

This Management's Discussion and Analysis ("**MD&A**") is a review of the operations and current financial position of Blacksteel Energy Ltd. ("Blacksteel" or the "Corporation") for the six months ending October 31, 2023. This MD&A is dated and based on information available as of November 28, 2024, and should be read in conjunction with the unaudited condensed interim consolidated Financial Statements ("Consolidated Financial Statements") as at and for the three months ended October 31, 2023, and the MD&A and audited consolidated financial statements of the Company for the year ended April 30, 2023. The financial statements have been prepared in accordance with International Accounting Standards ("IFRS") as issued by the International Accounting Standards Board. Additional information relating to the Company, including the Company's annual information form ("**AIF**"), may be found on [www.sedar.com](http://www.sedar.com) and by visiting Blacksteel's website at <https://blacksteenergy.ca/>

Blacksteel is an oil and gas company headquartered in Calgary, Alberta, Canada.

## READER ADVISORIES

This MD&A contains financial measures that are not defined under IFRS and forward-looking statements. Please refer to the sections titled "**NON-GAAP MEASURES**" and "**FORWARD LOOKING INFORMATION**".

### *Other Measurements*

All amounts herein are presented in Canadian dollars unless otherwise specified. All references to \$CAD or \$ are to Canadian dollars, and monetary references to \$US are to United States dollars.

Please refer to the "GLOSSARY" section for measurements and abbreviations that may be used in the MD&A.

Oil volumes are recorded in barrels of oil ("**Bbl.**").

## OCTOBER 2023 HIGHLIGHTS

Highlights from the six and six months ended October 31, 2023 are as follows:

- Oil sales volume increased to 6,024 Bbl. (65.5 Bbl/d for the three months ended October 31, 2023, and 11,345 Bbl. (61.7 Bbl/d) for the six months ended October 31, 2023.
- Oil revenue of \$556,040 in the three months ended October 31, 2023, increased 2,146% from \$24,759 in the corresponding period in the prior year. The quarter increase resulted from battery remediation and well-workovers that increased oil production commencing in April 2023. Oil revenue in the six months ended October 31, 2023, of \$936,588 increased 1,027% from \$83,117 in the corresponding period in the prior year.
- Generated a loss and other comprehensive income of \$ (352,743) (\$0.00) per basic and fully diluted share) for the three months ended October 31, 2023, and \$(747,660) (\$0.01) per basic and fully diluted shares for the six months ended October 31, 2022.
- For the six months ended October 31, 2023, adjusted funds flow of \$ (528,135) (\$0.01) per basic and fully diluted share) and for the three months ended October 31, 2023, \$(249,220), (\$0.00) per basic and fully diluted share) for the three months ended October 31, 2023.

## SELECTED ANNUAL FINANCIAL INFORMATION

	Six months ended		Year ended
	October 31, 2023	October 31, 2022 (restated)	April 30, 2023
(\$ Canadian, unless otherwise indicated)			
<b>FINANCIAL<sup>1</sup></b>			
<b>Oil revenue (before royalty expense)</b>	<b>936,658</b>	83,117	169,950
Oil revenue (net of royalty expense)	647,144	47,027	109,682
<b>Net cash (used in) operating activities</b>	<b>(528,135)</b>	(100,972)	972,403
Per share – Basic and fully diluted (\$/share)	(0.00)	0.00	(0.01)
<b>Adjusted funds flow<sup>1</sup></b>			
Per share – Basic and fully diluted (\$/share)	(0.01)	0.00	0.01
<b>Profit (loss) and comprehensive income for the year</b>	<b>(747,660)</b>	(774,644)	1,962,468
Per share – Basic and fully diluted (\$/share)	0.01	0.01	0.03
<b>Total assets</b>	<b>7,635,681</b>	1,599,389	7,558,025
<b>Total liabilities</b>	<b>3,330,170</b>	1,136,196	3,442,016
<b>Capital expenditures for property, plant and equipment</b>	<b>188,741</b>	-	470,358
<b>Proceeds from private placement share issuance</b>	<b>1,121,090</b>	120,000	570,382
<b>Proceeds from flow-through share issuance</b>	<b>-</b>	-	694,930
<b>Total non-current financial liabilities<sup>2</sup></b>	<b>1,490,377</b>	460,025	1,532,923
Weighted average common shares outstanding (000s) – Basic	103,305	54,780	75,166
Weighted average common shares outstanding (000s) – Diluted	103,305	54,780	75,166
<b>Production</b>			
Crude oil (Bbl.)	11,345	1,152	2,354
<b>Total (Bbl./d)</b>	<b>61.66</b>	6.3	6.4
Realized commodity prices			
Crude oil (\$/Bbl.)	82.56	72.21	72.21
<b>Total (\$/Bbl.)</b>	<b>82.56</b>	72.21	72.21

<sup>1</sup> Includes results for acquisitions from the closing dates.

<sup>2</sup> Includes CEBA loans, lease obligation, flow-through share liability, decommissioning obligation, and remediation provision.

