

Blacksteel Energy Inc.

**Consolidated Interim Financial Statements
(unaudited)
For the three months and nine months ended
January 31, 2024**

NOTICE TO READER

The accompanying unaudited condensed interim financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Blacksteel Energy Inc.**Consolidated Balance Sheet****(unaudited)***(Amounts in Canadian dollars) (\$)*

As at	Notes	January 31, 2024	April 30, 2023
Assets			
Current assets			
Cash	7	33,839	31,652
Goods and services tax receivable		40,836	107,827
Accounts receivable	17(c)	26,860	85,724
Deposits and prepaid expenses		13,800	13,800
Total current assets		115,335	239,003
Investments	4	167,235	167,235
Property, plant and equipment	3,5	7,043,944	7,141,526
Right-of-use asset	6(a)	5,756	10,261
Total assets		7,332,270	7,558,025
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		1,641,874	1,823,133
Prepaid share subscription	12	155,000	-
Current portion of CEBA loans	8	19,180	19,180
Current portion of lease obligation	6(b)	7,038	6,780
Current portion of remediation provision	9	60,000	60,000
Total current liabilities		1,883,092	1,909,093
Non-current liabilities			
CEBA loans	8	58,741	58,741
Lease obligation	6(b)	-	5,311
Flow-through share liability		61,674	61,674
Decommissioning obligation	10	767,148	762,828
Remediation provision	9	569,152	644,369
Total liabilities		3,339,807	3,442,016
Shareholders' Equity			
Share capital	12	20,278,975	19,341,813
Warrants	13(b)	18,611	18,611
Contributed surplus		5,885,750	5,885,750
Deficit		(22,190,873)	(21,130,165)
Total Shareholders' equity (deficit)		3,992,463	4,116,009
Total liabilities and shareholders' equity		7,332,270	7,558,025

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 Loss and Other Comprehensive Income
(unaudited)

(Amounts in Canadian dollars) (\$)

	Notes	Three months ended		Nine months ended	
		January 31		January 31	
		2024	2023	2023	2023
Revenue					
Oil revenue		404,064	--	1,340,722	83,117
Less: Royalty expenses		(141,720)	-	(431,234)	(36,090)
Net revenue		262,344	-	909,488	47,027
Rental income		1,500	3,750	8,500	9,820
Expenses					
General and administrative expenses	14	197,231	256,174	730,164	430,154
Production, operating and transportation		271,026	39,533	926,844	154,591
Share based compensation		-	-	-	221,499
Depletion and depreciation	5	105,425	15,031	310,596	46,805
Total expenses		573,682	310,738	1,967,604	853,049
Operating loss		(309,838)	(306,988)	(1,049,616)	(796,022)
Other income (expenses)					
Loan receivable impairment	5(b)	-	-	-	(173,070)
Finance income, being interest		-	10,320	-	30,960
Unrealized losses on equity investments		-	-	-	(133,000)
Finance expense	15	(3,210)	-	(11,092)	-
Profit before tax		(313,048)	(296,668)	(1,060,708)	(1,071,312)
Income tax	11	-	-	-	-
Profit and comprehensive income for the period		(313,048)	(296,668)	(1,060,708)	(1,071,312)
Profit per share, basic and diluted	16	\$0.00	\$0.00	\$0.00	\$0.00

See accompanying notes to the consolidated financial statements.

Blacksteel Energy Inc.
Consolidated Statement of Changes in Shareholders' Equity
(unaudited)

(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,	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 3)	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
Private placements	14,013,630	1,121,090	-	-	-	-	-	-	1,121,090
Share issue costs	-	(183,928)	-	-	-	-	-	-	(183,928)
Loss for the period	-	-	-	-	-	-	-	(1,060,708)	(1,060,708)
Balance, January 31, 2024	111,701,255	20,278,975	5,366,110	18,611	-	5,885,750	-	(22,190,873)	3,992,463

See accompanying notes to the consolidated financial statements.

