# Blacksteel Energy Inc.

## CONSOLIDATED FINANCIAL STATEMENTS

**For the Years Ended**

**April 30, 2023, and 2022**

## Management's Report

To the shareholders of Blacksteel Energy Inc.:

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

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

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

Kenway Mack Slusarchuk Stewart LLP is appointed by the shareholders to audit the consolidated financial statements and report directly to them. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

Chief Executive Officer and Chief Financial Officer

November 8, 2024

Kenway Mack
Slusarchuk Stewart LLP
Chartered Professional Accountants

Celebrating 35+ years

# Independent Auditors' Report

To: The Shareholders of **Blacksteel Energy Inc.**

Opinion

We have audited the consolidated financial statements of Blacksteel Energy Inc. and its subsidiaries (collectively, the "Corporation"), which comprise the consolidated balance sheet as at April 30, 2023 and the consolidated statements of profit and loss and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at April 30, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2(v) to the consolidated financial statements which indicates that at April 30, 2023 the Corporation had a working capital deficit of $1,670,090. This condition, along with other matters as set forth in Note 2(v), indicate the existence of a material uncertainty that may cast significant doubt about the Corporation's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and not otherwise addressed in our report. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section of our report, we have determined the matter described below to be the key audit matter to be communicated in our auditors' report.

Accounting for the Drakkar acquisition

*Description of the matter:*

As reported in Note 5(a), the Corporation indirectly acquired all the issued and outstanding common shares and preferred shares of Drakkar Energy Ltd. by way of a three-cornered amalgamation. The Drakkar amalgamation has been accounted for as a business combination. The purchase consideration was allocated to assets acquired and liabilities assumed based on their respective fair values at the acquisition date. As the value of assets acquired net of liabilities assumed exceeded the value of consideration transferred a gain on acquisition was recognized. The determination of fair values of consideration transferred, assets acquired, and liabilities assumed value requires the Corporation to make certain estimates and judgements.

*Why the matter is a key audit matter:*

We determined that auditing the acquisition, specifically the evaluation of the fair value of the petroleum and natural gas assets acquired, and decommissioning obligation assumed is a key audit matter due to the significance of the transaction, the use of estimates and assumptions in determining fair values related to future commodity prices, quantities of resources, expected future production costs and expected future costs to reclaim and abandon the wells and facilities.

*How the matter was addressed in the audit:*

We reviewed the amalgamation agreement and related closing book documentation to obtain an understanding of the transaction. We reviewed and assessed the Corporation’s determination to account for the transaction as a business combination. We reviewed and assessed the Corporation’s determination of the purchase price allocation. We reviewed and assessed the procedures utilized by the Corporation to identify all liabilities assumed in the transaction. We reviewed the estimate of the fair value of the petroleum and natural gas assets acquired and the related reserves assessment and evaluation, prepared by a firm of independent petroleum consultants. We reviewed the estimate of the fair value of the decommissioning obligation assumed. For a sample of inputs and assumptions used in the models used to calculate the fair value estimates we agreed the inputs and assumptions to source documents or other corroborative information.

Emphasis of Matter – Restated Comparative Information

We draw attention to Note 26 to the consolidated financial statements, which explains that certain comparative information presented:

- As at April 30, 2022 and for the year ended April 30, 2022 has been restated.
- As at May 1, 2021 has been derived from the statement of financial position as at April 30, 2021 (not presented herein).

Our opinion is not modified in respect of this matter.

The financial statements for the years ended April 30, 2022 and 2021 (not presented herein but from which the comparative information as at May 1, 2021 has been derived), excluding the adjustments that were applied to restate certain comparative information were audited in accordance with Canadian generally accepted auditing standards by another auditor who expressed unmodified opinions on those financial statements on August 29, 2022 and August 31, 2021.

As part of our audit of the consolidated financial statements for the year ended April 30, 2023, we also audited the adjustments applied to restate certain comparative information:

- As at and for the year ended April 30, 2022.
- As at May 1, 2021.

In our opinion, such adjustments are appropriate and have been properly applied.

Other than with respect to the adjustments that were applied to restate certain comparative information, we were not engaged to audit, review, or apply any procedures to the financial statements:

- As at April 30, 2022 and for the year ended April 30, 2022.
- For the year ended April 30, 2021 (not presented herein).
- As at May 1, 2021.

Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.

Information Other than the Consolidated Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors' report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged With Governance for the Consolidated Financial Statements

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

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

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

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

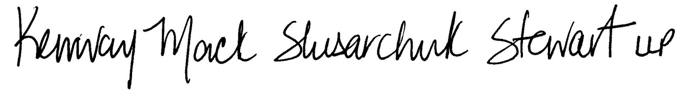
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee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

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

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

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

The engagement partner on the audit resulting in this Independent Auditors' report is Roland A. Bishop, CPA, CA.



November 8, 2024
Calgary, Alberta

Chartered Professional Accountants

## Blacksteel Energy Inc.

**Consolidated Balance Sheet**
*(Amounts in Canadian dollars) ($)*

| As at | Notes | April 30, 2023 | April 30, 2022 (Restated – Note 26) | May 1, 2021 (Restated – Note 26) |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets | | | | |
| Cash | 11 | **31,652** | 51,261 | 20,964 |
| Goods and services tax receivable | | **107,827** | 5,657 | - |
| Accounts receivable | 23(c) | **85,724** | 53,497 | 29,753 |
| Deposits and prepaid expenses | | **13,800** | 43,836 | 30,037 |
| Loans receivable | 7 | - | 282,488 | 222,488 |
| **Total current assets** | | **239,003** | 436,739 | 303,242 |
| Investments | 6 | **167,235** | - | - |
| Exploration and evaluation assets | 9 | - | 26,465 | 26,465 |
| Property, plant and equipment | 5,8 | **7,141,526** | 281,588 | 368,075 |
| Right-of-use asset | 10(a) | **10,261** | 110,871 | 32,179 |
| **Total assets** | | **7,558,025** | 855,663 | 729,961 |
| **Liabilities** | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued liabilities | | **1,823,133** | 525,796 | 766,534 |
| Current portion of CEBA loans | 12 | **19,180** | - | - |
| Current portion of lease obligation | 10(b) | **6,780** | 58,174 | 19,512 |
| Current portion of remediation provision | 15 | **60,000** | - | - |
| Convertible debentures | | - | - | 1,723,000 |
| Note payable | 14 | - | 160,000 | - |
| **Total current liabilities** | | **1,909,093** | 743,970 | 2,509,046 |
| Non-current liabilities | | | | |
| CEBA loans | 12 | **58,741** | 28,103 | 31,474 |
| Lease obligation | 10(b) | **5,311** | 66,453 | 13,800 |
| Flow-through share liability | | **61,674** | - | - |
| Decommissioning obligation | 16 | **762,828** | 336,705 | 399,647 |
| Remediation provision | 15 | **644,369** | 223,733 | 230,682 |
| **Total liabilities** | | **3,442,016** | 1,398,964 | 3,184,649 |
| Shareholders' Equity | | | | |
| Share capital | 18 | **19,341,813** | 16,978,810 | 15,182,583 |
| Warrants | 19(b) | **18,611** | - | - |
| Share capital reserve | | - | 100,000 | - |
| Contributed surplus | | **5,885,750** | 5,470,522 | 5,014,755 |
| Equity portion of convertible debentures | | - | - | 458,266 |
| Deficit | | **(21,130,165)** | (23,092,633) | (23,110,292) |
| **Total Shareholders' equity (deficit)** | | **4,116,009** | (543,301) | (2,454,688) |
| **Total liabilities and shareholders' equity** | | **7,558,025** | 855,663 | 729,961 |

Going concern (note 2(v))

Approved by the Board of Directors:

(signed) "Arthur Madden"
Arthur Madden
Director

(signed) "Eugene Chen"
Eugene Chen
Director

*See accompanying notes to the consolidated financial statements.*

# Blacksteel Energy Inc.

## Consolidated Statement of Profit and Loss and Other Comprehensive Income

*(Amounts in Canadian dollars) ($)*

| For the years ended | Notes | April 30, 2023 | April 30, 2022 (Restated-Note 26) |
|---|---|---|---|
| Revenue | | | |
| Oil revenue | | **169,950** | 233,607 |
| Less: Royalty expenses | | **(60,268)** | (70,760) |
| Net revenue | | **109,682** | 162,847 |
| Rental income | | **19,030** | 16,712 |
| Expenses | | | |
| General and administrative expenses | 20 | **559,102** | 217,734 |
| Share based compensation | 19 | **433,839** | - |
| Production, operating and transportation | | **257,230** | 149,372 |
| Acquisition costs | | **230,023** | |
| Depletion and depreciation | 8,10 | **61,724** | 62,588 |
| Exploration and evaluation asset impairment | 9 | **26,465** | - |
| Total expenses | | **1,568,383** | 429,694 |
| Operating loss | | **(1,439,671)** | (250,135) |
| Other income (expenses) | | | |
| Gain on acquisition of Drakkar Energy Ltd. | 5 | **3,731,124** | **-** |
| Change in remediation provision | 15 | **6,890** | 8,058 |
| Finance income, being interest | | **-** | 41,280 |
| Gain on debt conversion | 13 | **-** | 382,504 |
| Gain on reversal of decommissioning provision | 16 | **-** | 11,956 |
| Fair value adjustment of CEBA loans | 12 | **(10,256)** | 3,371 |
| Finance expense | 21 | **(19,549)** | (164,794) |
| Unrealized losses on equity investments | | **(133,000)** | - |
| Impairment on loan receivable | 7(c) | **(173,070)** | (14,581) |
| Profit before tax | | **1,962,468** | 17,659 |
| Income tax | 17 | **-** | - |
| Profit and comprehensive income for the year | | **1,962,468** | 17,659 |
| Profit per share, basic and diluted | 22 | $0.03 | $0.00 |