	Three months ended October 31		Six months ended October 31	
	2023	2022 (restated)	2023	2022 (restated)
(\$Canadian unless otherwise indicated)				
<b>FINANCIAL</b>				
<b>Oil revenue (before royalty expense)</b>	<b>556,040</b>	24,759	<b>936,658</b>	83,117
<b>Cash provided by (used in) operating activities</b>	<b>(63,600)</b>	16,971	<b>(542,489)</b>	(221,367)
Per share – Basic and fully diluted (\$/share) <sup>1</sup>	<b>0.00</b>	0.00	<b>(0.01)</b>	0.00
<b>Profit (loss) and comprehensive income</b>	<b>(352,743)</b>	(692,585)	<b>747,660</b>	(774,644)
Per share – Basic (\$/share)	<b>0.00</b>	0.00	<b>0.01</b>	0.00
<b>Capital expenditures – Property, plant and equipment</b>	<b>154,485</b>	-	<b>(188,741)</b>	-
<b>Proceeds from private placements and flow-through shares</b>	-	120,000	<b>1,121,090</b>	120,000
<b>Working capital</b>	<b>(1,503,702)</b>	(257,513)	<b>(1,503,702)</b>	(257,513)
Weighted average common shares outstanding (000s)				
Basic and fully diluted	<b>107,141</b>	54,780	<b>107,141</b>	53,747

<sup>1</sup> This is a non-GAAP measure; see NON-GAAP MEASURES for additional information.

#### 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:

<b>Consideration: (\$)</b>	
859,200 common shares	68,736
Stock options	7,299
<b>Total Consideration</b>	<b>76,035</b>
<b>Assets acquired and liabilities assumed:</b>	
Cash	1,508
Accounts receivable and accrued liabilities	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)
<b>Total identifiable net assets</b>	<b>3,807,159</b>
<b>Gain on acquisition</b>	<b>(3,731,124)</b>

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 to certain credit holders in respect of liabilities of \$182,569. 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 for \$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, trade accounts receivable, prepaid expenses, 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 were undiscounted at approximately \$74 million. As Blacksteel currently lacks the funds necessary to execute an extensive drilling program, and the probable reserves were excluded from the fair value calculation.

The proved reserves were discounted using the Corporation's 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.

Since being acquired, Drakkar has had revenue of \$60,741 and a loss of \$45,00 until April 30, 2023. 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.

## BENCHMARK PRICES

(\$)	Three months ended October 31			Three months ended October 31,		
	2023	2022	% Change	2023	2022	% Change
Crude oil						
Peace Sour (C\$/Bbl.)	<b>111.92</b>	110.10	2	<b>100.61</b>	121.36	(17)

Blacksteel's financial results are influenced by fluctuations in commodity prices, dollar exchange rates and price differentials. The following table shows the select market benchmark average prices in the last eight quarters to assist in understanding the volatility in prices and foreign exchange rates that have impacted Blacksteel's business.

MANAGEMENT DISCUSSION AND ANALYSIS | October 31,  
2023

	Q2-2024	Q1-2024	Q4-2023	Q3-2023	Q2-2023	Q1-2023	Q4-2022	Q3-2022
<b>Crude oil</b>								
Peace Sour (C\$/Bbl.)	111.92	89.30	96.79	97.52	110.10	132.62	124.05	92.16
Blacksteel realized Oil price (C\$/Bbl.)	82.56	71.54	72.21	-	68.02	74.06	108.09	74.83

The average benchmarks for Peace Sour crude oil (decreased) by (33) % for the three months ended October 31, 2023, as compared to the same periods in 2022, primarily due to the sanctions placed on Russian crude oil production and growth in global demand as economies recovered from the impacts of the novel coronavirus.

Canadian crude prices are based on refinery postings in Edmonton, Alberta, for the Peace Sour crude oil stream.

### SALES VOLUMES

Total sales volumes by product	Three months ended October 31,			Six months ended October 31,		
	2023	2022	% Change	2023	2022	% Change
Crude oil (Bbl.)	6,024	580	766	11,345	1,152	885
Average daily sales volumes by product	2023	2022	% Change	2023	2022	% Change
Crude oil (Bbl. /d)	65.5	6.5	908	61.7	6.3	879

### OIL REVENUE

(\$)	Three months ended October 31,			Six months ended October 31,		
	2023	2022	% Change	2023	2022	% Change
Crude oil	556,040	24,759	2,146	936,558	83,117	1,027

### Realized Prices

Realized Prices	Three months ended October 31,			Six months ended October 31,		
	2023	2022	% Change	2023	2022	% Change
\$ per unit	92.30	108.09	(15)	82.56	78.74	5
Crude oil (\$/Bbl.)						

Oil revenue of \$556,040 in the three months ended October 31, 2023, increased 2,146% from \$24,759 in the corresponding period in the prior year. The quarter increase resulted from battery remediation and well-workovers that increased oil production commencing in April 2023.

Oil revenue in the six months ended October 31, 2023, of \$936,588 increased 1,027% from \$83,117 in the corresponding period in the prior year. The quarter increase of \$853,441 was essentially, in part, the result of battery remediation and well-workovers that resulted in increased oil production, commencing in April, 2023.

### ROYALTY EXPENSE

(\$)	Three months ended October 31,			Six months ended October 31,		
	2023	2022	% Change	2023	2022	% Change
Total royalty expense	173,219	10,809	1,502	289,514	36,090	702
\$ per Bbl.	28.75	25.53	13	25.52	31.32	19
Royalty expense as a % of oil revenue	31%	43%	(28)	36%	30%	20

For the three months ending October 31, 2023, total royalty expenses increased by 1,502% to \$173,219 from \$10,809 in the prior year's corresponding period. Royalty expenses as a percentage of oil revenue were 31% in the three months ending October 31, 2023, compared to 43% for the three months ending October 31, 2022, a decrease of 28% from the prior year's corresponding period.

