

BLACKSTEEL ENERGY INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three months ended
JULY 31, 2019

Report Date: September 30, 2019

BLACKSTEEL ENERGY INC.

Corporate Information

This Management's Discussion and Analysis ("**MD&A**") of the financial condition and results of operations of Blacksteel Energy Inc. (the "**Corporation**" or "**Blacksteel**") is dated September 30, 2019 and should be read in conjunction with the condensed interim financial statements including notes to the financial statements for the three months ended July 31, 2019 (the "**Financial Statements**").

The condensed interim financial statements have been prepared by management in accordance with International Financial Reporting Standards ("**IFRS**") and this MD&A should be read in conjunction with these condensed interim financial statements. The preparation of the condensed interim financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, at the date of the condensed interim financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

Blacksteel's Audit Committee and Board of Directors have reviewed and, on September 30, 2019, approved this MD&A and the accompanying condensed interim financial statements.

FORWARD-LOOKING INFORMATION

This MD&A may include forward-looking statements including opinions, assumptions, estimates and management's assessment of future plans and operations, expected accretion expenses, expectations as to the non-taxability of the Corporation and capital expenditures and the timing and funding thereof. When used in this document, the words "anticipate," "believe," "estimate," "expect," "intent," "may," "project," "plan", "should" and similar expressions are intended to be among the statements that identify forward-looking statements. Forward-looking statements are subject to a wide range of risks and uncertainties, and although the Corporation believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will be realized. Any number of important factors could cause actual results to differ materially from those in the forward-looking statements including, but not limited to, risks associated with petroleum and natural gas exploration, development, exploitation, production, marketing and transportation, the volatility of petroleum and natural gas prices, currency fluctuations, the ability to implement corporate strategies, the state of domestic capital markets, the ability to obtain financing, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, changes in petroleum and natural gas acquisition and drilling programs, delays resulting from inability to obtain required regulatory approvals, delays resulting from inability to obtain drilling rigs and other services, labour supply risks, environmental risks, competition from other producers, imprecision of reserve estimates, changes in general economic conditions, whether farm-in and farm-out opportunities result in agreements and other factors more fully described from time to time in the reports and filings made by the Corporation with securities regulatory authorities.

Statements relating to "reserves" or "resources" are deemed to be forwardlooking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. Readers are cautioned not to place undue reliance on forward-looking statements, as no assurances can be given as to future results, levels of activity or achievements.

The Corporation's policy for updating forward-looking information is to discuss significant variances from previously reported material forward-looking information in future MD&A's.

BLACKSTEEL ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTH PERIODS ENDED JULY 31, 2019 (continued)

NON-GAAP FINANCIAL MEASURES

This MD&A contains references to measures used in the oil and natural gas industry such as "operating netback". These measures do not have standardized meanings prescribed by generally accepted accounting principles ("GAAP") and, therefore should not be considered in isolation. These reported amounts and their underlying calculations are not necessarily comparable or calculated in an identical manner to a similarly titled measure of other companies where similar terminology is used. Where these measures are used they should be given careful consideration by the reader. These measures have been described and presented in this MD&A in order to provide shareholders and potential investors with additional information regarding the Corporation's liquidity and its ability to generate funds to finance its operations. Operating netback denotes petroleum revenue less royalty expenses, operating expenses and transportation and marketing expenses calculated on a per boe basis.

HIGHLIGHTS

Operational

- During the quarter ended July 31, 2019, the Corporation's light oil production consisted of 3 producing wells, 09-02-076-21W5M, 16-02-076-21W5M, and 08-09-076-21W5M. The oil production for this period averaged approximately 21 barrels per day with a sales price of approximately \$55 per barrel.
- The Corporation, together with the operator of the Girouville, property continues to look for ways to optimize production and reduce operating costs in order to maximize operating cash flow.

Financial

- Working capital deficit of \$1,673,720 at July 31, 2019.
- Net loss for the period ended July 31, 2019, was \$90,857 compared to a loss of \$80,314 for the comparative period last year.
- The Corporation continues to work toward completing the proposed Drakkar Energy Ltd. transaction announced on July 5, 2018. The Corporation is also evaluating its options in regards to the convertible debenture maturing on September 30, 2019. Updates on these transactions will be made in due course.