*See accompanying notes to the consolidated financial statements.*

## Blacksteel Energy Inc.

## Consolidated Statement of Changes in Shareholders' Equity

*(Amounts in Canadian dollars)*

| | Number of Class A Shares | Class A Share capital stated value ($) | Number of warrants | Stated value of warrants ($) | Share capital reserve ($) | Contributed surplus ($) | Equity component of convertible debentures ($) | Deficit ($) (Restated – Note 26) | Total shareholders' equity ($) |
|---|---|---|---|---|---|---|---|---|---|
| **Balance, April 30, 2021** | **36,227,416** | **15,182,583** | **-** | **-** | **-** | **5,014,755** | **458,266** | **(23,110,292)** | **(2,454,688)** |
| Common shares to be issued | - | - | - | - | 100,000 | - | - | - | 100,000 |
| Debt to equity conversion | 17,962,275 | 1,796,227 | - | - | - | - | (2,499) | - | 1,793,728 |
| Reclassification to contributed surplus | - | - | - | - | - | 455,767 | (455,767) | - | - |
| Profit for the year | - | - | - | - | - | - | - | 17,659 | 17,659 |
| **Balance, April 30, 2022** | **54,189,691** | **16,978,810** | **-** | **-** | **100,000** | **5,470,522** | **-** | **(23,092,633)** | **(543,301)** |
| Kaz acquisition | 12,061,250 | 333,070 | 4,292,500 | - | - | - | - | - | 333,070 |
| Kaz acquisition finders warrants | - | - | 481,500 | - | - | - | - | - | - |
| Magnetic North Acquisition Corp. acquisition | 6,000,000 | 173,000 | - | - | - | - | - | - | 173,000 |
| Private placements | 8,379,773 | 670,382 | - | - | (100,000) | - | - | - | 570,382 |
| Flow-through shares | 7,721,444 | 694,930 | - | - | - | - | - | - | 694,930 |
| Flow-through shares premium | - | (77,214) | - | - | - | - | - | - | (77,214) |
| Private placement finders warrants | - | - | 592,110 | 18,611 | - | - | - | - | 18,611 |
| Drakkar acquisition (note 5) | 9,335,467 | 746,971 | - | - | - | 7,299 | - | - | 754,270 |
| Share issuance costs | - | (178,136) | - | - | - | - | - | - | (178,136) |
| Share based payments | - | - | - | - | - | 407,929 | - | - | 407,929 |
| Profit for the year | - | - | - | - | - | - | - | 1,962,468 | 1,962,468 |
| **Balance, April 30, 2023** | **97,687,625** | **19,341,813** | **5,366,110** | **18,611** | **-** | **5,885,750** | **-** | **(21,130,165)** | **4,116,009** |

*See accompanying notes to the consolidated financial statements.*

## Blacksteel Energy Inc.

**Consolidated Statement of Cash Flows**

*(Amounts in Canadian dollars)($)*

| For the years ended | Notes | April 30, 2023 | April 30, 2022 (Restated-Note 26) |
|---|---|---|---|
| Cash provided by (used in): | | | |
| **OPERATING ACTIVITIES** | | | |
| Cash flow from operating activities: | | | |
| Profit for the year | | **1,962,468** | 17,659 |
| Non-cash items: | | | |
| Gain on acquisition of Drakkar Energy Ltd. | 5(a) | **(3,731,124)** | - |
| Unrealized losses on equity investments | | **133,000** | - |
| Share based compensation | | **433,839** | - |
| Non-cash finance expense | | **-** | 129,023 |
| Depletion, depreciation, and amortization | | **81,273** | 74,930 |
| Change in decommissioning obligation | 16 | **(17,879)** | (62,987) |
| Impairment of loan receivable | 7(c) | **173,070** | 14,581 |
| Change in remediation provision | 15 | **(6,890)** | (8,058) |
| Fair value adjustment to CEBA loans | 12 | **10,256** | (3,371) |
| Change in estimate on right-of-use assets | 10 | **(8,710)** | - |
| Gain on debt conversion | 13 | **-** | (382,504) |
| Sub-total | | **(970,697)** | (220,727) |
| Expenditures on remediation | 15 | **(13,644)** | - |
| Net change in non-cash working capital | | **11,938** | 51,024 |
| Net cash used in operating activities | | **(972,403)** | (169,703) |
| | | | |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from private placement share issuances | 18 | **570,382** | 100,000 |
| Proceeds from flow-through share issuance | 18 | **694,930** | - |
| Share issuance costs | 18 | **(178,136)** | - |
| Lease payments | 10 | **(24,075)** | - |
| Proceeds from Kaz acquisition loan | 5(b) | **-** | 160,000 |
| Net change in non-cash working capital | | **88,111** | - |
| Net cash provided by financing activities | | **1,151,212** | 260,000 |
| | | | |
| **INVESTING ACTIVITES** | | | |
| Capital expenditures – property, plant and equipment | 6 | **(470,358)** | - |
| Drakkar acquisition – cash acquired | 5(a) | **1,508** | - |
| Loan advances to Drakkar Energy Ltd. | 7 | **-** | (60,000) |
| Net change in non-cash working capital | | **270,432** | - |
| Net cash used in investing activities | | **(198,418)** | (60,000) |
| | | | |
| (Decrease) increase in cash | | **(19,609)** | 30,297 |
| Cash, beginning of the year | | **51,261** | 20,964 |
| Cash, end of the year | | **31,652** | 51,261 |
| | | | |
| Interest paid in cash | | **-** | 27,713 |

*See accompanying notes to the consolidated financial statements.*

### 1. GENERAL BUSINESS DESCRIPTION

Blacksteel Energy Inc. ("**Blacksteel**" or the "**Corporation**") is actively engaged in the acquisition, exploration, and development of petroleum and natural gas properties, and the production and sale of crude oil and natural gas. Blacksteel is incorporated and domiciled in Alberta, Canada. The address of business of the Corporation is Suite 1300, 717 7 AVE SW, Calgary, Alberta, Canada, T2P 0Z3.

### 2. BASIS OF PREPARATION

#### 2(i) Compliance with IFRS

These consolidated financial statements include the accounts of the Corporation, together with its wholly owned subsidiaries, Drakkar Energy Ltd. ("Drakkar"), Kaz Acquisition Corp. and 1343358 Alberta Ltd. and have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**")

The consolidated financial statements were approved and authorized for issuance by the Board of Directors on November 8, 2024.

#### 2(ii) Historical cost convention

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are measured at fair value. The methods used to measure fair values are discussed in note 23.

#### 2(iii) Functional and presentation currency

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

#### 2(iv) Function and nature of expenses

Expenses in the statements of profit and loss and other comprehensive income are presented as a combination of function and nature in conformity with industry practice. Production, operating and transportation expenses, stock based compensation, depletion and depreciation, exploration and evaluation and acquisition costs are presented in separate lines by their nature, while general and administrative expenses are presented on a functional basis. Significant general and administrative expenses are presented by their nature in note 20.

#### 2(v) Going concern

The Corporation had a working capital deficit at April 30, 2023 of $1,670,090 (2022 – $307,231), and incurred operating losses and negative cash flow from operating activities in the years ended April 30, 2023 and 2022. The Corporation has a small amount of oil and gas production revenue. During the year ended April 30, 2023, the Corporation undertook a strategic solution to address these concerns with the March 14, 2023 acquisition of Drakkar and related measures to increase oil and gas production, as well as capital raising activities. There is no guarantee the measures taken by the Corporation will be sufficiently successful. The Corporation continues to explore all possible strategic alternatives. 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 consolidated 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 and financing alternatives 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 consolidated financial statements.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

#### 3(a) Joint operations

Many of the Corporation's petroleum and natural gas operations are conducted under joint operating agreements whereby two or more parties jointly control the assets. These joint arrangements are classified as joint operations, and the consolidated financial statements include the Corporation's ownership-interest share of the assets, liabilities, revenue, and expenses of these joint operations. Controlled assets are conducted under joint operating agreements. The consolidated financial statements include the Corporation's share of these jointly controlled assets, the relevant revenue, and related costs. All these agreements are classified as joint operations under IFRS.

#### 3(b) Business combinations and asset acquisition

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. The cost of an acquisition is measured at the fair market value of the assets given, equity instruments issued, and liabilities incurred or assumed at the acquisition date. The excess of the cost of the business combination over the fair value of the identifiable assets, liabilities, and contingent liabilities acquired is recorded as goodwill. If the cost of the business combination is less than the fair market value of the net assets acquired, the difference is recognized immediately in net earnings. Transaction costs associated with a business combination are expensed as incurred.

#### 3(c) Cash and cash equivalents

Cash and cash equivalents include short-term investments with original maturities of less than 90 days.

#### 3(d) 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 ("FVTPL") 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 FVTPL.

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.

Financial assets are classified as FVTPL when the financial asset is either held for trading, or is designated as FVTPL.

Classification of financial assets and liabilities:

| | |
|---|---|
| Cash | Amortized Cost |
| Accounts receivable | Amortized Cost |
| Loans receivable | Amortized Cost |
| Investments | FVTPL |
| Accounts payable and accrued liabilities | Amortized Cost |
| Note payable | Amortized Cost |
| Convertible debentures | Amortized Cost |
| CEBA loans | Amortized Cost |

## 3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### 3(d) Financial instruments, continued

#### (i) Fair value measurement

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

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

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

#### (ii) 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.

#### (iii) Expected credit losses

The Corporation recognizes a loss allowance on financial assets that are measured at amortized cost using the expected credit losses (“ECL”) model. The calculation of ECL is based on the expected value of 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. At each balance sheet date, the Corporation assesses whether a significant increase in credit risk has taken place since initial recognition. If at the reporting date, the credit risk of the financial asset has not increased significantly since initial recognition, the loss allowance is measured at an amount equal to the twelve-month expected credit losses. If the credit risk has increased significantly, the loss allowance is measured at an amount equal to the lifetime expected credit losses. Lifetime expected credit losses are measured using the probability that default will occur between now and the maturity of the financial asset. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

### 3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### 3(e) Property, plant and equipment

Property, plant and equipment carrying amounts are measured at cost less accumulated depreciation and depletion, and accumulated impairment losses.