For the six months ending October 31, 2023, total royalty expenses decreased by 702% to 289,514 from \$36,090 in the prior year's corresponding period. Royalty expenses as a percentage of oil revenue were 36% in the three months ended October 31, 2023, compared to 30% for the three months ended October 31, 2022, an increase of 20% from the corresponding period of the prior year.

Increased royalty expenses for both the three- and six-month periods are a result of an increase in sales volumes.

### NET OPERATING EXPENSES

(\$)	Three months ended October 31,			Six months ended October 31,		
	2023	2022	% Change	2023	2022	% Change
Operating expenses	<b>334,874</b>	51,653	548	<b>655,818</b>	115,058	470
\$ per Bbl.	<b>55.59</b>	89.05	60	<b>57.80</b>	99.88	(42)

Net operating expenses increased by 548% to \$334,874 for the three months ending October 31, 2023, compared to \$51,653 in the corresponding periods of the prior year. The increase during the quarter was primarily due to the March 14, 2023, acquisition of Drakkar, which resulted in increased expenses from well workovers and battery costs to enable the battery to resume oil production and sales. Maintenance work on the battery and wells is ongoing. The Corporation reactivated production from three existing wells, replaced battery facilities and tanks, upgraded pipelines, and repaired the saltwater disposal facility to enable the battery and wells to resume production after remediation of the battery and wells from the saltwater spill in 2020. Calculated on a per Bbl. basis, operating costs decreased to \$55.59 per Bbl. from \$89.05 per Bbl. for the three months ended October 31, 2023, and the corresponding period ended October 31, 2022.

Net operating expenses increased by 470% to \$655,818 for the six months ending October 31, 2023, compared to \$115,058 in the corresponding periods of the prior year. On a per Bbl. Basis, operating costs decreased to \$57.80 per Bbl. From \$99.88 per Bbl. for the six months ended October 31, 2023, and the corresponding period ended October 31, 2022.

The Corporation performed the first remediation phase to clean up the saltwater spill. The battery facilities were upgraded as a necessary first step to handle the expected increased production volumes for the upcoming drilling program commencing in the 2024-2025 fiscal year.

### GENERAL AND ADMINISTRATIVE EXPENSES ("G&A")

(\$)	Three months ended October 31,			Six months ended October 31,		
	2023	2022	% Change	2023	2023	% Change
Total G&A expenses	<b>291,935</b>	131,246	122	<b>559,102</b>	173,980	221

G&A increased by 122% to \$291,935 in the three months ending October 31, 2023, compared to \$131,246 in the prior year's corresponding period. G&A costs for the six months ending October 31, 2023, increased by 221% to \$559,102, compared to \$173,980 in the prior year's corresponding period. The increase in G&A during the three months ended October 31, 2023, is primarily due to increased management consulting fees and legal and accounting fees resulting from the increase in management personnel for the Drakkar acquisition.

### SHARE-BASED COMPENSATION

(\$)	Three months ended October 31,			Six months ended October 31,		
	2023	2022	% Change	2023	2022	% Change
Total share-based compensation	-	221,499	-	-	221,499	-

Share-based compensation increased for the three months and year ended April 30, 2023, compared to the corresponding periods of 2022, primarily as a result of the increase in the fair value of stock options granted in 2023, as calculated using the Black-Scholes option pricing model. The Company has an equity-settled stock-based compensation plan. Stock options are granted to certain officers, directors, and employees, and the number, term, and vesting period of the options granted are determined at the discretion of the Company's board of directors to a maximum of 10% of the outstanding Common Shares.

During the year ended April 30, 2023, Blacksteel granted 7,112,500 stock options to purchase Common Shares at a weighted average exercise price of \$0.08 (April 30, 2022 - nil). As at April 30, 2023, the Company had 7,112,500 stock options outstanding, representing 7.2% of Common Shares outstanding (April 30, 2022 - 1,245,000 stock options representing 2.2% of Common Shares outstanding).

### DEPLETION and DEPRECIATION

(\$)	Three months ended October 31,			Six months ended October 31,		
	2023	2022	% Change	2023	2022	% Change
Total depletion and depreciation	<b>107,474</b>	9,030	1,090	<b>205,171</b>	31,774	546

Depletion and depreciation expenses for the three months ended May 31, 2023, totalling \$ 107,474 compared to \$9,030 for the corresponding periods of the prior year. Depletion and depreciation expenses for the six months ended May 31, 2023, totalling \$ 205,171 compared to \$31,774 for the corresponding periods of the prior year.

The increase for the period results from changes in reserve volumes, combined with increased sales volumes resulting from facilities requiring remediation expenditures to enable sales to resume. Depletion and depreciation per Bbl. will fluctuate from one period to the next depending on changes in reserves, the amount and success of capital expenditures and the amount of future development costs. Depletion is calculated using total proved and probable reserves, and reserve estimates are subject to revision.

Future development costs of \$11,780,700 (2022 - \$5,106,000) associated with developing the Corporation's proved plus probable reserves were included in the depletion calculation for the years ended April 30, 2023, and April 30, 2022.

### IMPAIRMENT

On 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%.

