

This document is important and requires your immediate attention. If you are in doubt as to how to respond to the Offer, you should consult with your investment dealer, stockbroker, bank manager, lawyer or other professional advisor. Inquiries concerning the information in this document should be directed to Blue Sky Resources Ltd. to the attention of Glen A. Tarrant, President at (403) 508-9913.

July 10, 2000

BLUE SKY RESOURCES LTD.

**DIRECTORS' CIRCULAR
RELATING TO AN OFFER TO PURCHASE
BY FOSSIL BAY RESOURCES LTD. ("FOSSIL BAY")
FOR ALL OF THE COMMON SHARES ("BLUE SKY SHARES")
OF BLUE SKY RESOURCES LTD ("BLUE SKY")
ON THE BASIS OF
\$0.34 IN CASH PER BLUE SKY SHARE**

The Offer expires at 5:00 p.m. (Vancouver time) on Friday, July 21, 2000, unless withdrawn or extended by Fossil Bay.

DIRECTORS' RECOMMENDATION

**THE BOARD OF DIRECTORS OF BLUE SKY UNANIMOUSLY RECOMMENDS
THAT BLUE SKY'S SHAREHOLDERS ACCEPT THE OFFER.**

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DIRECTORS' CIRCULAR

THE OFFER

This Directors' Circular is issued by the board of directors (the **"Board of Directors"**) of Blue Sky Resources Ltd. (**"Blue Sky"** or the **"Corporation"**) in response to the offer to purchase dated June 30, 2000 (the **"Offer"**) made by Fossil Bay Resources Ltd. (**"Fossil Bay"** or the **"Offeror"**) for all of the issued and outstanding common shares of Blue Sky (**"Blue Sky Shares"**) on the basis of \$0.34 in cash, for each Blue Sky Share. The Offer is being made pursuant to a pre-acquisition agreement dated June 12, 2000 between Fossil Bay and Blue Sky (the **"Pre-Acquisition Agreement"**), and is subject to the conditions thereof which are set forth in the Offer and offering circular (collectively, the **"Offering Circular"**) of the Offeror dated June 30, 2000.

The Offer expires at 5:00 p.m. (Vancouver time) on Friday, July 21, 2000 (the **"Expiry Time"**), unless withdrawn or extended by Fossil Bay.

Reference is made to the Offering Circular for, among other things, details of the terms of the Offer, details of the conditions of the Offer and details relating to the compulsory acquisition or "squeeze-out" of Blue Sky.

Unless otherwise specified, all references herein to "dollars" or "\$" are to Canadian dollars.

RECOMMENDATION OF THE BOARD OF DIRECTORS

Having considered the terms of the Offer and the Pre-Acquisition Agreement (referenced below under **"Reasons for Recommendation"**), the advice of its legal advisors and additional matters, the members of the Board of Directors entitled to vote on the Offer have unanimously determined that the Offer is fair to the holders of Blue Sky Shares (the **"Shareholders"**) and is in the best interests of Blue Sky and the Shareholders. Accordingly, the members of the Board of Directors entitled to vote on the Offer unanimously recommend that the Shareholders accept the Offer.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS ACCEPT THE OFFER

Notwithstanding the recommendation of the Board of Directors that Shareholders accept the Offer, Shareholders should consider the Offer carefully and make their own decision whether to tender their Blue Sky Shares to the Offer. Shareholders who are in doubt as to how to respond to the Offer should consult with their investment dealer, stockbroker, bank manager, lawyer or other professional advisor.

Shareholders wishing to accept the Offer should complete the required documents carefully. Shareholders should refer to the Offering Circular, the Letter of Transmittal and, if applicable, procedures for guaranteed delivery.