**(i) Development and production expenditures**

All costs directly associated with the development of oil and natural gas interests are recognized as property, plant and equipment assets if the expenditures extend or enhance the recoverable reserves of the underlying assets. Such costs include property acquisitions, carrying amounts reclassified exploration and evaluation ("E&E") assets to property, plant, and equipment, drilling and completion costs, gathering and processing infrastructure, capitalized decommissioning obligations, and directly attributable general and administrative expenses.

Repairs and maintenance and operational expenditures that do not extend or enhance recoverable reserves are charged to profit or loss when incurred.

**(ii) Impairment and reversals of impairment**

Oil and natural gas assets are grouped into cash-generating units ("CGU's") for impairment testing.

At the end of each reporting period, the Corporation considers various external and internal sources of information when assessing whether any indication exists that a CGU may be impaired or that an impairment loss recognized in prior periods may no longer exist or may have decreased. If any such indication exists, the Corporation estimates the CGU's recoverable amount. A CGU's recoverable amount is the higher of its value in use and its fair value less costs of disposal.

When a CGU's carrying amount exceeds its recoverable amount, its carrying value is reduced to its recoverable amount. That reduction is an impairment loss, which is recognized immediately in profit or loss.

When the recoverable amount exceeds the carrying value of a CGU, and the carrying value had been reduced in a prior period due to an impairment loss, the carrying value of the CGU is increased to the revised estimate of its recoverable amount not exceeding the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior periods. The increase in carrying value is a reversal of an impairment loss, which is recognized immediately in profit or loss.

**(iii) Depletion and depreciation**

Oil and natural gas interests are depleted using the unit-of-production method over their reserve life by reference to the ratio of production in the year to the related proved and probable reserve volumes. Estimated future development costs are included in costs subject to depletion. Production and reserves of natural gas are converted to equivalent barrels of crude oil based on six thousand cubic feet of natural gas to one barrel of oil. Reserves and estimated future development costs are determined annually by qualified independent reserve engineers. Changes in estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations do not give rise to prior period adjustments and are dealt with on a prospective basis.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### 3(f) Leases

The Corporation assesses whether a contract is a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration. The Corporation allocates the consideration in the contract to each lease component separately from the non-lease components, based on their relative stand-alone prices.

Leases are recognized as a right-of-use asset and a corresponding lease liability at the date on which the leased asset is available for use by the Corporation. Assets and liabilities arising from a lease are initially measured on a present-value basis. Lease liabilities include the net present value of fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be paid by the lessee under residual value guarantees, the exercise price of purchase options of the leases if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the leases less any lease incentives receivable. These payments are discounted using the Corporation's incremental borrowing rate when the rate implicit in the lease is not readily available. The Corporation uses a single discount rate for a portfolio of leases with reasonability similar characteristics.

Lease payments are allocated between the liability and finance costs. The finance cost is charged to net income over the lease term. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in the index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Corporation will exercise the purchase, extension or termination option that is within the control of the Corporation. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the statements of profit and comprehensive income if the carrying amount of the right-of-use asset has been reduced to zero.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or site on which it is located, less any lease payments made at or before the commencement date. The right-of-use asset is depreciated, on a straight-line over the shorter if the estimated useful life of the asset or the lease term. The right-of-use asset may be adjusted for certain remeasurements of the lease liability and impairment losses. Leases that have terms of less than twelve months or leases on which the underlying asset is of low value or recognized as an expense in the statements of profit and comprehensive income on a straight-line basis over the lease term.

A lease modification will be accounted for as a separate lease if the modification increases the scope of the lease and if the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope. For a modification that is not a separate lease or where the increase in consideration is not commensurate, at the effective date of the lease modification, the Corporation will re-measure the lease liability using the Corporation's incremental borrowing rate, when the rate implicit to the lease is not readily available, with a corresponding adjustment to the right-of-use asset. A modification that decreases the scope of the lease will be accounted for by decreasing the carrying amount of the right-of-use asset and recognizing a gain or loss in net income that reflects the proportionate decrease in scope.

## 3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### 3(g) Decommissioning obligations

The Corporation has regulatory obligations for the future decommissioning of the Corporation's oil and gas locations following the end of the assets' useful lives. Decommissioning activities include abandonment of wellbores, dismantling and decommissioning surface equipment, and remediation site disturbance. Provision is made for the estimated costs of decommissioning and site restoration and capitalization in the relevant E&E asset or property, plant and equipment category.

Decommissioning obligations are measured at the present value of management's estimation of the amount and timing of expenditures. Changes in the estimated financing timing of decommissioning and restoration or related cost estimates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to property, plant, and equipment. The accretion on the decommissioning and restoration provision is classified as a finance cost.

### 3(h) Provisions and contingent liabilities

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

### 3(i) Income taxes

The income tax expense or recovery for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities assumed attributable to temporary differences and unused tax losses. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of the assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the acquisition, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable income will be available to utilize those temporary differences.

### 3(j) Share capital

Shares, consisting of common shares, are classified as equity.

When the Corporation repurchases its own common shares, share capital is reduced by the average carrying value of the shares repurchased. If the average carrying value of the shares exceeds the purchase price, the difference will be recognized as a contributed surplus. If the purchase price exceeds the average carrying value of the shares, any previous contributed surplus related to such transactions is reversed. To the extent there is none, the difference is recognized as retained earnings. Shares are cancelled upon repurchase.

### 3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### 3(k) Profit per common share

Basic profit per common share is calculated by dividing the profit or loss for the period by the weighted average number of common shares outstanding for the period.

Diluted profit per common share is calculated using the treasury stock method by adjusting the weighted average number of common shares outstanding for dilutive instruments.

#### 3(l) Share based compensation

The Corporation's share based compensation plans include both cash-settled and equity-settled awards.

Liabilities associated with cash-settled awards are determined based on the fair value of the award at the grant date and are subsequently revalued at each statement of financial position date. The valuation incorporates the share price and outstanding awards at the statement of financial position date. Share based compensation expense is recognized in the statement of profit and comprehensive income over the vesting period with a corresponding increase and decrease in accounts payable and accrued liabilities.

Share based compensation expense associated with equity-settled awards is determined based on the fair value of the award at the grant date and is recognized over the vesting period, with the corresponding increase to contributed surplus. At the time the awards are exercised, the associated contributed surplus amount is recognized in share capital.

#### 3(m) Revenue recognition

Revenue from the sale of oil and natural gas is recognized when control of the product is transferred, which is, generally, when the title passes to the customer in accordance with the terms of the sales contract. These sales contracts represent a series of distinct transactions. The Corporation considers its performance obligations under these contracts to be satisfied and control to be transferred when all the following conditions are satisfied:

- Blacksteel has transferred the title and physical possession of the commodity to the buyer.
- Blacksteel has transferred the significant risks and rewards of ownership of the commodity to the buyer and
- Blacksteel has the right to payment.

Blacksteel does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a result, the Corporation does not adjust its revenue transactions for the time value of money.

The Corporation sells its production of crude oil and natural gas pursuant to variable-price contracts. The transaction price for variable-price contracts is based on the commodity price, adjusted for quality, location, and other factors. The amount of revenue recognized is based on the agreed transaction price, with any variability in the transaction price recognized in the same period. Fees associated with marketing, transportation, and other items are based on fixed-price contracts.

The Corporation applies a practical expedient of IFRS 15 and does not disclose information about remaining performance obligations that have an original cost expected duration of one year or less. It does not have any long-term contracts with unfilled performance obligations. In addition, the Corporation also applies a practical expedient of IFRS 15 that allows any incremental costs of obtaining contracts with customers to be recognized as an expense when incurred rather than being capitalized.

## 3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### 3(n) Government loans

The benefit of a government loan at a below-market interest rate is generally accounted for as a government grant under IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance. The Corporation accounts for government loans at below-market interest rates in accordance with IFRS 9. The benefit that is the government grant is measured as the difference between the fair value of the loan on initial recognition and the amount received. Government grants are not recognized until there is a reasonable assurance that the Corporation will comply with the conditions attached to them and that the grants will be received.

### 3(o) Flow-through shares

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

### 3(p) Finance income and expenses

Finance income, which consists of interest income, is recognized as accruing in the statement of loss using the effective interest rate method.

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

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

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

### 3(q) Share based compensation

The Corporation has a Stock Option Plan as described in note 19. Stock options and warrants granted to directors, officers, employees, and consultants of the Corporation are accounted for using the fair value method under which compensation expense is recorded based on the estimated fair value of the options and warrants at the grant date using the Black-Scholes option pricing model.

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### 3(r) Convertible debentures

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

#### 3(s) Changes in accounting policies

**(i) Amendments to IFRS 16 Property, Plant and Equipment**

On May 1, 2022, the Corporation adopted *Property, Plant and Equipment- Proceeds before Intended Use* issued by the IASB which made amendments to IAS 16 *Property, Plant and Equipment.* The amendments prohibit a company from deducting from the cost of property, plant and equipment ("PP&E") amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related costs in profit or loss. There was no material impact to the Company's consolidated financial statements.

**(ii) Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets**

On May 1, 2022, the Corporation adopted *Onerous Contracts – Cost of Fulfilling a Contract* issued by the IASB which made amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. There was no material impact to the Corporation's consolidated financial statements.