### FINANCE EXPENSES

(\$)	Three months ended October 31			Six months ended October 31,		
	2023	2022	% Change	2023	2022	% Change
Finance expenses	<b>3,931</b>	-	-	<b>7,882</b>	-	-

Finance expenses increased to \$3,931 for the three months ended October 31, 2023, and \$7,882 for the six months ended October 31, 2023, compared to \$— in the corresponding periods of the prior period.

**CAPITAL EXPENDITURES -PROPERTY, PLANT AND EQUIPMENT**

Capital expenditures on PP&E totalled \$154,485 for the three months ended October 31, 2023 (\$nil - 2022). For the six months ended October 31, 2023, total expenditures were \$188,741 (\$nil - 2022).

**DECOMMISSIONING OBLIGATION**

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% (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.

**REMEDIATION PROVISION**

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.

**DEBT, LIQUIDITY AND CAPITAL RESOURCES****Liquidity and Capital Resources**

The Company's capital comprises shareholders' equity/(deficit) and long-term debt. Blacksteel manages and adjusts the capital structure while considering economic conditions and the risks of the underlying assets. The Company currently has a working capital deficit.

The Company defines and computes its net cash (net debt) as follows:

(\$)	October 31, 2023	April 30, 2023	\$ Increase (Decrease) in Net Cash (Net debt)
Cash	199,222	31,652	167,570
Goods and services tax receivable	20,782	107,827	(87,045)
Accounts receivable	102,287	85,724	16,563
Deposits and prepaid expenses	13,800	13,800	-
Less:			
Accounts payable and accrued liabilities	(1,596,869)	(1,823,133)	226,264
Prepaid share subscription	(155,000)	-	(155,000)
Current portion of CEBA loans	(19,180)	(19,180)	-
Current portion of lease obligation	(8,744)	(6,780)	(1,964)
Current portion of remediation provision	(60,000)	(60,000)	-
Net cash (net debt) <sup>1</sup>	(1,503,702)	(1,670,090)	(166,388)

<sup>1</sup> This is a non-GAAP measure; see NON-GAAP MEASURES for additional information.



**Share Capital**

Share capital (shares)	November 30, 2024	October 31, 2023	April 30, 2023
Common Shares	111,701,255	111,701,255	97,687,625
Stock options	7,112,500	7,112,500	7,112,500

**FLOW-THROUGH SHARES**

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

Flow-through shares:

Month	Common shares issued	Price per share	Value \$
January 2023	1,700,000	\$0.09	153,000
March 2023	6,021,444	\$0.09	541,930
<b>Total</b>	<b>7,721,444</b>	<b>\$0.09</b>	<b>694,930</b>

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

**RELATED PARTY TRANSACTIONS**

(i) During the periods ended October 31, 2023, and April 30, 2023, the Corporation incurred expenses in an amount of \$10,965 (2023 - \$273,525) related to legal services to a law firm in which a director of the Corporation was a partner during the year. Of these costs, \$10,965 (\$130,424) were recorded to general and administrative expenses, and (\$142,901) were recorded to acquisition costs.

(ii) During the periods ended October 31, 2023, and April 30, 2023, 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:

For the years ended April 30, (\$)	October 31, 2023	April 30, 2023
Management consulting fees	205,000	254,983
Share-based compensation – expensed	-	347,563
	<b>205,000</b>	<b>602,546</b>

(iv) As at October 31, 2023 and April 30, 2023, amounts due to related parties and former related parties of \$389,313 (April 30, 2023 - \$454,020) are included in accounts payable and accrued liabilities. The amounts due are unsecured, are without fixed terms of repayment, and are non-interest-bearing.

**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)), totalling \$694,930 by April 30, 2025. At April 30, 2023, the commitment to incur qualifying expenditures was \$608,600.

**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 Alberta Securities Commission will review the cease trade order once corporate filings are current.

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 in shares of private companies 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 Energy Inc. acquired working interests ranging from 35% to 100% in 15 gas wells (5 producing) located in Morningside, Alberta. In 2023, the wells produced an average of 149 Mcf/d at an 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 judgment and settlement for a claim of \$91,124, including interest, cost, and fees payable to a creditor for services rendered.

**QUARTERLY TRENDS AND SELECTED FINANCIAL INFORMATION**

(\$)	Q2-2024	Q1-2024	Q4-2023 (restated)	Q3-2023 (restated)	Q2-2023 (restated)	Q1-2023 (restated)	Q4-2022 (restated)	Q3-2022 (restated)
<b>FINANCIAL</b>								
Total revenue	556,040	380,618	86,833	-	24,759	58,358	62,691	54,775
Net cash provided (used in) by operating activities	(63,600)	(591,735)	(419,038)	(452,394)	16,972	(117,943)	(161,836)	7,467
Per share - Basic and fully diluted (\$/share)	(0.00)	(0.00)	(0.00)	(0.00)	0.00	(0.00)	(0.00)	(0.00)
Profit (loss) and comprehensive income	(352,743)	(394,917)	3,234,386	(296,668)	(692,585)	(82,059)	321,507	(174,929)
Per share - Basic and fully diluted (\$/share)	0.00	0.00	0.04	0.00	(0.01)	0.00	0.01	(0.00)
Capital expenditures (cash)	(154,485)	(34,256)	(410,692)	(37,206)	-	(22,460)	-	-
Proceeds from private placement share issuances	-	1,121,090	75,281	375,101	-	102,000	-	-

