 13)	2,080	8,330
Change in estimate (note 7)	-	(12,972)
Decommissioning provisions, end of period	\$ 392,398	\$ 390,318

10. Share capital

(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, 2018	35,601,416	\$ 14,937,629
Warrants exercised	626,000	244,954
Balance, April 30, 2019, and July 31, 2019	36,227,416	\$ 15,182,583

Blacksteel Energy Inc.
Notes to the Condensed Interim Financial Statements
For the three months ended July 31, 2019 and 2018
(Amounts in Canadian dollars)
(Unaudited)

(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, 2018	4,569,945	\$ 0.20	\$ 874,235
Expired	(3,943,945)	0.20	(754,481)
Exercised	(626,000)	0.20	(119,754)
Balance, July 31, 2018 April 30, 2019 and July 31, 2019	-	\$ -	\$ -

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:

	Period ended July 31, 2019		Year ended April 30, 2019	
	Number	Exercise Price	Number	Exercise Price
Outstanding, beginning of period	1,245,000	\$ 0.10	1,245,000	\$ 0.10
Outstanding, end of period	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 July 31, 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	3.1	1,245,000
		1,245,000	3.1	1,245,500

Blacksteel Energy Inc.
Notes to the Condensed Interim Financial Statements
For the three months ended July 31, 2019 and 2018
(Amounts in Canadian dollars)
(Unaudited)

12. General & Administrative (“G&A”) expenses

	Three months ended July 31,	
	2019	2018
Management consulting services	\$ 5,000	\$ 8,000
Professional fees	2,790	7,193
Shareholders services	4,909	972
Other	28	4,233
Total	\$ 12,727	\$ 20,398

13. Finance expense

	Three months ended July 31,	
	2019	2018
Interest on convertible debentures	\$ 41,610	\$ 41,607
Accretion on convertible debentures	44,199	38,207
Accretion of decommissioning provisions	2,080	1,974
Total	\$ 87,889	\$ 81,788

14. Loss per share

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

	Three months ended July 31,	
Weighted Average Common Shares Outstanding	2019	2018
Basic	36,227,416	35,898,490
Diluted	36,227,416	35,898,490

No stock options, convertible debentures, 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

During the period ended July 31, 2019, the Corporation incurred a total of \$5,000 (2018 - \$8,000) related to management services, to a private corporation of which an officer of the Corporation is an owner. These costs were recorded to general and administrative expenses. As at July 31, 2019, \$28,000 (April 30, 2019 - \$23,000) owing to this private corporation was included in accounts payable.

During the period ended July 31, 2019, the Corporation incurred a total of \$2,790 (2018 – \$7,000) related to legal services to a law firm in which a director of the Corporation is a partner. These costs were recorded to general and administrative expenses. As at July 31, 2019, \$22,827 (April 30, 2019 - \$20,037) owing to this law firm was included in accounts payable.

During the period ended July 31, 2019, the Corporation earned \$4,994 (2018 - \$4,994) of interest income on loans receivable from directors totalling \$235,000 (note 4) of which \$4,994 (2018 - \$4,994) was in accounts receivable at July 31, 2019.

Blacksteel Energy Inc.

Notes to the Condensed Interim Financial Statements

For the three months ended July 31, 2019 and 2018

(Amounts in Canadian dollars)

(Unaudited)

During the period ended July 31, 2019, the Corporation incurred \$4,994 (2018 - \$4,994) of cash interest expense and \$5,049 (2018 - \$5,049) of non-cash accretion expense on convertible debentures held by directors (note 8) of which \$5,049 (2018 - \$5,049) remained in accounts payable and accrued liabilities at July 31, 2019.