REASONS FOR RECOMMENDATION

In reaching its decision to enter into the Pre-Acquisition Agreement and to recommend acceptance of the Offer, the Board of Directors considered a number of factors, including the following:

- information relating to the financial condition, results of operations and business of Blue Sky, on both an historical and a prospective basis, and current economic and market conditions, both generally and particularly in the oil and gas industry, including Blue Sky's difficulty in accessing sufficient capital to fully exploit and develop Blue Sky's assets and to acquire new assets;
- the knowledge and views of the Board of Directors of other alternatives available to the Corporation and the Shareholders;
- the comprehensive review in May and early June by management of Blue Sky of strategic alternatives available to Blue Sky and its shareholders to more fully enhance shareholder value;
- the financial terms of the Offer and of the Pre-Acquisition Agreement and the negotiations respecting same;
- the other terms of the Offer and the Pre-Acquisition Agreement, including the provision in the Pre-Acquisition Agreement that the Board of Directors is able to respond, in accordance with its fiduciary duties, to any unsolicited bona fide proposal made prior to the successful completion of the Offer if the Board of Directors believes such proposals offers Shareholders a financially superior result than that which would result from the Offer;
- Shareholders who believe that their Blue Sky Shares have a fair value greater than the consideration to be paid pursuant to the Offer will, if the statutory right of acquisition pursuant to Part 16 of the *Business Corporations Act* (Alberta) (the "Act") is available and is exercised by Fossil Bay in respect of the Blue Sky shares or if any subsequent acquisition transaction is undertaken, be entitled, upon compliance with certain conditions, to dissent to such statutory right of acquisition or subsequent acquisition transaction in accordance with the Act and be entitled to be paid the fair value of the Blue Sky Shares determined in accordance with the Act;

BACKGROUND TO THE OFFER

After being advised by the agent in Blue Sky's April 12, 2000 prospectus offering that given the market conditions at the time, raising the minimum of \$2,000,000 under that offering without a reduction in the offering price could not be accomplished. Management of the Corporation then began reviewing all alternatives for presentation to the Board of Directors of Blue Sky including possible merger or sale opportunities.

On May 17, 2000, Fossil Bay entered into a Confidentiality Agreement with Blue Sky and thereby gained access to the type of confidential information that would be made available to potential purchasers of Blue Sky.

On June 2, 2000, management presented a draft of the Pre-Acquisition Agreement to the Board of Directors of Blue Sky for consideration.

On June 8, 2000 the Board of Directors of Blue Sky authorized management to proceed to finalize the terms of the Pre-Acquisition Agreement believing that transaction to be in the best interest of Blue Sky and its shareholders.

The agent was advised that the Prospectus offering would not be proceeding and effective June 12, 2000 the Pre-Acquisition Agreement was finalized and executed.

Effective June 12, 2000, the directors and senior officers of Blue Sky (collectively, the “**Tendering Shareholders**”) entered into agreements (the “**Lock-Up Agreements**”) with Fossil Bay whereby the Tendering Shareholders agreed to tender to the Offer an aggregate of 5,000,000 Blue Sky Shares plus any shares received on the exercise of options granted prior to but exercised subsequent to the date of the Lock-Up Agreement or approximately 67% of the issued and outstanding Blue Sky Shares.

PRE-ACQUISITION AGREEMENT

As of June 12, 2000, Fossil Bay and Blue Sky entered into the Pre-Acquisition Agreement pursuant to which Fossil Bay agreed to make the Offer to purchase all of the outstanding Blue Sky Shares for consideration of \$0.34 cash for each Blue Sky Share. Pursuant to the Pre-Acquisition Agreement, the parties agreed, among other things, that:

- (a) the Board of Directors of Blue Sky had approved the making of the Offer and had resolved to recommend acceptance of the Offer by holders of Common Shares;
- (b) upon consummation of the Offer and acquisition by Fossil Bay of at least majority voting control of Blue Sky, Blue Sky will use its best efforts to replace all the members of the Board of Directors of Blue Sky with designees of Fossil Bay;
- (c) during the period of the Offer, the business of Blue Sky and its subsidiaries would be conducted only in the usual and ordinary course of business consistent with past practice and Blue Sky would not effect certain actions or transactions which might adversely affect the Offer;
- (d) Blue Sky would co-operate with Fossil Bay and use its best efforts to consummate the Offer and any subsequent acquisition transaction under which Fossil Bay would acquire the balance of the Common Shares; and
- (e) subject to applicable law, Blue Sky would not solicit, initiate or knowingly encourage the initiation of enquiries or proposals or offers related to the acquisition of assets or shares of Blue Sky from any other person or provide any confidential information to

or otherwise co-operate with or assist any person in connection with the acquisition of a material amount of assets or shares of Blue Sky.