CORPORATE OVERVIEW

Blacksteel, incorporated under *the Business Corporations Act (Alberta)*, is a public early stage oil and gas company whose principal business activity is in the exploration, exploitation, development and production of petroleum and natural gas resources in the Western Canadian Sedimentary Basin.

Share Capital

Since its inception, the Corporation has raised capital several times. The details of share capital transactions during the period ended July 31, 2019 and the year ended April 30, 2019 are as follows:

BLACKSTEEL ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTH PERIODS ENDED JULY 31, 2019 (continued)

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

SELECTED ANNUAL FINANCIAL INFORMATION

Below is a table comparing relevant financial information of the years ended April 30, 2019, 2018 and 2017.

	April 30, 2019	April 30, 2018	April 30, 2017
Petroleum and natural gas revenue, gross (\$)	509,318	535,700	98,800
Net loss (\$)	409,960	547,654	814,478
Loss per share, basic and diluted (\$)	0.01	0.02	0.02
Total assets (\$)	1,772,911	1,759,904	1,948,572
Total long-term liabilities (\$)	390,318	2,111,021	1,805,068
Weighted average number of Class A common shares outstanding, basic and diluted	36,201,690	35,374,555	36,108,451

RESULTS OF OPERATIONS

Revenue/Cost of Goods Sold and Operating Cash Flow

During the quarter ended July 31, 2019, the Corporation realized average daily production of 21 barrels ("bbls") (2018 – 35), total oil production of 1,963 for the quarter (2018 – 3,200) resulting in sales of \$107,375 (2018 - \$192,066) or approximately \$55 per barrel (2018 - \$60). Royalty and operating expenses were \$32,539 (2018 - \$74,539), and \$59,495 (2018 -\$79,595) respectively, resulting in an operating netback of \$15,341 (2018 - \$37,932) or approximately \$8 (2016 - \$12) per barrel.

	Three months ended July 31,	
	2019	2018
Daily average oil production (bbls)	21	35
Total oil production for the period (bbls)	1,963	3,200
Petroleum revenue, gross (\$)	107,375	192,066
Royalties (\$)	(32,539)	(74,539)
Operating and transportation expenses (\$)	(59,495)	(79,595)
Operating netback (\$)	15,341	37,932

General and Administrative ("G&A") Expenses

General and administrative expenses decreased to \$12,727 for the three ended July 31, 2019 from \$20,398 for the same three month period last year.

A comparative summary of general and administrative expenses for the three months ended July 31, 2019 and 2018 is as follows:

BLACKSTEEL ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTH PERIODS ENDED JULY 31, 2019 (continued)

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

Loss and Comprehensive Loss

The Corporation recognized a loss of \$90,857 for the three month period ended July 31, 2019 compared to a loss of \$80,314 for the three month period ended July 31, 2018.

Supplemental Quarterly Information

The data in the following table has been derived from the Company's financial statements for the eight most recently completed financial quarters.

	Three Months Ended			
	Jul. 31, 2019	Apr. 30, 2019	Jan. 31, 2019	Oct. 31, 2018
Petroleum revenue, gross	\$ 107,375	\$ 117,266	\$ 44,628	\$ 130,527
Net income (loss)	(90,857)	(77,227)	(130,147)	(122,270)
Net income (loss) per share, basic and diluted	(0.00)	(0.00)	(0.00)	(0.00)
Weighted average number of shares, basic	36,227,416	36,227,416	36,227,416	36,227,416
Weighted average number of shares, diluted	36,227,416	36,227,416	36,227,416	36,227,416

	Three Months Ended			
	Jul. 31, 2018	Apr. 30, 2018	Jan. 31, 2018	Oct. 31, 2017
Petroleum revenue, gross	\$ 216,897	\$ 123,728	\$ 157,677	\$ 134,570
Net income (loss) for the quarter	(80,316)	(271,632)	(27,617)	(152,411)
Net income (loss) per share, basic and diluted	(0.00)	(0.01)	(0.00)	(0.00)
Weighted average number of shares, basic	35,898,490	35,262,202	35,049,785	35,049,785
Weighted average number of shares, diluted	35,898,490	35,262,202	35,049,785	35,049,785

CAPITAL EXPENDITURES

Blacksteel's capital expenditures for the quarter ended July 31, 2019 totalled \$13,946 (2018 - \$120,420).