Blacksteel Energy Inc.
Consolidated Statement of Cash Flow
(unaudited)
(thousands of Canadian dollars) (\$)

	Notes	Three months ended January 31		Nine months ended January 31	
		2024	2023	2024	2023
Cash provided by (Used in):					
OPERATING ACTIVITIES					
Profit (loss) for the year		(313,048)	(296,668)	(1,060,708)	(1,071,312)
Non-cash items:					
Unrealized losses on equity investments		-	-	-	133,000
Share-based compensation	13	-	-	-	221,499
Depletion, depreciation and amortization	5,6,9,10	105,776	7,977	320,847	46,805
Change in estimate on right-of-use assets		-	-	-	(10,865)
Impairment of loan receivable	5(b)	-	-	-	173,070
Sub-total		(207,272)	(288,691)	(739,861)	(507,803)
Expenditures on remediation	5	(34,781)	-	(76,642)	-
Net change in non-cash working capital		102,898	239,778	149,213	(45,562)
Net cash used in operating activities		(139,155)	(48,913)	(667,290)	(553,365)
FINANCING ACTIVITIES					
Proceeds from private placement share issuances	12	-	375,101	1,121,090	495,101
Proceeds from flow-through share issuance			153,000		153,000
Share issuance costs	12	(61)	-	(183,988)	-
Lease payments	6	(1,800)	(15,750)	(5,400)	(21,375)
Net change in non-cash working capital		9,910	-	157,443	-
Net cash provided by financing activities		8,049	104,250	1,089,145	626,726
INVESTING ACTIVITIES					
Capital expenditures -property plant and equipment	5	(24,274)	(22,460)	(213,015)	(59,666)
Net change in non-cash working capital		(10,000)	-	(206,653)	-
Net cash used in investing activities		(34,274)	(22,460)	(419,668)	(59,666)
(Decrease) increase in cash		(165,380)	32,877	2,187	13,695
Cash, beginning of the period		199,219	32,079	31,652	51,261
Cash, end of period		33,839	64,956	33,839	64,956
Interest paid in cash		-	-	-	-

- See accompanying notes to the consolidated financial statements.

Blacksteel Energy Inc.

For the three months and nine months ended January 31, 2024

(unaudited)

(Amounts in Canadian dollars)

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 December 13, 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 17.

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 January 31, 2024 - \$1,757,757 (April 30, 2023 - \$1,670,090) and incurred operating losses and negative cash flow from operating activities in the period ended October 31, 2023, and April 30, 2023. 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 and 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.

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(unaudited)

(Amounts in Canadian dollars)

3. ACQUISITIONS

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)

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

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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.

4. INVESTMENTS

The Corporation's investments are comprised of:

(\$)	January 31, 2024	April 30, 2023
Magnetic North Acquisition Corp.	40,000	40,000
High Ground Medica Inc.	127,235	127,235
Balance, end of period	167,235	167,235

5. PROPERTY, PLANT AND EQUIPMENT

In 2017, the Corporation acquired a 30% working interest in 18 sections of contiguous light oil assets around Girouxville in Northwest Alberta. In 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, 2022	582,456
Drakkar acquisition	6,516,300
Additions	481,283
Change in decommissioning obligation estimate	(95,092)

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(Amounts in Canadian dollars)

Balance April 30, 2023	7,484,947
Additions	213,015
Balance January 31, 2024	7,697,962

Accumulated depletion and depreciation

Balance April 30, 2022	300,868
Depletion	42,553
Balance April 30, 2023	343,421
Depletion	310,597
Balance January 31, 2024	654,018

Net book value	7,043,944
Balance, January 31, 2024	7,043,944
Balance April 30, 2023	7,141,526

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

There were no indicators of impairment on July 31, 2023. 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%.