#### 3(t) Future accounting pronouncements not yet adopted

The Corporation has reviewed the following reporting and accounting standards that have been issued but are not yet effective.

**(i) Amendments to IAS 12 Income Taxes**

The IASB has issued amendments to IAS 12 Income Taxes, which require entries to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. This will be effective on May 1, 2023. The amendment is not expected to have a material impact on the Corporation's consolidated financial statements.

**(ii) Amendments to IAS 1 Presentation of Financial Statements**

The IASB has issued amendments to IAS 1, which specify the classification and disclosure of liability with covenants. This will be effective on May 1, 2024. The amendment is not expected to have a material impact on the Corporation's consolidated financial statements.

### 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to use judgement in applying its accounting policies, estimates and assumptions about the future that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS, CONTINUED

### 4(a) Significant judgements in applying accounting policies

#### (i) Exploration and evaluation expenditures

The application of the Corporation's policy for exploration and evaluation expenditures requires management to make certain judgements as to the nature of the expenditures and the technical and commercial feasibility of the underlying resource property.

E&E assets remain capitalized as long as sufficient progress is being made in assessing whether the recovery of petroleum products is technically feasible and commercially viable. The concept of "sufficient progress" is a judgement area, and it is possible to have E&E assets remain classified as such for several years while additional E&E activities are carried out or the Corporation seeks government, regulatory or internal approval for development plans. E&E assets are subject to ongoing technical, commercial, and management reviews to confirm the continued intent to establish the technical feasibility and commercial viability of the discovery. When management makes this assessment, changes to project economics, expected capital expenditures, and production costs, results of other operators in the region and access to infrastructure and potential infrastructure expansions are important factors.

#### (ii) Identification of CGU's

For purposes of impairment testing, petroleum and natural gas assets are grouped into CGU's based on separately identifiable and largely independent cash flows. The determination of the Corporations' CGUs is subject to judgement.

#### (iii) Estimation of oil and natural gas reserves

Depletion and depreciation of property, plant and equipment costs and amounts used in impairment calculations are based on estimates of oil and natural gas reserves. At least once per year, the Corporation's independent reserve evaluators prepare a reserves assessment and evaluation of the Corporation's oil and gas properties. Reserve estimates are based on the estimated future commodity prices and operating costs, expected future rates of production, and the timing and amount of future capital expenditures, all of which are subject to many uncertainties and interpretations. Refer to note 8 for additional information relating to this estimate.

#### (iv) Impairment of non-financial assets

Value in use is determined by estimating the present value of the future net cash flows from the continued use of the CGU and is subject to the risks associated with estimating the value of reserves.

Fair value less costs of disposal refers to the amount obtainable from the sale of a CGU in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. The Corporation uses a discounted future cash flow model to measure the fair value of the CGU's. The future cash flows were based on level 3 fair value hierarchy input; the Corporation's reserves were prepared by its independent reserves evaluator, including key assumptions regarding the discount rate, expected future rates of production, future commodity prices, operating expenses, and development costs.

The key assumptions and estimates of the value of oil and natural gas reserves and the existing and potential markets for the Corporation's oil and natural gas assets are made at the time of reserves estimation and market assessments and are subject to change as new information becomes available. Changes in international and regional factors including the supply and demand of commodities and general economic environmental factors may result in significant changes to the estimated recoverable amounts of CGU's.

Refer to note 8 for additional information relating to this estimate.

Management also applies judgement in determining the fair value measurement of its investments in equity securities of private companies where quoted prices are unavailable and valuation techniques, qualitative factors and other unobservable information are considered.

### 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS, CONTINUED

#### 4(a) Significant judgements in applying accounting policies, continued

**(v) Business combinations**

The amounts recorded for identifiable assets acquired, liabilities assumed, goodwill or a gain from a bargain purchase will depend on management's assumptions and estimates of future events, particularly those assumptions and estimates used in the estimation of the fair value of oil and natural gas reserves. Key assumptions developed by management used to determine the fair value of the PP&E assets acquired included the discount rates, expected future rates of production, future commodity prices, operating expenses, and development costs. Refer to Note 5 for additional information relating to this estimate.

Management also applies judgement in determining whether an acquisition transaction meets the definition of business and constitutes either a business combination or an asset acquisition.

**(vi) Provisions and contingent liabilities**

Management applies significant judgement in estimating the amount and timing of the outflow of economic resources that will be required to settle an obligation.

**(vii) Decommissioning obligation**

The decommissioning obligation is estimated based on the Corporation's net ownership interest in all wells and facilities. Current estimated costs to reclaim and abandon these wells and facilities, government regulations and industry practices to decommission the Corporation's exploration and production assets and the estimated timing of the costs to be incurred in future years, based on current legal and constricted requirements and technology. The estimated obligations and actual costs may change significantly due to changes in regulations, technology, timing of the expenditure, and the discount rates used to determine the net present value of the obligations. Refer to note 16 for additional information relating to this estimate.

There are material uncertainties about the amount and timing of the decommissioning obligation, which include the future market prices for serves and equipment required to undertake decommissioning activities, the government regulations and industry practices that set out relevant standards, and the lifespan of the Corporation's portfolio of exploration and production assets.

**(viii) Deferred tax**

The recognition of deferred tax assets is based on the significant assumptions and estimations regarding future revenues and expenses and the probability that the deductible temporary differences will reverse in the foreseeable future. They key assumptions developed by management used to determine the recoverability of the deferred tax assets included expected future rates of production, future commodity prices, operating expenses, development costs, and general corporate general and administrative expenses. Changes in the tax rates or assumptions and estimates used in the recognition of deferred taxes may result in material adjustments to the amount recognized. Refer to note 17 for additional information relating to this estimate.

**(ix) Share based compensation**

In determining the fair value of share based compensation, the Black Scholes pricing model is utilized requiring management to estimate volatility rates, risk-free interest rates and the expected life of options granted.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS, CONTINUED

### 4(a) Significant judgements in applying accounting policies, continued

#### (x) Investments

Included in investments are a non-controlling investment in a public company and a non-controlling investment in a Canadian private company. Management accounted for such investments at fair value to profit or loss under IFRS 9, because the Corporation does not exercise significant influence over the investee. The Corporation does not have any contractual right to appoint any representative to the investee's board of directors. In addition, the Corporation does not have any participation in policymaking processes and does not have any material transactions with the investee.

## 5. ACQUISITIONS

### 5(a) Drakkar acquisition

On March 14, 2023, the Corporation closed pursuant to the terms of an amalgamation agreement with Drakkar Energy Ltd. ("Drakkar") and 2488908 Alberta Inc. ("248"), a wholly owned subsidiary of the Corporation, the acquisition of Drakkar. The Corporation agreed, among other things, to indirectly acquire all the issued and outstanding common shares and preferred shares of Drakkar by way of a three-cornered amalgamation (the "Transaction"). Upon completion of the Transaction, Drakkar became a wholly owned subsidiary of the Corporation.

The Drakkar amalgamation has been accounted for as a business combination under IFRS 3.

The fair value on March 14, 2023, of the total consideration transferred and the amounts recognized attributed to the assets acquired and liabilities assumed was as follows:

| **Consideration: ($)** | |
|---|---|
| 859,200 common shares | 68,736 |
| Stock options | 7,299 |
| Total Consideration | 76,035 |
| **Assets acquired and liabilities assumed:** | |
| Cash | 1,508 |
| Accounts receivable and accrued receivables | 29,606 |
| Goods and services tax receivable | 3,508 |
| Investment in High Ground Medica Inc. | 127,500 |
| Property, plant, and equipment | 6,516,300 |
| Accounts payable and accrued liabilities | (506,988) |
| Intercompany short-term loan | (805,642) |
| Convertible debentures | (210,859) |
| Convertible preferred shares | (285,808) |
| CEBA loan | (39,562) |
| Decommissioning obligation | (530,877) |
| Remediation provision | (491,527) |
| **Total identifiable net assets** | 3,807,159 |
| Gain on acquisition | (3,731,124) |

### 5. ACQUISITIONS, CONTINUED

#### 5(a) Drakkar acquisition, continued

In conjunction with the Transaction, as settlement of certain liabilities assumed, the Corporation issued 2,635,733 common shares to the convertible debenture holders, 3,572,598 common shares to the convertible preferred shareholders and 2,267,946 common shares to certain credit holders in respect of liabilities of $181,569. All the 9,335,477 common shares issued as part of the Transaction were valued at approximately $0.08 per share. The $0.08 valuation represented the most recent private placement of common shares issued by the Corporation.

In addition, the Corporation issued 112,500 stock options (the "Replacement Options") which entitle the holder to acquire common shares of the Corporation at a price of $0.05 per common share in exchange for the cancellation of all the outstanding exercisable options to acquire shares of Drakkar immediately prior to the effective time of the Amalgamation.

As of March 14, 2023, Drakkar had cash, accounts receivable and accrued receivable, accounts payable and accrued liabilities, provisions, and debt. The carrying value of these assets approximated fair value.

The only significant assets acquired in the acquisition were the petroleum and natural gas assets, being a 70% working interest in the same properties the Corporation owned a 30% working interest in. The Corporation had a reserve report prepared close to the transaction date. The report had noted proved and probable reserves undiscounted of approximate $74 Million. As Blacksteel currently lacks the funds necessary to execute an extensive drilling program, the probable reserves were excluded from the fair value calculation.

The proved reserves were discounted using the Corporation’s weighted average cost of capital (“WACC”) rate of 33%. The high-risk premium is associated with Blacksteel's financial position.

The Transaction resulted in the recognition of a gain on acquisition. The reason for the gain was Drakkar's inability to obtain sufficient debt or capital to finance expenditures required for repairs to the battery and remediation of the properties due to the saltwater spill.