BLACKSTEEL ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTH PERIODS ENDED JULY 31, 2019 (continued)

LIQUIDITY AND CAPITAL RESOURCES

Liquidity risks arise from the use of liquid financial resources to meet the day-to-day funding requirements of the Corporation and in the management of assets and liabilities in order to maintain an optimal capital structure. Blacksteel manages liquidity risk to meet its financial obligations and commitments in a cost effective manner and to fund growth and expansion opportunities that are recognized by the Corporation.

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 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. The Corporation is still actively pursuing this transaction, but there is no guarantee the Corporation will be successful in these endeavours. These factors indicate a material uncertainty that may cast significant doubt on the ability of the Corporation to continue as a going concern. 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.

Working capital

As at July 31, 2019, the Corporation had a working capital deficit of \$1,673,720 which included \$40,492 of cash and cash equivalents, compared to a working capital deficit of \$1,594,397 as at April 30, 2019, which included \$29,162 of cash and cash equivalents.

Blacksteel's cash and cash equivalents consist of cash held primarily in accounts on deposit with a major Canadian bank. The Corporation's policy is to ensure that its cash investments are liquid and not invested in investment vehicles with high risk.

Capital Resources

To date, the Corporation has relied on equity issuances to fund its capital program and pay for administrative expenses related to running the Corporation's day-to-day operations. Future sources of cash could include further equity issuances, advances from bank credit facilities if they can be arranged, and generation of cash from profitable operations. Management believes that the Corporation will continue to successfully raise sufficient funds through equity issuances and will be able to increase internal cash generation in the near future. However, there can be no certainty that financing will be successful. Additionally, there can be no certainty that internal cash generation will occur.

The table below shows the capitalization of the Corporation as at the effective date of this MD&A, as at July 31, 2019 and April 30, 2019.

BLACKSTEEL ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTH PERIODS ENDED JULY 31, 2019 (continued)

OUTSTANDING NUMBER OF SHARES, OPTIONS AND WARRANTS DATA

	September 30, 2019	July 31, 2019	April 30, 2019
Class A common shares	36,227,416	36,227,416	36,227,416
Warrants	-	-	-
Stock options	1,245,000	1,245,000	1,245,000
Total equity instruments outstanding	37,472,416	37,472,416	37,472,416

OFF BALANCE SHEET ARRANGEMENTS

The Corporation does not have any special-purpose entities nor is it a party to any arrangement that would be excluded from the balance sheet.

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 of which \$4,994 (2018 - \$4,994) was in accounts receivable at July 31, 2019.

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 of which \$5,049 (2018 - \$5,049) remained in accounts payable and accrued liabilities at July 31, 2019.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

BLACKSTEEL ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTH PERIODS ENDED JULY 31, 2019 (continued)

fair value. The three levels of the fair value hierarchy are described below:

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

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

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

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

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.

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).

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTH PERIODS ENDED JULY 31, 2019 (continued)

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, 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 loan 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.

Liquidity Risk

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

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) to the condensed interim financial statements) 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 no 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.

BLACKSTEEL ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTH PERIODS ENDED JULY 31, 2019 (continued)

The Corporation will pursue additional sources of external financing to attempt 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' equity 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)

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Critical Accounting Estimates and Judgements

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 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*.

BLACKSTEEL ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTH PERIODS ENDED JULY 31, 2019 (continued)

Valuation and classification of exploration and evaluation assets

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

Convertible debentures

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

Decommissioning provisions

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

Valuation of accounts receivable

The valuation of accounts receivable is 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 and the Corporation's classification of expenditures eligible for renouncement under flow-through shares is 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 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.

Oil and Natural Gas Reserves and Resources Determination

The process of estimating reserves and resources is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. Reserve and resource estimates are based on current production forecasts, prices and economic conditions. These estimates may change substantially as additional data from ongoing development and production activities becomes available and as economic conditions impact oil and natural gas prices and costs.

BLACKSTEEL ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTH PERIODS ENDED JULY 31, 2019 (continued)

Depletion Expense

All costs associated with development activities, whether successful or not, are capitalized. The aggregate of net capitalized costs and estimated future development costs (less estimated salvage values) is amortized using the unit-of-production method based on estimated proved and probable oil and natural gas reserves. An increase in estimated proved and probable oil and natural gas reserves or a decrease in estimated future development costs would each result in a corresponding reduction in depletion and depreciation expense.