6. 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:

6(a) Right-of-use assets:

(\$)	January 31, 2024	April 30, 2023
Opening balance	10,261	110,871
Additions	-	-
Change in estimate	-	(81,439)
Depreciation	(4,505)	(19,171)
Ending balance	5,756	10,261

6(b) Lease obligation:

(\$)	January 31, 2024	April 30, 2023
Opening balance	12,091	124,627
Additions	-	-
Change in estimate	-	(90,149)
Interest expense	347	1,688
Lease payments	(5,400)	(24,075)

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(unaudited)

(Amounts in Canadian dollars)

Ending balance	7,038	12,091
Allocated as:		
(\$)	January 31, 2024	April 30, 2023
Current	7,038	6,780
Non-current	-	5,311
Lease obligation, ending balance	7,038	12,091

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

(\$)	January 31, 2024	April 30, 2023
Depreciation of right-of-use assets	4,505	19,171
Interest expense on lease obligation	347	1,688
Expenses relating to short-term leases	28,590	14,678
Variable lease payments	-	-
Total amount recognized as profit or loss	33,442	35,537

6(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 through a lease.

The Corporation had total cash outflows for leases of \$28,590 for the three months ended January 31, 2024, and \$24,075 for the year ended April 30, 2023.

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 parking costs. The variable lease payments for the period ended January 31, 2024, was \$9,390, and year ended (April 30, 2023 - \$5,700).

7. BANK DEBT

The Corporation has a \$15,000 Line of Credit with a chartered bank. As of January 31, 2024, and April 30, 2023, there was \$nil outstanding.

8. 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

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(unaudited)

(Amounts in Canadian dollars)

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 January 31, 2024, and April 30, 2023, was \$77,921.

9. REMEDIATION PROVISION

(\$)	January 31, 2024	April 30, 2023
Opening balance	704,369	223,733
Drakkar acquisition	-	491,527
Expenditures incurred	(76,791)	(13,644)
Change in cost estimate	-	(6,890)
Accretion expense	1,574	9,643
Ending balance	629,152	704,369
Current	60,000	60,000
Long-term	569,152	644,369

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.

10. DECOMMISSIONING OBLIGATION

(\$)	January 31, 2024	April 30, 2023 (Restated – Note 26)
Opening balance	762,828	336,705
Expenditures incurred	-	-
Drakkar acquisition	-	530,877
Change in estimates	-	(112,972)
Accretion expense	4,320	8,218
Ending balance	767,148	762,828

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.

11. INCOME TAX

Blacksteel Energy Inc.

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(unaudited)

(Amounts in Canadian dollars)

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 (2023 – 23.00 percent) to loss before income taxes as follows:

For the periods ended, (\$)	January 31, 2024	April 30, 2023
Profit (Loss) before income taxes	(1,060,708)	1,962,468
Combined federal and provincial income tax rates	23%	23%
Expected income tax (recovery)	(243,963)	451,368
Differences resulting from:		
Non-deductible expenses	78,293	114,751
Permanent differences	165,770	84,815
Changes in unrecognized deferred tax assets	-	(650,934)
Deferred income tax recovery	-	-

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
Non-capital losses	2037 - 2043	16,258,031
Capital losses		1,112,521
Property, plant and equipment		-
Evaluation and exploration assets		2,355,755
Remediation provision		704,369
Decommissioning obligation		762,828
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.

12. 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.

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(unaudited)

(Amounts in Canadian dollars)

12. SHARE CAPITAL, CONTINUED

Class A common shares issued and outstanding	Number of shares	Stated Value
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
Private placement	14,013,630	1,121,090
Share issue costs		(183,928)
Balance January 31, 2024	111,701,255	\$20,278,975

In October 2023 the Corporation received gross proceeds of \$155,000 for 1,520,833 common shares. The cease trade order was issued before the standard share certificates were issued. Share certificates will be issued after the cease trade order is removed. The amount has been recorded as prepaid share subscription in current liabilities.

13. 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**

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(unaudited)

(Amounts in Canadian dollars)

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

13. SHARE BASED COMPENSATION, CONTINUED

(a) Stock option plan, continued

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

Date of Grant	Number	Year ended	Number	Year ended
		April 30, 2023		April 30, 2022
		Weighted Average Exercise Price		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 October 31, 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 October 31, 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.

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13. 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.

14. GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE

(\$)	January 31, 2024	April 30, 2023
Management consulting fees	374,929	300,575
Legal fees	21,297	93,838
Professional fees	133,738	71,050
Office	64,685	18,093
Rent expense	38,015	20,378
Debt expense	22,373	-
Travel	903	33,934
Insurance	46,845	15,427
Filing fees	13,782	1,452
Shareholder services	13,597	4,355
Total	730,164	559,102

15. FINANCE EXPENSE

(\$)	January 31, 2024	April 30, 2023
Accretion on lease obligation	4,852	1,688
Accretion of remediation provision	1,482	9,643
Accretion of decommissioning obligation	4,758	8,218
Total	11,092	19,549

16. PROFIT PER SHARE

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

Outstanding Weighted Average Common Shares	January 31, 2024	April 30, 2023
Basic and diluted	108,661,375	75,165,654
Profit (loss) per share	\$(0.01)	\$0.03

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(unaudited)

(Amounts in Canadian dollars)

17 FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

Blacksteel's management has overall responsibility for identifying the corporation's principal risks and ensuring policies and procedures are in place to 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.

17(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 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.

17(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.

17(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 January 31, 2024, the maximum exposure to credit risk was \$322,291 (April 30, 2023 -\$225,203) 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 periods ended January 31, 2024, and April 30, 2023. 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 January 31, 2024, and April 30, 2023, the Corporation's accounts receivable were comprised of the following:

(\$)	January 31, 2024	April 30, 2023
Accounts receivable	26,860	85,724

As of October 31, 2023, and April 30, 2023, the Corporation's accounts receivables were aged as follows:

(\$)	January 31, 2024	April 30, 2023
Aging 0-30 days	26,860	85,724

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17. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT CONTINUED

17(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 January 31, 2024, and April 30, 2023, 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 25th of the month.

Contractual Maturity Analysis at January 31, 2024

(\$)	1 year and less	1 to 2 years	Over 2 years	Total
Lease obligation	7,038	-	-	7,038
Non-lease financial liabilities	1,057,025	430,997	47,873	1,535,895
Total	1,064,063	430,997	47,873	1,542,933

17(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 periods ended January 31, 2024 and April 30, 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 January 31, 2024, and April 30, 2023, 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 January 31, 2024, and April 30, 2023, 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

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financial contracts in place as at or during the periods ended January 31, 2024, and April 30, 2023.

17(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 periods ended January 31, 2024, or April 30, 2023.

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

(\$)	January 31, 2024	April 30, 2023
Shareholders' equity (deficit)	3,992,463	4,116,009
Long-term debt	1,456,715	1,532,923
Capital	5,449,178	5,648,932

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.

18. RELATED PARTY TRANSACTIONS

(i) During the periods ended January 31, 2024, and April 30, 2023, the Corporation incurred expenses for \$20,781 (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, \$20,780 (\$130,424) were recorded to general and administrative expenses, January 31, 2024, \$26,988 to share issue expense, and 2024 -nil (\$142,901) were recorded to acquisition costs.

(ii) During the periods ended January 31, 2024, and April 30, 2023, the Corporation had transactions with Drakkar, which is considered 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:

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(\$)	January 31, 2024	April 30, 2023
Management consulting fees	292,000	254,983
Share-based compensation – expensed	-	347,563
	292,000	602,546

(iv) As at January 31, 2024 and April 30, 2023, amounts due to related parties and former related parties of \$350,748 (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.

19. 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. As at October 31, 2023, the commitment to incur qualifying expenditures was \$608,600.

20. 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 figures from the prior year 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.