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Proceeds from flow-through share issuance	-	-	541,930	153,000	-	-	-	-
Gain on Drakkar acquisition	-	-	3,731,124	-	-	-	-	-
Expenditures on remediation	38,010	13,644	-	-	-	-	-	-
Weighted average common shares outstanding (\$000)								
Basic and fully diluted	107,141	111,701	75,166	70,000	61,213	61,213	36,424	36,227

**PRODUCTION VOLUMES**

Crude oil (Bbl.)	6,024	5,321	1 202	-	364	788	580	732
Average sales volumes (Bbl. /d)	65.5	57.8	13.5	-	3.9	8.9	6.5	8.0

**PRICES**

Total oil revenue (\$/Bbl.)	92.30	71.54	72.94	-	68.02	74.06	108.09	74.83
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Over the past eight quarters, Blacksteel's revenues, cash flow from operating activities, adjusted funds flow, profit (loss) and comprehensive income have fluctuated primarily due to shut-in production. The increase during the quarter ended October 31, 2023, and the year ended April 30, 2023, is resulting from ongoing remedial work to replace battery facilities and tanks, upgrading pipelines, and repairs made to the saltwater disposal facility to enable the battery and wells to resume production after remediation of the battery and wells from the saltwater spill in 2020.

On March 14, 2023, the Drakkar acquisition resulted in increased expenses from well workovers and increased battery costs to enable the battery to resume oil production and sales. Profit (loss) and comprehensive income also fluctuate with non-cash expenditures, including depletion, depreciation, and impairments.

Average sales volumes increased in the fourth quarter of 2023 and continued into the first quarter of 2024 compared to the first quarter of 2022 primarily due to the additional sales resulting from remediation and well workover expenses, which enabled the battery to resume production and sales operations.

The gain from the purchase of Drakkar Energy Ltd. was the primary contributor to the increase in profit. The acquisition of Drakkar's interest in the Girouxville Montney area is a critical strategic step enabling Blacksteel to conduct a strategically programmed drilling program for the field.

**OFF-BALANCE SHEET TRANSACTIONS**

Blacksteel was not involved in any off-balance sheet transactions during the periods presented, nor has it entered into any such arrangements as of the effective date of this MD&A.

**FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT**

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

**(a) Fair Values of financial instruments**

The fair values of cash, accounts receivable, accounts payable and accrued liabilities and notes 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 their 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.

The fair value of Magnetic North Acquisition Corp.'s investment is classified as Level 2, 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 investment's liquidity and net asset value based on appraisal information for the underlying assets.

### (b) Financial Risks

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

### (c) Credit Risk

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

At October 31, 2023, the maximum exposure to credit risk was \$417,757 (April 30, 2023 - \$225,203, being the carrying value of its cash, accounts receivable, GST receivable, deposits and loans receivable).

Cash consists primarily of bank balances. The Corporation manages its credit exposure by selecting financial institutions with high credit ratings. The Corporation does not invest 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. As of April 30, 2023, and 2022, there were no past-due trade receivables.

As at October 31, 2023 and April 30, 2023 the Corporation's accounts receivable were comprised of the following:

(\$)	October 31, 2023	April 30, 2023	% Change
Accounts receivable	102,287	85,724	19

As of October 31, 2023, and October 31, 2022, the Corporation's accounts receivables and accrued receivables were aged as follows:

(\$)	October 31, 2023	April 30, 2023	% Change
Aging 0-30 days	102,287	85,724	19

### (d) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. The objective is to ensure, as far as possible, that the corporation will have sufficient liquidity to meet its liabilities when due.

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

The Corporation also attempts to match its payment cycle with the collection of oil revenue on the 25<sup>th</sup> of the

month following the month of production. The Corporation currently has a negative working capital position.

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

(\$)	October 31, 2023	April 30, 2023	% Change
Trade	1,596,869	1,823,133	(12)

#### (e) Market Risk

Market risk is the risk that a financial instrument's fair value or future cash flows will fluctuate because of changes in market prices. It comprises three types: foreign currency risk, commodity price 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. 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 due to changes in commodity prices. Commodity prices for oil are impacted by world and continental/regional economic and other events that dictate the supply and demand levels. Given the Corporation's limited production, the Corporation has chosen not to hedge any of its oil and natural gas production. Consequently, the Corporation had no financial derivative sales contracts in place as of or during the years ended April 30, 2023, and 2022, and the six months ended October 31, 2023. The Corporation manages this risk by monitoring commodity prices and factoring any changes into operational decisions.

##### (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 October 31, 2023, and October 31, 2022 the Corporation had no liabilities payable that bear interest at rates fluctuation with the prime rate. The Corporation had no interest rate swaps or financial contracts in place as at or during the year ended April 30, 2023, or 2022.

#### (f) Capital Management

The Corporation considers its capital structure to include shareholders' equity and long-term debt, if any. The Corporation's objective when managing capital is to safeguard its ability to continue as a going concern so that it can continue to maintain investor confidence and to not expose the Corporation to excess risk.

The Corporation manages its capital structure and makes adjustments to it based upon the level of funds available to support the exploration and development of its petroleum and natural gas properties. The Corporation currently generates minimal cash flow from its operations. As such, the Corporation continues to be dependent on external financing to fund its exploration and development activities and, as necessary, to pay general and administrative and other ongoing costs. To date, external financing has included CEBA loans, lease obligations, issuing common shares, common share purchase warrants and convertible debentures.

