

BLACKSTEEL ENERGY INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the fiscal year ended
APRIL 30, 2019

Report Date: August 28, 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 August 28, 2019 and should be read in conjunction with the audited financial statements including notes to the financial statements for the years ended April 30, 2019 and 2018 (the "**Financial Statements**").

The 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 Financial Statements. The preparation of 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 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 August 28, 2019, approved this MD&A and the accompanying 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.

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HIGHLIGHTS

Operational

- On April 30, 2019, the Corporation's light oil production consisted of 2 producing wells, 09-02-076-21W5M and 16-02-076-21W5M. The oil production for the year ended April 30, 2019, averaged at approximately 26 barrels per day with a sales price of approximately \$54 per barrel.
- The Corporation, together with the operator of the Girouxville, 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 \$1,594,397 and cash balance of \$29,162 at April 30, 2019.
- Further reduction in net loss for the year, \$409,960 for current year compared to \$547,654 for prior year.

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 years ended April 30, 2019 and 2018 are as follows:

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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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

Three months ended April 30, 2019 compared to three months ended April 30, 2018.

During the three months ended April 30, 2019, the Corporation realized average daily production of approximately 22 barrels ("**bbls**") (2018 - 26), total oil production of approximately 1,945 bbls (2018 - 2,275) resulting in sales of \$117,266 (2018 - \$41,503) or approximately \$60 per barrel (2018 - \$54). Royalties and operating expenses for the three months ended April 30, 2019 were \$75,377 (2018 - \$95,973), resulting in a net operating cash flow of \$41,889 or \$22 per barrel (2018 - \$27,755 or \$12 per barrel).

	Three months ended April 30,	
	2019	2018
Daily average oil production (bbls)	22	26
Total oil production for the period (bbls)	1,945	2,275
Petroleum revenue, gross (\$)	117,266	123,728
Royalties (\$)	(33,209)	(39,211)
Operating and transportation expenses (\$)	(42,168)	(56,762)
Net operating cash flow (\$)	41,889	27,755

Twelve months ended April 30, 2019 compared to twelve months ended April 30, 2018.

During the twelve months ended April 30, 2019 the Corporation realized average daily production of approximately 26 bbls (2018 - 26), total oil production of approximately 9,371 bbls (2018 - 10,852) resulting in sales of \$509,318 (2018 - \$535,700) or approximately \$54 per barrel (2018 - \$49). Royalties and operating expenses for the twelve months ended April 30, 2019 were \$415,750 (2018 - \$436,666), resulting in a net operating cash flow of \$93,568 or \$10 per barrel (2018 - \$99,034 or \$9 per barrel).

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	Twelve months ended April 30,	
	2019	2018
Daily average oil production (bbls)	26	30
Total oil production for the period (bbls)	9,371	10,852
Petroleum revenue, gross (\$)	509,318	535,700
Royalties (\$)	(179,313)	(172,687)
Operating and transportation expenses (\$)	(236,437)	(263,979)
Net operating cash flow (\$)	93,568	99,034

General and Administrative ("G&A") Expenses

During the year ended April 30, 2019, the Corporation incurred total G&A costs of \$133,017 (2018 - \$156,222). The slightly lower G&A costs were a result of decreased professional fees. The directors and officers insurance premium also saw a decrease this fiscal year. For the quarter ended April 30, 2019, the Corporation incurred \$61,158 compared to \$66,723 for comparative period last year.

A comparative summary of general and administrative expenses for the three and twelve months ended April 30, 2019 and 2018 is as follows:

	For the three months ended April 30,		For the twelve months ended April 30,	
	2019	2018	2019	2018
Management consulting services	\$ 1,375	\$ 8,000	\$ 19,375	\$ 15,000
Professional fees	51,704	40,078	93,562	108,157
Shareholder services	960	6,410	13,036	14,634
Insurance and other	7,119	12,235	7,044	18,431
Total	\$ 61,158	\$ 66,723	\$ 133,017	\$ 156,222

Stock-based Compensation

The Corporation has a stock-based compensation plan granting directors, officers, employees and consultants of Blacksteel options to purchase Class A common shares of the Corporation. The Corporation recorded stock-based compensation expense of \$NIL for the year ended April 30, 2019 (2018 - \$101,906), all of which relates to extensions of the expiry dates of outstanding warrants.

As at April 30, 2019, Blacksteel had a total of 1,245,000 stock options outstanding that were granted to directors of the Corporation.