Pursuant to the Pre-Acquisition Agreement, Blue Sky represents that its directors and senior officers have advised the Corporation that, at the date of the Pre-Acquisition Agreement, they intended to tender their Blue Sky Shares to the Offer. The Tendering Shareholders, which are Blue Sky's directors and senior officers, have entered into the Lock-Up Agreements, pursuant to which they have agreed to irrevocably accept the Offer, validly to tender and cause to be tendered an aggregate of 5,000,000 Blue Sky Shares plus any shares received by those parties on the exercise of options granted prior to but exercised subsequent to the date of the Lock-Up Agreement or approximately 67% of the issued and outstanding Blue Sky Shares. See "*Lock-Up Agreements*" below.

DIRECTORS, SENIOR OFFICERS AND PRINCIPAL SHAREHOLDERS OF BLUE SKY AND OWNERSHIP OF SECURITIES OF BLUE SKY

The following table sets out the names of the directors and senior officers of Blue Sky and the securities of Blue Sky beneficially owned, directly or indirectly, or over which control or direction is exercised, by the directors and senior officers of the Corporation and, to their knowledge after reasonable inquiry, by their respective associates, by any person or company holding more than 10% of any class of equity securities of Blue Sky, and by any person or company acting jointly or in concert with Blue Sky:

Name and Municipality of Residences	Position with Blue Sky	Number and Percentages of Blue Sky Shares ^{(5) (6)}		Number and Percentage of Blue Sky Shares Subject to Option ^{(1) (7)}	
		Number	Percentage	Number	Percentage
Glen A. Tarrant ⁽²⁾ Calgary, Alberta	President and Director	1,700,000	22.5%	255,000	25.8%
Allan D. Frederick ⁽²⁾ Calgary, Alberta	Vice-President and Director	1,700,000	22.5%	255,000	25.8%
Brent G. Marzolf Calgary, Alberta	Director	630,000	8.3%	90,000	9.0%
Douglas J. Lailey ⁽⁴⁾ Calgary, Alberta	Director	418,000	5.4%	60,000	6.0%
Howard R. Ward ⁽³⁾ Calgary, Alberta	Director	400,000	5.3%	60,000	6.0%
Richard A. Wilson ⁽²⁾ Calgary, Alberta	Secretary	200,000	2.6%	30,000	3.0%

(1) All options are to be either exercised or cancelled prior to the expiry of the Offer.

(2) Mr. Tarrant, Mr. Frederick and Mr. Wilson held all or a portion through RRSP's.

(3) Mr. Ward's shares are held through Forty-Plus Investments Ltd., a company controlled by him.

(4) Mr. Lailey's wife, Rhona Lailey, holds 18,000 Blue Sky Shares

- (5) Includes Blue Sky Shares held directly and indirectly and over which control or direction is exercised by each director and senior officer and, to the knowledge of the Blue Sky directors and senior officers after reasonable inquiry, by their respective associates.
- (6) Based on the 7,550,000 outstanding Blue Sky Shares.
- (7) Based on the 990,000 Blue Sky Shares subject to options.