Since closing the acquisition of Drakkar, Blacksteel has fixed the battery, brought 3 wells into production, expanded the land base, and began the first phase of remediation to clean up the saltwater spill, resulting in an increase in the property's value.

Drakkar had revenue of $60,741 and a loss of $45,001 during the period since being acquired. Had the business combination occurred at the beginning of fiscal 2023, the combined entity would have reported revenue of $364,030, an operating loss of $1,786,692 and profit and comprehensive income for the year of $2,734,538.

#### 5(b) Kaz acquisition

On May 18, 2022, the Corporation acquired all the outstanding shares and warrants of Kaz Acquisition Corp. (“Kaz”), a private corporation in exchange for 12,061,250 common shares, 4,292,500 warrants and 481,500 finder’s warrants of Blacksteel. Upon completion of the transaction, Kaz became a wholly owned subsidiary of the Corporation.

The operations of Kaz did not meet the definition of a business under IFRS 3 and accordingly they were accounted for as an acquisition of a loan receivable of $173,070 and settlement of a loan payable by Blacksteel to Kaz.

Blacksteel allocated $333,070 to the common shares when applying the residual method to the components of consideration transferred.

## 6. INVESTMENTS

The Corporation's investments are comprised of:

| ($) | **April 30, 2023** | April 30, 2022 |
|---|---|---|
| Magnetic North Acquisition Corp. | **40,000** | - |
| High Ground Medica Inc. | **127,235** | - |
| Balance, end of year | **167,235** | - |

## 7. LOANS RECEIVABLE

### 7(a) Drakkar loan

In connection with the acquisition of a 30% interest in the Girouxville oil and gas assets during the year ended April 30, 2017, Blacksteel also provided Drakkar with a $400,000 loan to assist in the purchase of the remaining 70% interest in the assets. The loan accrued interest at a rate of 12% per annum, was secured by a 20% working interest in the Girouxville assets retained by Drakkar (14% overall working interest) and was due on demand.

The loan was settled on March 13, 2023, in conjunction with the Corporation's acquisition of Drakkar. During the year ended April 30, 2022, interest receivable of $14,581 was written off.

### 7(b) Devonian Petroleum Limited loan

On May 18, 2022, through the Kaz acquisition, the Corporation acquired a loan receivable from Devonian Petroleum Limited, a private company domiciled in Scotland. The loan of $140,000 USD had been provided to assist with due diligence activities related to a proposed business combination and potential acquisitions of petroleum and natural gas properties in Kazakhstan. The loan accrues interest at a compound annual interest rate of 3% and had a maturity date of December 14, 2022.

The Corporation subsequently decided not to pursue the proposed transactions, and a provision for impairment was recorded for the full amount of the loan.

### 7(c) Loans receivable continuity

| ($) | **April 30, 2023** | April 30, 2022 |
|---|---|---|
| Drakkar Loan: | | |
| Balance, beginning of year | **282,488** | 222,488 |
| Advanced | **311,730** | 60,000 |
| Settled on acquisition of Drakkar | **(594,218)** | - |
| Balance, end of year | **-** | 282,488 |

| ($) | **April 30, 2023** | April 30, 2022 |
|---|---|---|
| Devonian Petroleum Limited Loan: | | |
| Balance, beginning of year | **-** | - |
| Acquired | **173,070** | - |
| Loan receivable impairment | **(173,070)** | - |
| Balance, end of year | **-** | - |

## 8. PROPERTY, PLANT AND EQUIPMENT

The Corporation acquired a 30% working interest in 18 sections of contiguous light oil assets around Girouxville in Northwest Alberta in 2017. During 2023 as a result of the Drakkar acquisition, the Corporation acquired the remaining 70% working interest in the assets.

**PROPERTY, PLANT AND EQUIPMENT**

| **Cost** | **($)** |
|---|---|
| Balance April 30, 2021 | 656,632 |
| Change in decommissioning obligation estimate | (51,031) |
| Disposal (Restated – Note 26) | (23,145) |
| Balance April 30, 2022 | 582,456 |
| Drakkar acquisition | 6,516,300 |
| Additions | 481,283 |
| Change in decommissioning obligation estimate | (95,092) |
| Balance April 30, 2023 | 7,484,947 |

| **Accumulated depletion and depreciation** | |
|---|---|
| Balance April 30, 2021 | 288,557 |
| Depletion | 24,266 |
| Disposal (Restated – Note 26) | (11,955) |
| Balance April 30, 2022 | 300,868 |
| Depletion | 42,553 |
| Balance April 30, 2023 | 343,421 |

| **Net book value** | |
|---|---|
| Balance, April 30, 2023 | 7,141,526 |
| Balance April 30, 2022 (Restated – Note 26) | 281,588 |

**Depletion**

Future development costs of $39,269,000 (2022 - $5,106,000) 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, 2023, and April 30, 2022.

**Impairment**

At April 30, 2023, there were no indicators of impairment. The Corporation used a discounted future cash flow model to measure the fair value of the CGU whereby the net present value of the after-tax future cash flows was calculated using a discount rate of 33%.

## 9. EXPLORATION AND EVALUATION ASSETS

| ($) | **April 30, 2023** | April 30, 2022 |
|---|---|---|
| Opening balance | **26,465** | 26,465 |
| Impairment provision | **(26,465)** | - |
| Ending balance | **-** | 26,465 |

### 10. LEASES

The Corporation has a lease contract for office space used in its operations. The office space has a lease term of 3 years. Set out below are the carrying amount of right-of-use assets and the movements during the year:

**10(a) Right-of-use assets:**

| ($) | **April 30, 2023** | April 30, 2022 (Restated -Note 26) |
|---|---|---|
| Opening balance | **110,871** | 32,719 |
| Additions | **-** | 117,014 |
| Change in estimate | **(81,439)** | - |
| Depreciation | **(19,171)** | (38,322) |
| Ending balance | **10,261** | 110,871 |

**10(b) Lease obligation:**

| ($) | **April 30, 2023** | April 30, 2022 (Restated – Note 26) |
|---|---|---|
| Opening balance | **124,627** | 33,311 |
| Additions | **-** | 117,014 |
| Change in estimate | **(90,149)** | - |
| Interest expense | **1,688** | 5,997 |
| Lease payments | **(24,075)** | (31,695) |
| Ending balance | **12,091** | 124,627 |

Allocated as:

| ($) | **April 30, 2023** | April 30, 2022 (Restated – Note 26) |
|---|---|---|
| Current | **6,780** | 58,174 |
| Non-current | **5,311** | 66,453 |
| Lease obligation, ending balance | **12,091** | 124,627 |

**10(c) The following are the amounts recognized as profit or loss:**

| ($) | **April 30, 2023** | April 30, 2022 (Restated – Note 26) |
|---|---|---|
| Depreciation of right-of-use assets | **19,171** | 38,322 |
| Interest expense on lease obligation | **1,688** | 5,997 |
| Expenses relating to short-term leases | **14,678** | 13,518 |
| Variable lease payments | **-** | 1,980 |
| Total amount recognized as profit or loss | **35,537** | 59,817 |

## 10. LEASES, CONTINUED

### 10(c) The following are the amounts recognized as profit or loss, continued:

During the year ended April 30, 2022, the Corporation acquired right-of-use assets of $117,014 by means of a lease.

The Corporation had total cash outflows for leases of $24,075 for the year ended April 30, 2023 (2022 – $31,695).

The Corporation's lease contract includes extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Corporation's business needs. The renewal terms are not included in the calculation of the lease term, as it is uncertain whether the Corporation will choose the extension options upon lease expiration.

The Corporation's office space lease contained variable payments based on actual costs incurred for parking. Variable lease payments were $nil for the year ended April 30, 2023 (2022 – $1,980).

## 11. BANK DEBT

The Corporation has a $15,000 Line of Credit with a chartered bank. As of April 30, 2023 and 2022, there was $nil outstanding.

## 12. CEBA LOANS

Under the Canada Emergency Business Account ("CEBA") to assist companies during the COVID-19 pandemic, the Government of Canada provided a loan to the Corporation in the amount of $60,000 as part of an economic stimulus package. The loan is interest-free and requires no principal repayments until December 31, 2023. After the interest-free period ends, the loan will bear interest at a rate of 5% per annum. If the loan is repaid prior to December 31, 2023, $20,000 will be forgiven.

The CEBA loan was measured at a fair value of $31,474 on initial recognition, considering the grant, the interest-free loan, and the repayment on December 31, 2023. An effective rate of 12% was used, considering the rate that the Corporation would have obtained for a similar loan. During the year ended April 30, 2021, the Corporation also recognized $20,000 of the forgivable portion of the CEBA Loans and a fair value adjustment of $8,526 as income.

During the year ended April 30, 2023, management revised its assumption as to repayment of the loan to December 31, 2026, resulting in the recognition of a loss of $10,256. During the year ended April 30, 2022, the terms of repayment were extended from December 31, 2022 to December 31, 2023, resulting in the recognition of a gain of $3,371.

On March 14, 2023, as part of the business combination transaction, Blacksteel acquired Drakkar's CEBA loan in the amount of $60,000, repayable under the same terms and conditions discussed above.

The balance of CEBA loans outstanding at April 30, 2023 was $77,921 (2022 - $28,103).

## 13. CONVERTIBLE DEBENTURES

On April 27, 2022, the Corporation converted all its outstanding convertible debentures into equity.