The Corporation will pursue additional external financing sources 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:

(\$)	October 31, 2023	April 30, 2023
Shareholders' equity (deficit)	4,305,511	4,116,009
Long-term debt	1,490,377	1,523,923

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 Alberta Securities Commission will review the cease trade order once corporate filings are current.

## RISK FACTORS

Certain activities of the Company are affected by factors that are beyond its control or influence. Additional risks and uncertainties that management may be unaware of, or that they determine to be immaterial, may also become important factors which affect the Company. Along with the risks discussed in this MD&A, other business risks faced by the Company may be found under "Risk Factors" in the Company's most recent Annual Information Form, which is available under the Company's profile at [www.sedar.com](http://www.sedar.com) or by contacting the Company.

### *Environmental*

All production phases of oil, NGLs and natural gas are subject to environmental regulation pursuant to a variety of Canadian federal, provincial, and municipal laws and regulations (collectively, the "**Environmental Regulations**"). Environmental Regulations provide that wells, facility sites and other properties and practices associated with the Company's operations be constructed, operated, maintained, abandoned, reclaimed, and undertaken in accordance with the requirements set out therein. In addition, certain types of operations, including exploration and development projects and changes to certain existing projects, may require the submission and approval of environmental impact assessments or permit applications. Environmental Regulations impose, among other things, costs, restrictions, liabilities, and obligations in connection with the generation, handling, use, storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases, and emissions of various substances in the environment. They also impose restrictions, liabilities, and obligations in connection with the management of water sources that are being used or whose use is contemplated in connection with oil and gas operations. The complexities of changes in Environmental Regulations make it difficult to predict the potential future impact to Blacksteel.

Compliance with Environmental Regulations requires expenditure. Blacksteel's future capital expenditures and operating expenses could increase because of, among other things, developments in the Company's business, operations, plans and objectives and changes to existing or implementation of new Environmental Regulations. Failure to comply with Environmental Regulations may result in, among other things, the imposition of fines, penalties, environmental protection orders, and suspension of operations, and could adversely affect the Company's reputation. The costs of complying with Environmental Regulations may have a material adverse effect on Blacksteel's business, financial condition, results of operations and cash flows from operating activities. The implementation of new Environmental Regulations or the modification of existing Environmental Regulations affecting the oil and natural gas industry generally could reduce demand for crude oil and natural gas as well as shift hydrocarbon demand toward relatively lower carbon sources, increase compliance costs, lengthen project implementation times, and have an adverse effect on Blacksteel's business, financial condition,

results of operations and cash flows.

#### *Fiscal Environment*

Resource industries are subject to payments to various levels of government, predominantly corporate income taxes to the federal and provincial governments and royalties to provincial governments. In recent years, while the corporate income tax regime has been stable, the royalty regime has not been. A series of changes have had at times both positive and negative effects but have certainly served to emphasize the materiality of this risk. There is potential for additional future changes to the taxation and royalty regime in Alberta and Saskatchewan, and corresponding changes in other jurisdictions where Blacksteel may operate have created uncertainty surrounding the ability to accurately estimate future taxation and royalties, resulting in additional volatility and uncertainty in the oil and gas market. As a single company, Blacksteel has no ability to mitigate this risk other than through geographic diversification.

#### *Operational*

This category encompasses several risks. Wells may produce at lower initial production rates than planned or face steeper decline rates. Operating costs can increase due to such considerations as unanticipated workovers or higher-than-expected costs associated with corrosion. Blacksteel follows prudent industry practices with respect to insurance where practicable and as guided by external experts but cannot fully insure against all risks. With respect to non-insurable operating risks, the Company has attempted to design business process controls and accountability to identify problems at the earliest possible occasion and implement solutions. However, investors must appreciate that operational risk is very much a characteristic of the business and can never be entirely eliminated.

#### *Regulatory Risks*

Regulatory risk is the risk of loss or lost opportunity resulting from the introduction of, or changes in, regulatory requirements or the failure to secure regulatory approval for upstream or downstream development projects. Implementing new regulations or modifying existing regulations could impact the Company's existing and planned projects and result in increased compliance costs, adversely impacting Blacksteel's financial condition, results of operations and cash flows.

The oil and gas industry in general, and the Company's operations, in particular, are subject to regulation and intervention under federal, provincial, territorial, state and municipal legislation in Canada in matters such as, but not limited to land tenure; permitting of production projects; royalties; current and future income taxes; government fees; production rates; environmental protection controls; protection of certain species or lands; provincial and federal land use designations; the reduction of greenhouse gases and other emissions; the export of crude oil, natural gas and other products; the transportation of crude-by-rail or marine transport; the awarding or acquisition of exploration and production, oil sands or other interests; the imposition of specific drilling obligations; control over the development, abandonment and reclamation of fields (including restrictions on production) and/or facilities; and possibly expropriation or cancellation of contract rights. Changes to government regulation could impact the Company's existing and planned projects or increase capital investment or operating expenses, adversely impacting Blacksteel's financial condition, results of operations and cash flows from operating activities.