LOCK-UP AGREEMENTS

Pursuant to the Lock-Up Agreements, the Tendering Shareholders have agreed to accept the Offer by depositing an aggregate of 5,000,000 Blue Sky Shares (or approximately 67% of the issued and outstanding Blue Sky Shares) and any Blue Sky Shares that may be acquired by such persons on the exercise of previously granted options or entitlements subsequent to execution of the Lock-Up Agreements, pursuant to the terms of the Offer, and thereafter not withdraw such Blue Sky Shares from the Offer; provided that the Tendering Shareholders are entitled to withdraw any Blue Sky Shares which they have tendered under the Offer if:

- (a) Fossil Bay terminates or withdraws the Offer;
- (b) Fossil Bay does not take up and pay for the Blue Sky Shares within 4 business days of being legally able to do so;
- (c) 66 2/3% of the outstanding Blue Sky Shares are not deposited under the Offer at the expiry of the Offer;
- (d) the Lock-Up Agreement is terminated in accordance with the terms thereof;
- (e) another party publicly announces either its intention to make an offer to acquire the Blue Sky Shares pursuant to a take-over bid or that it has entered into any agreement with Blue Sky in respect of a take-over bid, amalgamation, arrangement or other form of business combination between such party and Blue Sky, provided such offer or agreement provides for a price per share or for non-cash consideration having a value per share in excess of the aggregate value per share of the consideration offered by Fossil Bay plus 10% pursuant to the Offer; or
- (f) any other conditions to the Offer are not met (unless waived, in accordance with the Lock-Up Agreement or the Pre-Acquisition Agreement).

To the knowledge of the directors and senior officers of Blue Sky after reasonable inquiry, no associate of the directors and senior officers of Blue Sky other than those included among the Tendering Shareholders, no person or company holding more than 10% of the Blue Sky Shares and no person or company acting jointly or in concert with Blue Sky, other than the Tendering Shareholders, has accepted or intends to accept the Offer.

OWNERSHIP OF SECURITIES OF FOSSIL BAY

None of Blue Sky, the directors or senior officers of Blue Sky or, to the knowledge of the directors and senior officers of Blue Sky after reasonable inquiry, any associate of a director or senior officer of Blue Sky, any person or company holding more than 10% of the Blue Sky Shares or any person

or company acting jointly or in concert with Blue Sky owns, directly or indirectly, or exercises control or direction over, any securities of any class of Fossil Bay.

RELATIONSHIPS BETWEEN FOSSIL BAY AND THE DIRECTORS AND SENIOR OFFICERS OF BLUE SKY

None of the directors or senior officers of Blue Sky are directors or senior officers of Fossil Bay or any of its subsidiaries. Other than arrangements contained in the Pre-Acquisition Agreement and the Lock-Up Agreements described herein or as otherwise disclosed herein, there are no arrangements or agreements made or proposed to be made between Fossil Bay and any of the directors or senior officers of Blue Sky, including arrangements or agreements with respect to payments or other benefits proposed to be made or given by way of compensation for loss of office or as to their remaining in or retiring from office if the Offer is successful.

AGREEMENTS BETWEEN BLUE SKY AND ITS DIRECTORS AND SENIOR OFFICERS

There are no arrangements or agreements made or proposed to be made between Blue Sky and any of the directors or senior officers of Blue Sky pursuant to which a payment or other benefit is to be made or given by way of compensation for loss of office or as to their remaining in or retiring from office if the Offer is successful.

INTERESTS OF DIRECTORS, SENIOR OFFICERS AND OTHERS IN MATERIAL CONTRACTS OF FOSSIL BAY

Other than the Pre-Acquisition Agreement and the Lock-Up Agreements, none of the directors or senior officers of Blue Sky or their associates or, to the knowledge of the directors and senior officers of Blue Sky after reasonable inquiry, any person or company who owns more than 10% of the Blue Sky Shares, has any interest in any material contract to which Fossil Bay is a party.