The conversion of outstanding convertible debentures with a carrying amount of $2,176,234, including interest payable (the "Debentures") into common shares of the Corporation (the "Common Shares") at a price of $0.10 per share resulted in the issuance of 17,962,275 Common Shares. Blacksteel received approval from owners of Debentures holding in excess of the required 66.67% of the outstanding principal amount to convert all Debentures into equity.

| ($) | |
|---|---|
| Debt component, April 27, 2022 | 1,723,000 |
| Interest payable, April 27, 2022 | 453,234 |
| Debt carrying amount, April 27, 2022 | 2,176,234 |
| Debt settlement – conversion debt component | (1,796,227) |
| Debt settlement – conversion equity component | 2,499 |
| Gain from debt settlement | (382,506) |
| Debt component, April 30, 2022 and 2023 | - |

| | |
|---|---|
| Equity component, April 30, 2021 | 458,266 |
| Equity cancellation | (458,266) |
| Equity component, April 30, 2022 and 2023 | - |

## 14. NOTE PAYABLE

During the year ended April 30, 2022, the Corporation received $160,000 from Kaz Acquisition Corp. in the form of unsecured promissory note (the “Note”). The Note carried a compounded annual interest rate of 3.00% payable on the unpaid principal and accrued interest, and had a maturity date of December 14, 2022.

The note was settled for common shares in conjunction with the Kaz Acquisition on May 18, 2022.

## 15. REMEDIATION PROVISION

| ($) | **April 30, 2023** | April 30, 2022 (Restated – Note 26) |
|---|---|---|
| Opening balance | **223,733** | 230,682 |
| Drakkar acquisition | **491,527** | - |
| Expenditures incurred | **(13,644)** | - |
| Change in cost estimate | **(6,890)** | (8,056) |
| Accretion expense | **9,643** | 1,107 |
| Ending balance | **704,369** | 223,733 |
| Current | 60,000 | - |
| Long-term | 644,369 | 223,733 |

The Corporation’s provision for remediation costs resulted from an accidental discharge of pollutants into the environment that occurred in 2020 due to a mechanical failure. The remediation will span over four phases. The total estimated and undiscounted cash flows required to settle the provision is $732,519 (2022 - $233,653) as at April 30, 2023, which has been discounted using a discount rate of 3.51% (2022 - 2.63%). This liability is expected to be settled by December 2025.

### 16. DECOMMISSIONING OBLIGATION

| ($) | **April 30, 2023** | April 30, 2022 (Restated – Note 26) |
|---|---|---|
| Opening balance | **336,705** | 399,647 |
| Expenditures incurred | **-** | (23,146) |
| Drakkar acquisition | **530,877** | - |
| Change in estimates | **(112,972)** | (51,031) |
| Accretion expense | **8,218** | 11,235 |
| Ending balance | **762,828** | 336,705 |

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 $894,123 at April 30, 2023 (2022 - $484,000), which has been inflated at 2.00% (2022 – 2.00%) discounted using a weighted average risk-free rate of 2.96% at April 30, 2023 (2022 – 2.84%). These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to 17.7 years into the future and will be funded from general corporate resources at the time of abandonment.

### 17. INCOME TAX

Income tax recovery differs from that which would be expected from applying the combined effective Canadian federal and provincial tax rate of 23.00 percent (2022 – 23.00 percent) to loss before income taxes as follows:

| For the years ended April 30, ($) | **2023** | 2022 (Restated – Note 26) |
|---|---|---|
| Profit (Loss) before income taxes | **1,962,468** | 17,659 |
| Combined federal and provincial income tax rates | **23%** | 23% |
| Expected income tax (recovery) | **451,368** | 4,062 |
| Differences resulting from: | | |
| Non-deductible expenses | **114,751** | 16,735 |
| Permanent differences | **84,815** | - |
| Changes in unrecognized deferred tax assets | **(650,934)** | (20,797) |
| Deferred income tax recovery | **-** | - |

### 17. INCOME TAX, CONTINUED

The significant components of the Corporation's deductible temporary differences, unused tax losses and unused tax credits, for which no deferred tax asset has been recognized are as follows:

| ($) | **Expiry dates, if any** | **April 30, 2023** | April 30, 2022 |
|---|---|---|---|
| Non-capital losses | **2037 - 2043** | **16,258,031** | 5,767,956 |
| Capital losses | | **1,112,521** | 375,000 |
| Property, plant and equipment | | **-** | 3,353,798 |
| Evaluation and exploration assets | | **2,355,755** | 754,907 |
| Remediation provision | | **704,369** | 233,733 |
| Decommissioning obligation | | **762,828** | 336,705 |
| Share issuance costs | | **142,508** | - |

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

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

### 18. 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.

| **Class A common shares issued and outstanding** | **Number of shares** | **Stated Value** |
|---|---|---|
| Balance, April 30, 2021 | 36,227,416 | $ 15,182,583 |
| Issued on conversion of debenture | 17,962,275 | 1,796,227 |
| Balance, April 30, 2022 | 54,189,691 | $ 16,978,810 |
| Kaz acquisition Corp., issued for shares | 12,061,250 | 333,070 |
| Magnetic North Acquisition Corp. acquisition, issued for shares | 6,000,000 | 173,000 |
| Private placements, issued for cash and balance of share capital reserve | 8,379,773 | 670,382 |
| Flow-through shares, issued for cash | 7,721,444 | 694,930 |
| Flow-through shares premium | - | (77,214) |
| Drakkar acquisition, issued for shares | 9,335,467 | 746,971 |
| Share issue costs | - | (178,136) |
| **Balance, April 30, 2023** | **97,687,625** | **$ 19,341,813** |

### 19. SHARE BASED COMPENSATION

#### (a) Stock option plan

The Corporation has established an incentive stock option plan to which options to purchase common shares may be granted to directors, officers, employees, and service providers of the Corporation. The stock option 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 stock option 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, normally vest over a two-year period, and have an exercise price based on the then market price of the Corporation's shares.

During the year ended April 30, 2023, the Corporation granted the following stock options under its stock option plan. On August 8, 2022, the Corporation granted an aggregate of 4,000,000 incentive stock options to officers and directors. Each option entitles the holder to purchase one common share in the capital of the Corporation for a period of five years at a price of $0.08. The options vest in equal tranches over a one-year period. On December 8, 2022, the Corporation granted an aggregate of 3,000,000 incentive stock options to officers. Each option entitles the holder to purchase one common share in the capital of the Corporation for a period of five years at a price of $0.08 and vested immediately when being granted. On March 14, 2023, an aggregate of 112,500 replacement options were granted in connection with the acquisition of Drakkar. Each option entitles the holder to purchase one common share in the capital of the Corporation for a period of ninety days after the listing of the Company's common shares on a recognized stock exchange at a price of $0.05 and vested immediately when being granted.

The total fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions as follows:

| | **Year ended April 30, 2023** |
|---|---|
| Risk free interest rate | 2.93% |
| Expected volatility | 100% |
| Expected dividend yield | 0% |
| Expected forfeiture rate | 0% |
| Expected life | 4.94 years |
| Fair value of options granted | $0.0602 |

### 19. SHARE BASED COMPENSATION, CONTINUED
#### (a) Stock option plan, continued

The following table summarizes the activity under the stock option plan:

| | | Year ended April 30, 2023 | | Year ended April 30, 2022 |
|---|---|---|---|---|
| **Date of Grant** | **Number** | **Weighted Average Exercise Price** | **Number** | **Weighted Average Exercise Price** |
| Outstanding, beginning balance | 1,245,000 | $ 0.10 | 1,245,000 | $ 0.10 |
| Exercised | - | - | - | - |
| Issued on acquisition of Drakkar | 112,500 | $0.05 | | |
| Issued | 7,000,000 | $0.08 | | |
| Expired | (1,245,000) | $0.10 | - | - |
| Outstanding | 7,112,500 | | 1,245,000 | $ 0.10 |
| Exercisable | 5,779,167 | $ 0.08 | 1,245,000 | |

The following table summarizes the expiry terms and exercise prices of the Corporation's outstanding stock options as at April 30, 2023:

| Date of Grant | Date of Expiry | Outstanding Options | Weighted Average Remaining Contractual Life (years) | Number of Stock Options Exercisable |
|---|---|---|---|---|
| August 8, 2022 | August 8, 2027 | 4,000,000 | 4.28 | 2,666,667 |
| December 8, 2022 | December 8, 2027 | 3,000,000 | 4.61 | 3,000,000 |
| March 14, 2023 | ** | 112,500 | ** | 112,500 |
| Total options | | 7,112,500 | 4.41 | 5,779,167 |

** Not determined at April 30, 2023.

#### (b) Warrants

In connection with the Kaz acquisition, the Corporation granted the vendors and Broker non-transferable common share purchase warrants. In exchange for their outstanding warrants of Kaz, the vendors were granted warrants to purchase 4,292,500 common shares at a price of $0.05 per common share with an expiry date of June 30, 2026. The Broker was granted warrants to purchase 481,500 common shares at a price of $0.10 per common share with an expiry date of November 30, 2022, which were expired unexercised.

In connection with the private placements, the Corporation granted the Broker non-transferable common share purchase warrants to purchase 592,110 common shares at a price of $0.08 per share, with expiry dates of March 30 and April 27, 2024.

## 19. SHARE BASED COMPENSATION, CONTINUED

### (b) Warrants, continued

The following table summarizes the expiry terms and exercise prices of the Corporation's outstanding share purchase warrants as at April 30, 2023:

| Date of Grant | Date of Expiry | Outstanding Warrants | Weighted Average Remaining Contractual Life (years) | Number of Share Purchase Warrants Exercisable |
|---|---|---|---|---|
| July 15, 2022 | June 30, 2026 | 4,292,500 | 3.17 | 4,292,500 |
| March 30, 2023 | March 30, 2024* | 572,110 | 0.92 | 572,110 |
| April 27, 2023 | April 27, 2024* | 20,000 | 0.99 | 20,000 |
| Total warrants | | 4,884,610 | 2.89 | 4,884,610 |

*These warrants were expired subsequent to 2023 year end.