The impact of the restatements as at January 31, 2023, is summarized below:

Balance Sheet

(Amounts in Canadian dollars)

	As reported	Adjustments	Restated
Assets			
Current assets			
Cash	64,956	-	64,956
Accounts receivable	99,795	11,370	111,165
Share subscription receivable	-	-	-
Deposits and prepaid expenses	43,807	29	43,836
Loans receivable	483,191	20,014	503,205
Total current assets	691,749	31,413	723,162
Exploration and evaluation assets	26,465	-	26,465
Investments	653,070	(613,070)	40,000
Property, plant and equipment	349,218	(26,003)	323,215
Right-of-use asset	68,745	26,837	95,582
Total assets	1,789,247	(580,823)	1,208,424
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	681,534	71,428	752,962
Current portion of lease obligation	13,206	15,938	29,144
Note payable	-	-	-

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(Amounts in Canadian dollars)

Total current liabilities	694,740	87,366	782,106
Non-current liabilities			
CEBA loan	28,103	-	28,103
Lease obligation	66,453	-	66,453
Decommissioning obligation	362,660	(21,218)	341,442
Remediation provision	-	229,263	229,263
Total liabilities	1,157,574	289,793	1,447,367
Shareholders' Equity			
Share capital	19,042,292	(809,311)	18,232,981
Warrants	269,888	(269,888)	-
Contributed surplus	5,470,522	221,499	5,692,021
Deficit	(24,150,029)	13,916	(24,163,945)
Total Shareholders' equity (deficit)	631,673	(870,616)	(238,943)
Total liabilities and shareholders' equity	1,789,247	(580,823)	1,208,424

Statement of Profit and Loss and Other Comprehensive Income

(Amounts in Canadian dollars)

	Nine months ended January 31, 2023		
	As reported	Adjustments	Restated
Revenue			
Oil revenue	59,795	23,322	83,117
Less: Royalty expenses	(24,138)	(11,952)	(36,090)
Net revenue	35,657	11,370	47,027
Rental income	9,820	-	9,820
Expenses			
General and administrative expenses	430,154	-	430,154
Production, operating and transportation	83,163	71,428	154,591
Stock-based compensation	791,213	(569,714)	221,499
Depletion and depreciation	22,534	24,271	46,805
Total expenses	1,327,064	(485,585)	853,049
Operating loss	(1,281,587)	485,385	(796,202)
Other income (expenses)			
Finance income, being interest	30,960	-	30,960
Loan receivable impairment	-	(173,070)	(173,070)
Unrealized losses on equity investments	-	(133,000)	(133,000)
Finance expense	(21,291)	21,291	-
Profit before tax	(1,271,918)	200,606	(1,071,312)
Profit and comprehensive income for the period	(1,271,918)	200,606	(1,071,312)
Profit per share, basic and diluted	\$(0.01)	\$(0.00)	\$(0.01)

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(unaudited)

(Amounts in Canadian dollars)

Statement of Cash Flows

(Amounts in Canadian dollars)

	Nine months ended January 31, 2022		
	As reported	Adjustments	Restated
Cash provided by (used in):			
OPERATING ACTIVITIES			
Cash flow from operating activities:			
Profit (loss) for the period	(1,271,918)	200,606	(1,071,312)
Non-cash items:			
Non-cash finance expense	8,427	(8,427)	-
Depletion, depreciation, and amortization	22,534	24,271	46,805
Stock-based compensation	791,213	(569,714)	221,499
Unrealized losses on equity investments	-	133,000	133,000
Impairment of loan receivable	-	173,070	173,070
Change in estimate on right-of-use assets	-	(10,865)	(10,865)
Sub-total	(449,744)	58,059	(507,803)
Net change in non-cash working capital	106,226	114,690	(45,562)
Net cash used in operating activities	(343,518)	172,949	(553,365)
FINANCING ACTIVITIES			
Proceeds from private placement share issuances	617,582	(122,481)	495,101
Proceeds from flow-through share issuance	-	153,000	153,000
Lease payments	-	(21,375)	(21,375)
Net cash provided by financing activities	617,582	9,144	626,726
Expenditures on property and equipment.	(59,666)	-	(59,666)
Advances to Drakkar Energy Ltd.	(200,703)	200,703	-
Net cash used in investing activities	(260,369)	200,703	(59,666)
Increase (decrease) in cash	13,695	-	13,695
Cash, beginning of the period	51,261	-	51,261
Cash, end of the period	64,956	-	64,956

20. 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 \$775,000 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

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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 an average of 149 Mcf/d with 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.