#### *Reserves*

Petroleum and natural gas reserves are used in the calculation of depletion, impairment and impairment reversals and are depleted on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* which incorporate the estimated future cost of developing and extracting those reserves. Reserve estimates and their resulting cash flows are based on engineering data, probability assessments of reserve

recoveries, future prices and costs, future production rates, discount rates and the timing and extent of future capital expenditures, all of which are subject to many uncertainties and interpretations. Management expects that over time its reserve estimates will be revised, either upward or downward, based on updated information such as the results of future drilling, production costs, testing and production levels and changes to forward oil, NGLs and natural gas prices.

#### *Safety*

The operation of Blacksteel's properties is subject to hazards of finding, recovering, transporting, and processing hydrocarbons, including, but not limited to, blowouts; fires, explosions; gaseous leaks; migration of harmful substances; oil spills; corrosion; acts of vandalism; and other accidents or hazards that may occur at or during transport to or from commercial or industrial sites. Any of these hazards can interrupt operations, impact the Company's reputation, cause loss of life or personal injury, result in loss of or damage to equipment, property, information technology systems, related data and control systems, cause environmental damage that may include polluting water, land or air. They may result in fines, civil suits, or criminal charges against Blacksteel, any of which may have a material adverse effect on Blacksteel's business, financial condition, results of operations, cash flows, and reputation.

#### *Staffing*

Blacksteel functions in a very competitive environment for professional staff, and this staff is key to the Company's ultimate success. Recognizing this, Blacksteel's board of directors approved a competitive compensation program, including benefits and a stock option program, to provide long-term incentives and retain staff.

To date, Blacksteel has found that it has been able to attract qualified individuals to complement its existing team and to build strength in areas where required.

#### *Changing Regulation*

Emissions, carbon, and other regulations impacting climate and climate-related matters are constantly evolving. With respect to environmental, social and governance and climate reporting, the International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standards with the aim to develop sustainability disclosure standards that are globally consistent, comparable, and reliable. In addition, the Canadian Securities Administrators have issued a proposed National Instrument 51-107 Disclosure of Climate-related Matters. The cost to comply with these standards, and others that may be developed or evolve over time, has not yet been quantified and it is possible that the long-term effects of these new regulations will affect the Company's business, results from operations, access to capital and financial condition.

### **CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES**

The timely preparation of the Financial Statements in accordance with IFRS requires Blacksteel management to make judgments, assumptions and estimates that affect the reported amounts of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities. Management believes that the most critical accounting policies that may have an impact on the Company's financial results are those that specifically relate to the accounting for its oil and gas interests, including amounts recorded for depletion and the impairment test which are both based on estimates of proved and probable reserves, production rates, oil prices, future costs, and other relevant assumptions. Actual results could differ materially from such judgments or estimates.

#### **Judgements**

##### *Cash Generating Units*



CGUs are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. Classifying assets into CGUs requires significant judgement and interpretations regarding the integration between assets, the existence of active markets, external users, share infrastructures, and the way in which management monitors Blacksteel's operations.

#### *Impairment (impairment recovery) indicators*

At each reporting date, the Company is required to assess whether there are any internal or external indicators that its petroleum and natural gas properties and equipment within a CGU may be impaired or recovered. Blacksteel is required to consider information from both external sources (such as a negative downturn in forecasted oil and gas commodity prices, significant adverse changes in the technological, market, economic or legal environment in which the entity operates) and internal sources (such as downward revisions in the estimate of proved and probable oil and gas reserves and the related cash flows, significant adverse effect on the financial and operational performance of a CGU, evidence of obsolescence or physical damage to the asset). By their nature, these assumptions are subject to management's judgment.

### **Estimates**

#### *Reserves*

Petroleum and natural gas reserves are used in the calculation of depletion, impairment and impairment reversals and are depleted on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* which incorporate the estimated future cost of developing and extracting those reserves. Reserve estimates and their resulting cash flows are based on engineering data, probability assessments of reserve recoveries, future prices and costs, future production rates, discount rates and the timing and extent of future capital expenditures, all of which are subject to many uncertainties and interpretations. Management expects that over time its reserve estimates will be revised, either upward or downward, based on updated information such as the results of future drilling, production costs, testing and production levels and changes to forward petroleum and natural gas prices.

#### *Exploration and evaluation assets*

The application of the Company's accounting policy for E&E expenditures requires judgement in determining whether it is likely that future economic benefit exists when activities have not reached a stage where technical feasibility and commercial viability can be reasonably determined. Factors such as drilling results, future capital programs, future operating expenses, as well as estimated reserves are considered. In addition, management uses judgement to determine when E&E assets are reclassified to PP&E.

#### *Decommissioning provision*

Decommissioning, abandonment, and site reclamation expenditures will be incurred by the Company at the end of the operating life of the Company's facilities and properties. Decommissioning expenditures are uncertain and cost estimates can vary in response to many factors including, but are not limited to, changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, and changes to the risk-free discount rate and expected inflation rate. The expected timing and amount of expenditures can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, significant adjustments could be made to the established provisions, affecting future financial results.

#### *Share-based payments*

All equity-settled, share-based awards issued by the Company are recorded at fair value using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate, and estimated forfeitures at the initial grant date.

#### *Contingencies*

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

#### *Income tax*

Tax regulations and legislation are subject to change and there are differing interpretations requiring management judgment. Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in future periods. Deferred tax liabilities are recognized when it is considered probable that temporary differences will be payable to tax authorities in future periods. Income tax filings are subject to audits and reassessments. Changes in facts, circumstances, and interpretations of the standards may result in a material increase or decrease in the Company's provision for income taxes.