## 20. GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE

| ($) | **2023** | 2022 |
|---|---|---|
| Management consulting fees | **300,575** | 133,286 |
| Legal fees | **93,838** | 33,810 |
| Professional fees | **71,050** | 29,530 |
| Rent expense | **20,378** | - |
| Travel | **33,934** | - |
| Insurance | **15,427** | - |
| Shareholder services | **5,807** | 5,886 |
| Office | **18,093** | 15,222 |
| Total | **559,102** | 217,734 |

## 21. FINANCE EXPENSE

| ($) | **2023** | 2022 (Restated – Note 26) |
|---|---|---|
| Interest on convertible debenture | **-** | 145,445 |
| Accretion on lease obligation | **1,688** | 5,997 |
| Accretion of remediation provision | **9,643** | - |
| Accretion of decommissioning obligation | **8,218** | 12,342 |
| Interest on management consulting services | **-** | 1,010 |
| Total | **19,549** | 164,794 |

## 22. PROFIT PER SHARE

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

| Outstanding Weighted Average Common Shares | **2023** | 2022 (Restated – Note 26) |
|---|---|---|
| Basic and diluted | **75,165,654** | 36,424,263 |
| Profit (loss) per share | **$0.03** | $0.00 |

## 23. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

Management of Blacksteel has overall responsibility for identifying the principal risks of the Corporation and ensuring the policies and procedures are in place to approximately manage these risks. The Corporation's management identifies, analyzes, and monitors risks and considers the implications of market conditions in relation to the Corporation's activities.

### 23(a) Fair values of financial instruments

The fair values of cash, accounts receivable, accounts payable and accrued liabilities and note payable approximate their carrying value due to the short-term maturity of these instruments. The fair value of loans receivable approximates their carrying value as they have been written down to its approximate fair value using the expected credit loss model.

IFRS established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Note 3 (d)(i) describes the three levels of the fair value hierarchy.

The fair value of the investment in Magnetic North Acquisition Corp. is classified as Level 2 with its value based on quoted prices in an inactive market. The investment in High Ground Medica Inc. is determined using a level 3 valuation model. Management considers factors such as the liquidity of the investment and the net asset value based on appraisal information for the underlying assets.

### 23(b) Financial risks

The Corporation is exposed to financial risks arising from its financial assets and liabilities. The main financial risks affecting the Corporation are credit risk, liquidity risk, and market risk.

### 23(c) Credit risk

Credit risk is the risk of financial loss to the Corporation of a customer or counterparty to a financial instrument fails to meet its contracted obligations and arises principally for the Corporation's receivable from joint operations partners and petroleum and natural gas customers.

At April 30, 2023, the maximum exposure to credit risk was $225,203 (2022 - $392,903) being the carrying value of its cash, goods and services tax receivable, accounts receivable, and loans receivable.

Cash consists primarily of cash bank balances. The Corporation manages the credit exposure of cash by selecting large established Canadian financial institutions with high credit ratings. The Corporation does not invest its excess cash in high-risk investment vehicles such as asset-backed commercial paper.

No trade receivables were allowed for or written off during the years ended April 30, 2023 and 2022. The Corporation considers all trade receivables greater than 90 days past due. There were no past-due trade receivables as of April 30, 2023 and 2022.

As at April 30, 2023 and 2022, the Corporation's accounts receivable were comprised of the following:

| ($) | **April 30, 2023** | April 30, 2022 |
|---|---|---|
| Accounts receivable | **85,724** | - |
| Interest receivable | **-** | 53,497 |

As of April 30, 2023, and April 30, 2022, the Corporation's accounts receivables were aged as follows:

| ($) | **April 30, 2023** | April 30, 2022 |
|---|---|---|
| Aging 0-30 days | **85,724** | 53,497 |

### 23. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT, CONTINUED

#### 23(d) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. At April 30, 2023 and 2022, the Corporation had a working capital deficiency. The objective is to ensure, as far as possible, that the Corporation will have sufficient liquidity to meet its liabilities when due. The Corporation has and will continue to manage its working capital needs through its physical diversification program, adjusting the timing of capital expenditures, executing asset dispositions, and issuing equity when practical.

To achieve this objective, the Corporation prepares annual capital expenditure budgets, which are monitored and updated as considered necessary. The Corporation uses authorizations for expenditure on both operated and non-operated projects to further manage capital expenditures.

The Corporation also attempts to match its payment cycle with the collection of oil and natural gas revenue on the 25$^{th}$ of the month.

Contractual Maturity Analysis at April 30, 2023

| ($) | 1 year and less | 1 to 2 years | Over 2 years | Total |
|---|---|---|---|---|
| Lease obligation | 7,200 | 5,400 | - | 12,600 |
| Non-lease financial liabilities | 1,842,312 | 59,481 | 41,339 | 1,943,132 |
| Total | 1,849,512 | 64,881 | 41,339 | 1,955,732 |

Contractual Maturity Analysis at April 30, 2022

| ($) | 1 year and less | 1 to 2 years | Over 2 years | Total |
|---|---|---|---|---|
| Lease obligation | 56,714 | 39,839 | 29,879 | 126,432 |
| Non-lease financial liabilities | 685,796 | 40,000 | - | 725,796 |
| Total | 742,510 | 79,839 | 29,879 | 852,228 |

#### 23(e) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: commodity price risk, foreign currency exchange risk, and interest rate risk. The Corporation is exposed to market risks resulting from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. The Corporation has not entered into any derivative financial instruments to manage this risk at this time. In the future, derivative instruments may be used to reduce exposure to these risks.

(i) Commodity price risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by world and continental/regional economic and other events that dictate the levels of supply and demand. Given the Corporation’s limited production, the Corporation has chosen not to hedge any of its oil and natural gas production and consequently, the Corporation had no financial derivative sales contracts in place as at or during the years ended April 30, 2023, and 2022. The Corporation manages this risk by monitoring commodity prices and factoring any changes into operational decisions.

### 23. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT, CONTINUED

**23(e) Market risk, continued**

(ii) 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, 2023 and 2022, 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.

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in market interest rates. As at April 30, 2023 and 2022, the Corporation had no liabilities payable that bear interest at rates that fluctuate with the prime rate. The Corporation had no interest rate swaps or financial contracts in place as at or during the years ended April 30, 2023 or 2022.

**23(f) Capital management**

The Corporation considers its capital structure to include shareholders' equity (deficit) 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(v)) 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 primarily included issuing common shares, flow-through shares, common share purchase warrants, and convertible debentures.

The Corporation will pursue additional sources of external financing to ensure that it has the necessary financial resources available. To the extent that market conditions are not believed to be positive for raising equity or debt, adjustments may be made to the timing of planned capital expenditures and operating costs reduced to the extent possible until those market conditions become acceptable. Management reviews its capital management approach on an ongoing basis. There were no changes in the Corporation's approach to capital management during the years ended April 30, 2023 or 2022.

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

| ($) | **April 30, 2023** | April 30, 2022 (Restated – Note 26) |
|---|---|---|
| Shareholders' equity (deficit) | **4,116,009** | (543,301) |
| Long-term debt | **1,532,923** | 654,994 |
| Capital | **5,648,932** | 111,693 |

The Corporation is under a management cease trade order granted September 1, 2023, by its principal regulator, the Alberta Securities Commission, under National Policy 12-203 - *Management Cease Trade Orders*. The cease trade order will be reviewed by the Alberta Securities Commission once corporate filings are current.

## 24. RELATED PARTY TRANSACTIONS

(i) During the year ended April 30, 2023, the Corporation incurred expenses in an amount of $273,325 (2022 - $43,809) related to legal services to a law firm in which a director of the Corporation was a partner during the year. Of these costs, $130,424 (2022 - $43,809) were recorded to general and administrative expenses, and $142,901 were recorded to acquisition costs.

(ii) During the year ended April 30, 2023 and 2022, the Corporation had transactions with Drakkar, which is considered as a related party (Note 5, 7).

(iii) 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:

| ($) | **2023** | 2022 |
|---|---|---|
| Management consulting fees | **254,983** | 133,286 |
| Share based compensation – expensed | **347,563** | - |
| | **602,546** | 133,286 |

(iv) During the year ended April 30, 2023, the Corporation incurred interest expense of $nil (2022 - $1,010) and general and administrative expenses for office expenses of $nil (2022 - $13,518) to corporations in which an officer of the Corporation is an owner.

(v) As at April 30, 2023, amounts due to related parties and former related parties of $454,020 (2022 - $316,239) are included in accounts payable and accrued liabilities. The amounts due are unsecured, are without fixed terms of repayment, and are non-interest-bearing.

## 25. COMMITMENTS

In connection with the flow-through share financing during the year ended April 30, 2023, the Corporation committed to incurring qualifying Canadian Exploration and Development Expenditures (as such terms are defined in the Income Tax Act (Canada)) totaling $694,930 by April 30, 2025. At April 30, 2023, the commitment to incur qualifying expenditures was $608,600.

## 26. RESTATEMENTS

Blacksteel has restated its financial statements as at April 30, 2022 and for the year then ended to recognize right-of use assets and lease liabilities for two equipment leases entered into in the year ended April 30, 2020, to revise the decommissioning obligation estimate of abandonment costs of a well, and to recognize a provision for remediation costs resulting from an accidental discharge of pollutants into the environment that occurred in 2020 due to a mechanical failure. The statement of cash flows has been restated to reflect the adjustments.

In addition, certain of the prior year's figures have been reclassified to conform to the presentation used in the current year. The changes do not affect prior year earnings.

Blacksteel also restated its financial statements for the year ended April 30, 2021 to recognize the right-of use assets, lease liabilities and provision for remediation costs discussed above.