Loss and Comprehensive Loss

The Corporation recognized a loss of \$77,227 for the quarter ended April 30, 2019 (2018 - \$271,632). The Corporation recognized a loss of \$409,960 for the year ended April 30, 2019 (2018 - \$547,654). The lower loss was a result of the operating profit realized during the year.

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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			
	Apr. 30, 2019	Jan. 31, 2019	Oct. 31, 2018	Jul. 31, 2018
Petroleum revenue, gross	\$ 117,266	\$ 44,628	\$ 130,527	\$ 216,897
Net income (loss)	(77,227)	(130,147)	(122,270)	(80,316)
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	35,898,490
Weighted average number of shares, diluted	36,227,416	36,227,416	36,227,416	35,898,490

	Three Months Ended			
	Apr. 30, 2018	Jan. 31, 2018	Oct. 31, 2017	Jul. 31, 2017
Petroleum revenue, gross	\$ 123,728	\$ 157,677	\$ 134,570	\$ 119,725
Net income (loss) for the quarter	(271,632)	(27,617)	(152,411)	(95,994)
Net income (loss) per share, basic and diluted	(0.01)	(0.00)	(0.00)	(0.00)
Weighted average number of shares, basic	35,262,202	35,049,785	35,049,785	36,108,451
Weighted average number of shares, diluted	35,262,202	35,049,785	35,049,785	36,108,451

The Corporation has not experienced general trends, nor does the Corporation have seasonal variations. However, the following discussion explains the variations over the quarters.

Stock-based compensation varies each quarter with the number of options granted and their respective calculated option values as well as warrant extensions.

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's working capital deficit at April 30, 2019 was \$1,594,397 (April 30, 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 and currently has limited production from its oil and gas property. 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

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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 recoverability of the amounts classified as property and equipment assets is dependent upon the ability of the Corporation to obtain financing necessary to complete its exploration and development initiatives and the discovery of economically recoverable petroleum and natural gas resources. 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 April 30, 2019, the Corporation had a working capital deficit of \$1,594,397 which included \$29,162 of cash, compared to working capital surplus of \$480,685 as at April 30, 2018, which included \$100,660 of cash.

Blacksteel's cash consists 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.

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The table below shows the capitalization of the Corporation as at the effective date of this MD&A, as at April 30, 2019 and April 30, 2018.

OUTSTANDING NUMBER OF SHARES, OPTIONS AND WARRANTS DATA

	August 28, 2019	April 30, 2019	April 30, 2018
Class A common shares	36,227,416	36,227,416	35,601,416
Warrants	-	-	4,569,945
Stock options	1,245,000	1,245,000	1,245,000
Total equity instruments outstanding	37,472,416	37,472,416	41,416,361

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 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.

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.

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.

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.

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

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FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Values

The fair values of cash and cash equivalents, 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 long-term loans receivable approximates its carrying value as it has been written down to the fair value of consideration received to extinguish them subsequent to year end. The fair value of convertible debentures approximates its carrying value as the Corporation believes market discount rates and the Corporation's risk profile have not changed materially since issuance.

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

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

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

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

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

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.

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.

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. The Corporation considers all receivables greater than 90 days to be past due. There were no past due receivables as at April 30, 2019.

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 and loan receivable.

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Cash consist 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 loan receivable are receivable from the Corporation's joint venture partner as part of its working interest acquisition in Girouxville oil and gas assets as well as the Corporation's directors. These loans are secured by a further working interest in the Girouxville assets.

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 during the year ended April 30, 2019 or 2018. 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 April 30, 2019 or 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. 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 year ended April 30, 2019 or 2018.

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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 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.

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 year ended April 30, 2019 or 2018. The Corporation's capital consists of shareholders' equity and long-term debt, if any, as follows.

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

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.

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

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

Depletion and valuation of property and equipment

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

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

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

Valuation and classification of exploration and evaluation assets

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

Convertible debentures

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

Decommissioning provisions

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

Valuation of accounts receivable

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.

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Income taxes

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

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.

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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 AND TWELVE MONTHS PERIOD ENDED APRIL 30, 2019

CHANGE IN ACCOUNTING POLICIES

Recent Accounting Pronouncements

New standards adopted by the Corporation during the year ended April 30, 2019

(i) IFRS 15, "Revenue from Contracts with Customers"

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.

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.

(ii) IFRS 9, "Financial Instruments"

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.

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.

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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:

- 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

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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

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.

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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.

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.

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 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.

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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.

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