Impairment of Petroleum and Natural Gas Assets

The Corporation is required to review the carrying value of all petroleum and natural gas assets, on a cash generating unit basis, for potential impairment. Impairment is indicated if the carrying amount of the oil and natural gas property and equipment is not recoverable by the future discounted funds flows. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the property and equipment is charged to earnings. The assessment of impairment is dependent on estimates of reserves, production rates, future prices, future costs and other relevant assumptions.

Stock-Based Compensation

Under the fair value method of accounting for stock options and warrants, compensation expense is determined on the date of grant using the Black-Scholes option pricing model. The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that are fully transferable and have no vesting restrictions. Blacksteel's stock options and warrants are not transferable, cannot be traded and are subject to vesting restrictions that would tend to reduce value. The Black-Scholes model requires the input of several variables including estimated volatility of the issuer's stock price over the life of the option, estimated forfeitures and the estimated life of the option. Changes in these estimates would alter the option's fair value and the related expense as determined by the Black-Scholes model.

Decommissioning Provisions

The Corporation is required to provide for future removal and restoration costs. The Corporation must estimate these costs in accordance with existing laws, contracts or other policies. The fair value of the liability for the Corporation's asset retirement obligations is recorded in the period in which it is expected to be incurred, discounted to its present value using the Corporation's risk-free interest rate and the expected inflation rate. The offset to the liability is recorded in the carrying amount of property and equipment. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of funds flows or to the original estimated undiscounted cost could also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

Income Taxes

The determination of the Corporation's income and other tax liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

BLACKSTEEL ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTH PERIODS ENDED JULY 31, 2019 (continued)

CHANGE IN ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the condensed interim financial statements are consistent with those followed in the preparation of the Corporation's annual financial statements for the year ended April 30, 2019 except as described below.

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 on a straight-line basis 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.

RISKS AND UNCERTAINTIES

The petroleum and natural gas industry is subject to numerous risks and uncertainties that can affect the Corporation's ability to grow and generate cash flows from operations. These risks and uncertainties include, but are not limited to, the following:

- Fluctuations in interest rates, commodity prices and foreign currency exchange rates;
- Capital markets risk and the ability to finance future growth;
- Government and regulatory risk in respect of changes to royalty and income tax regimes;
- Economic risk in respect of finding and producing reserves at a reasonable cost, and marketing those reserves;
- Operational risk in respect of availability and cost of drilling and related equipment;
- Seasonal risk in respect of the ability to enter leases and drill wells due to weather conditions; and
- Environmental risk in respect of the ability to remediate sites and remedy spills, releases or emissions of various substances that may be produced in association with the Corporation's petroleum and natural gas operations.

BLACKSTEEL ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTH PERIODS ENDED JULY 31, 2019 (continued)

While many of these risks are beyond the Corporation's control and it is impossible to ensure that the Corporation's exploration initiatives will result in commercial operations, Blacksteel strives to minimize the aforementioned risks by:

- Employing management and technical staff and consultants with extensive industry and/or area experience;
- Maintaining an appropriate working capital position to cover the Corporation's capital and overhead costs;
- Maintaining a low cost structure and a tight cost control system; and
- Maintaining insurance in accordance with industry standards to address the risk of liability for pollution, personal injury, property damage, blow-outs and other hazards.

BLACKSTEEL ENERGY INC.

Corporate Information

Board of Directors

Eugene Chen ⁽¹⁾ ⁽²⁾ ⁽³⁾

Chris Scase, BComm, CGA ⁽¹⁾ ⁽³⁾

Les Treitz ⁽²⁾ ⁽³⁾

(1) Audit Committee

(2) Compensation and Corporate Governance Committee

(3) Reserves Committee

Officers

Les Treitz, Interim President and Chief Executive Officer

Derek Batorowski, Chief Financial Officer

Corporate Office

2204 6 AVE NW

Calgary, AB T2N 0W9

Phone (403) 453-0060

Fax (403) 265-3783

Auditors

RSM Alberta LLP

Legal Counsel

McLeod Law LLP

Transfer Agent

Alliance Trust Company

Bankers

Royal Bank of Canada

Stock Exchange Listing

The TSX Venture Exchange

Trading Symbol: BEY