## 26. RESTATEMENTS, CONTINUED

The impact of the restatements as at April 30, 2022 and for the year then ended is summarized below:

Balance Sheet
*(Amounts in Canadian dollars)*

| | As reported | Adjustments | Restated |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash | 51,261 | - | 51,261 |
| Goods and services tax receivable | - | 5,657 | 5,657 |
| Accounts receivable | 59,154 | (5,657) | 53,497 |
| Deposits and prepaid expenses | 43,807 | 29 | 43,836 |
| Loans receivable | 282,488 | - | 282,488 |
| **Total current assets** | 436,710 | 29 | 436,739 |
| Exploration and evaluation assets | 26,465 | - | 26,465 |
| Property, plant and equipment | 292,778 | (11,190) | 281,588 |
| Right-of-use asset | 97,707 | 13,164 | 110,871 |
| **Total assets** | 853,660 | 2,003 | 855,663 |
| **Liabilities** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 525,796 | - | 525,796 |
| Current portion of lease obligation | 42,236 | 15,938 | 58,174 |
| Note payable | 160,000 | - | 160,000 |
| **Total current liabilities** | 728,032 | 15,938 | 743,970 |
| Non-current liabilities | | | |
| CEBA loan | 28,103 | - | 28,103 |
| Lease obligation | 66,453 | - | 66,453 |
| Decommissioning obligation | 359,851 | (23,146) | 336,705 |
| Remediation provision | - | 223,733 | 223,733 |
| **Total liabilities** | 1,182,439 | 216,525 | 1,398,964 |
| Shareholders' Equity | | | |
| Share capital | 16,978,810 | - | 16,978,810 |
| Share capital reserve | 100,000 | - | 100,000 |
| Contributed surplus | 5,470,522 | - | 5,470,522 |
| Deficit | (22,878,111) | (214,522) | (23,092,633) |
| **Total Shareholders' equity (deficit)** | (328,779) | (214,522) | (543,301) |
| **Total liabilities and shareholders' equity** | 853,660 | 2,003 | 855,663 |

## 26. RESTATEMENTS, CONTINUED

Statement of Profit and Loss and Other Comprehensive Income
*(Amounts in Canadian dollars)*

| | Year ended April 30, 2022 | | |
|---|---|---|---|
| | As reported | Adjustments | Restated |
| Revenue | | | |
| Oil revenue | 233,607 | - | 233,607 |
| Less: Royalty expenses | (70,760) | - | (70,760) |
| Net revenue | 162,847 | - | 162,847 |
| Rental income | 16,712 | - | 16,712 |
| Expenses | | | |
| General and administrative expenses | 217,734 | - | 217,734 |
| Production, operating and transportation | 170,297 | (20,925) | 149,372 |
| Depletion and depreciation | 43,573 | 19,015 | 62,588 |
| Total expenses | 431,604 | (1,910) | 429,694 |
| Operating loss | (252,045) | 1,910 | (250,135) |
| Other income (expenses) | | | |
| Change in remediation provision | - | 8,058 | 8,058 |
| Finance income, being interest | 41,280 | - | 41,280 |
| Gain on debt conversion | 382,504 | - | 382,504 |
| Gain on reversal of decommissioning provision | - | 11,956 | 11,956 |
| Fair value adjustment of CEBA loan | 3,371 | - | 3,371 |
| Finance expense | (160,135) | (4,659) | (164,794) |
| Impairment on loan receivable | (14,581) | - | (14,581) |
| Profit before tax | 394 | 17,265 | 17,659 |
| Profit and comprehensive income for the year | 394 | 17,265 | 17,659 |
| Profit per share, basic and diluted | $0.00 | - | $0.00 |

## 26. RESTATEMENTS, CONTINUED

Statement of Cash Flows
*(Amounts in Canadian dollars)*

| | Year ended April 30, 2022 | | |
|---|---|---|---|
| | As reported | Adjustments | Restated |
| Cash provided by (used in): | | | |
| **OPERATING ACTIVITIES** | | | |
| Cash flow from operating activities: | | | |
| Profit for the year | 394 | 17,265 | 17,659 |
| Non-cash items: | | | |
| Non-cash finance expense | 125,471 | 3,552 | 129,023 |
| Depletion, depreciation, and amortization | 54,808 | 20,122 | 74,930 |
| Change in decommissioning obligation | (51,031) | (11,956) | (62,987) |
| Impairment of loan receivable | 14,581 | - | 14,581 |
| Change in remediation provision | - | (8,058) | (8,058) |
| Fair value adjustment to CEBA loan | (3,371) | - | (3,371) |
| Gain on debt conversion | (382,504) | - | (382,504) |
| Sub-total | (241,652) | 20,925 | (220,727) |
| Net change in non-cash working capital | 71,949 | (20,925) | 51,024 |
| Net cash used in operating activities | (169,703) | - | (169,703) |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from private placement share issuances | 100,000 | - | 100,000 |
| Proceeds from Kaz acquisition loan | 160,000 | - | 160,000 |
| Net cash provided by financing activities | 260,000 | - | 260,000 |
| **INVESTING ACTIVITES** | | | |
| Loan advances to Drakkar Energy Ltd. | (60,000) | - | (60,000) |
| Net cash used in investing activities | (60,000) | - | (60,000) |
| Increase in cash | 30,297 | - | 30,297 |
| Cash, beginning of the year | 20,964 | - | 20,964 |
| Cash, end of the year | 51,261 | - | 51,261 |

### 26. RESTATEMENTS, CONTINUED

The impact of the restatements as at May 1, 2021 is summarized below:

Balance Sheet
*(Amounts in Canadian dollars)*

| | As reported | Adjustments | Restated |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash | 20,964 | - | 20,964 |
| Accounts receivable | 29,753 | - | 29,753 |
| Deposits and prepaid expenses | 30,037 | - | 30,037 |
| Loans receivable | 222,488 | - | 222,488 |
| **Total current assets** | 303,242 | - | 303,242 |
| Exploration and evaluation assets | 26,465 | - | 26,465 |
| Property, plant and equipment | 368,075 | - | 368,075 |
| Right-of-use asset | - | 32,179 | 32,179 |
| **Total assets** | 697,782 | 32,179 | 729,961 |
| **Liabilities** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 766,534 | - | 766,534 |
| Convertible debentures | 1,723,000 | - | 1,723,000 |
| Current portion of lease obligation | - | 19,512 | 19,512 |
| **Total current liabilities** | 2,489,534 | 19,512 | 2,509,046 |
| Non-current liabilities | | | |
| CEBA loan | 31,474 | - | 31,474 |
| Lease obligation | - | 13,800 | 13,800 |
| Decommissioning obligation | 399,647 | - | 399,647 |
| Remediation provision | - | 230,682 | 230,682 |
| **Total liabilities** | 2,920,655 | 263,994 | 3,184,649 |
| Shareholders' Equity | | | |
| Share capital | 15,182,583 | - | 15,182,583 |
| Contributed surplus | 5,014,755 | - | 5,014,755 |
| Equity portion of convertible debentures | 458,266 | - | 458,266 |
| Deficit | (22,878,477) | (231,815) | (23,110,292) |
| **Total Shareholders' equity (deficit)** | (2,222,873) | (231,815) | (2,454,688) |
| **Total liabilities and shareholders' equity** | 697,782 | 32,179 | 729,961 |

### 27. SUBSEQUENT EVENTS

The Corporation is under a management cease trade order granted September 1, 2023, by its principal regulator, the Alberta Securities Commission, under National Policy 12-203 - *Management Cease Trade Orders*. The cease trade order will be reviewed by the Alberta Securities Commission once corporate filings are current.

The Corporation issued 10,437,500 common shares for gross proceeds of $835,000 in June 2023, 2,328,130 common shares for gross proceeds of $186,250 in July 2023, and 1,248,000 common shares for gross proceeds of $99,840 in August 2023.

In October 2023 the Corporation received gross proceeds of $156,200 for 1,535,833 common shares. The cease trade order was issued before the common share certificates were issued. Share certificates will be issued after the cease trade order is removed.

## 27. SUBSEQUENT EVENTS, CONTINUED

Subsequent to April 30, 2023, the Corporation became involved in legal proceedings, including claims and counterclaims, arising out of the ordinary course of its business. Although the Corporation cannot assure the outcome of the legal proceedings, management presently believes that the final determination of these proceedings will not materially affect the Corporation's financial position or results.

Subsequent to April 30, 2023, a subsidiary of the Corporation has received advances of $680,000 under the terms of secured debenture agreements. The amounts are repayable by January 2, 2025. The secured debentures have an interest rate of 1.5% per month, payable monthly, commencing on April 15, 2024. The subsidiary has provided a first specific fixed charge on its interest in its petroleum and natural gas rights and a first floating charge on all its other property as security. The debentures are redeemable by the Corporation in whole at any time after June 12, 2024.

In December 2023, the Corporation refinanced the CEBA loans with the Royal Bank of Canada. Under the new agreement, Drakkar’s loan bears interest at prime plus 2.34% per annum and is repayable in monthly blended payments of $841 of principal and interest over 5 years. Blacksteel’s loan bears interest at 5% per annum and is repayable in minimal monthly payments of $245 of interest over 5 years.

On March 14, 2024, the Corporation entered into a settlement agreement and release with a former executive who filed a claim that the Corporation had breached the terms of their employment contract. Under the terms of the agreement the Corporation agreed to pay $40,000 to, transfer the Corporation’s investments to, and within a week of the Alberta Securities Commission lifting the cease trade order against the Corporation issue 1,250,000 common shares of the Corporation to, the former executive.

On April 1, 2024, Drakkar acquired working interests ranging from 35% to 100% in 15 gas wells (5 producing) located in Morningside, Alberta, through a quitclaim, assignment, and transfer of interest. The wells in 2023 produced as average of 149 Mcf/d with and average gas price of $1.82 per mcf. The asset purchase price of $231,300 was based on the fair value of the decommissioning obligation assumed.

On September 23, 2024, the Corporation entered into a consent judgement and settlement for a claim for $91,124 including interest, cost, and fees payable to a creditor for services rendered.