#### *Impairment (impairment recovery)*

The impairment calculation is based on significant assumptions of proved plus probable oil and natural gas reserves, production rates, benchmark commodity prices, future costs, discount rates, and other relevant assumptions. By their nature, these significant assumptions are subject to measurement uncertainty, and their impact on the financial statements of future periods could be material.

#### **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.

#### **NON-GAAP MEASURES**

This MD&A uses the following performance measures terms which are not recognized measures under IFRS and may not be comparable to similar measures presented by other companies. The Company uses these measures to evaluate its performance, leverage, and liquidity. These measures should not be considered an alternative to or more meaningful than IFRS measures, including earnings, cash provided by operating activities, or total liabilities. Blacksteel's method of calculating these measures may differ from that of other companies, and accordingly, they may not be comparable to measures used by other companies.

##### **(i) Adjusted Funds Flow**

The Company considers adjusted funds flow a key performance measure as it demonstrates the Company's ability to generate the funds necessary to repay debt and fund future growth through capital investment. Adjusted funds flow and adjusted funds flow per Common Share and per Bbl. should not be considered as an alternative to, or more meaningful than, cash flow provided by operating activities presented on the statement of cash flow, which is considered the most directly comparable measure under IFRS. Adjusted funds flow is calculated as cash provided by operating activities before changes in non-cash working capital and decommissioning obligations are settled. Adjusted funds flow per Common Share is calculated using the same weighted average number of Common Shares outstanding as in the case of the earnings per Common Share calculation for a reporting period.

For the three months ended April 30, For the year ended April 30,

(\$)	2023	2022 (restated)	Change %	2023	2022 (restated)	Change %
Cash provided by operating activities	(63,600)	16,971	(475)	(528,135)	(100,972)	(139)
Adjusted by:						
Change in non-cash working capital	350,830	(175,852)	300	(56,215)	(110,395)	49
Expenditures on remediation	38,010	-	100	41,861	-	100
Adjusted funds flow	(249,220)	(148,932)	67	(542,489)	(211,397)	157
Adjusted funds flow - basic (\$/Common Share)	(0.00)	0.00		(0.01)	0.00	-

### Net Cash

The Company considers net cash/net debt a key leverage indicator. Net cash/net debt is calculated as the sum of trade and other receivables, cash, investments, prepaid expenses and deposits, less due to related party, subordinated promissory notes, Term Debt, and trade and other payables. See the "DEBT, LIQUIDITY AND CAPITAL RESOURCES" section for the table.

### FORWARD-LOOKING INFORMATION

Certain statements contained in this MD&A include statements which contain words such as "anticipate", "could", "should", "expect", "seek", "may", "intend", "likely", "will", "believe" and similar expressions, statements relating to matters that are not historical facts, and such statements of our beliefs, intentions and expectations about developments, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and are based on certain assumptions and analysis made by us derived from our experience and perceptions. Forward-looking information in the MD&A and Annual MD&A includes, but is not limited to: expected production levels, expected processing and gathering income, expected operating costs, expected transportation costs, expected interest costs, royalty and G&A levels; expected current and deferred income taxes, future capital expenditures, including the amount and nature thereof; future drilling opportunities and Blacksteel's ability to generate reserves and production from the undrilled locations; oil and natural gas prices and demand; expansion and other development trends of the oil and natural gas industry; business strategy and guidance; expansion and growth of our business and operations; amounts due to related party, promissory notes and due pursuant to Term Debt and repayment thereof; maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; risks; Blacksteel's ability to generate cash provided by operating activities and adjusted funds flow; and other such matters.

All such forward-looking information is based on certain assumptions and analyses we made in light of our experience and perception of historical trends, current conditions, and expected future developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties and assumptions are difficult to predict and may affect operations, and may include, without limitation, foreign exchange fluctuations; equipment and labor shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such

laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks; volatility of oil and natural gas prices; oil and gas product supply and demand; risks inherent in the ability to generate sufficient cash provided by operating activities to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by us; and other factors, many of which are beyond our control. The foregoing factors are not exhaustive.

Actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information, and accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur or if any of them do, what benefits will be derived therefrom. As required by law, Blacksteel disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

Undrilled locations consist of drilling and recompletion locations booked in the independent reserve report dated April 30, 2023, prepared by GLJ Ltd. There is no guarantee that Blacksteel will drill at these locations and there is no certainty that the drilling or completion of these locations will result in additional reserves and production or achieve expected internal rates of return. Blacksteel activity depends on the availability of capital, regulatory approvals, commodity prices, drilling costs and other factors.

Oil volumes are recorded in barrels of oil ("**Bbl.**"). The term Bbl. may be misleading, mainly if used in isolation.

This cautionary statement expressly qualifies the forward-looking information contained in this MD&A.

## GLOSSARY

The following is a list of abbreviations that may be used in the MD&A:

### *Measurement*

Bbl. /d<sup>1</sup> - barrels per day

<sup>1</sup>Blacksteel has adopted the standard crude oil volumes recorded in barrels of oil ("**Bbl.**").

### *Financial and Business Environment*

AECO - Alberta Energy Company

CGU - Cash Generating Unit

WTI - West Texas Intermediate