TRADING IN SECURITIES OF BLUE SKY BY DIRECTORS AND SENIOR OFFICERS

Neither Blue Sky nor any of the directors or senior officers of Blue Sky, nor to the knowledge of the directors and senior officers of Blue Sky, after reasonable inquiry, any of their associates or any person holding more than 10% of the Blue Sky Shares or any person or company acting jointly or in concert with Blue Sky, has traded in securities of Blue Sky during the six (6) months preceding the date of the Directors' Circular, except as set forth below:

Name	Date	Description of Trade	Number and Type of Shares		Price per Share
Brent G. Marzolf	May 8, 2000	Market Purchase	1,000	Blue Sky Shares	\$0.35
	May 9, 2000	Market Purchase	500	Blue Sky Shares	\$0.39
	May 11, 2000	Market Purchase	10,000	Blue Sky Shares	\$0.40
	May 12, 2000	Market Purchase	10,000	Blue Sky Shares	\$0.40
	May 12, 2000	Market Purchase	3,000	Blue Sky Shares	\$0.42

	May 15, 2000	Market Purchase	1,000	Blue Sky Shares	\$0.40
	May 15, 2000	Market Purchase	4,000	Blue Sky Shares	\$0.40
	May 18, 2000	Market Purchase	1,000	Blue Sky Shares	\$0.40
Douglas J. Lailey ⁽¹⁾	April 12, 2000	Market Purchase	10,000	Blue Sky Shares	\$0.42
	April 12, 2000	Market Purchase	3,000	Blue Sky Shares	\$0.44
	April 12, 2000	Market Purchase	2,000	Blue Sky Shares	\$0.45
	April 24, 2000	Market Purchase	2,000	Blue Sky Shares	\$0.44
	May 24, 2000	Market Purchase	1,000	Blue Sky Shares	\$0.41

Note:

- (1) Purchased by Rhona Lailey, wife of Douglas J. Lailey
(2) Trades by Blue Sky are disclosed in the following table.

There have been no Blue Sky Shares or securities convertible into Blue Sky Shares issued by Blue Sky to any director or senior officer of Blue Sky during the two (2) year period preceding the date of the Directors' Circular except as set forth below:

<u>Name</u>	<u>Date Issued</u>	<u>Description and Number of Securities</u>		<u>Issue/Exercise Price Per Security</u>
Glen A. Tarrant	July 7/99	1,700,000	Blue Sky Shares	\$0.05
Allan D. Frederick	July 7/99	1,700,000	Blue Sky Shares	\$0.05
Brent G. Marzolf	July 7/99	600,000	Blue Sky Shares	\$0.05
Douglas J. Lailey	July 7/99	400,000	Blue Sky Shares	\$0.05
Howard R. Ward ⁽¹⁾	July 7/99	400,000	Blue Sky Shares	\$0.05
Richard A. Wilson	July 7/99	200,000	Blue Sky Shares	\$0.05
Glen A. Tarrant	September 24/99	255,000	Options	\$0.10
Allan D. Frederick	September 24/99	255,000	Options	\$0.10
Brent G. Marzolf	September 24/99	90,000	Options	\$0.10
Howard R. Ward	September 24/99	60,000	Options	\$0.10
Douglas J. Lailey	September 24/99	60,000	Options	\$0.10
Richard A. Wilson	September 24/99	30,000	Options	\$0.10

- (1) Held through Forty-Plus Investments, a company controlled by him.

MATERIAL CHANGES AND OTHER INFORMATION

The directors and senior officers of Blue Sky are not aware of any information that indicates any material change in the affairs of Blue Sky since the date of the last published financial statements of Blue Sky not publicly disclosed, except as otherwise described or referred to herein or in the Offering Circular. There is no other information not disclosed herein but known to the directors and senior officers of Blue Sky which would reasonably be expected to affect the decision of the Shareholders of Blue Sky to accept or reject the Offer. To the knowledge of the directors and senior officers of Blue Sky, there is no additional information required to make the information regarding Blue Sky in the Offering Circular correct or not misleading.

RESPONSES TO THE OFFER

Except as otherwise described or referred to herein, Blue Sky has not entered into any transaction, agreement in principle or contract and the Board of Directors has not passed any board resolution in response to the Offer. There are no negotiations underway in response to the Offer which relate

to or would result in a merger or reorganization involving Blue Sky or a subsidiary, or any other extraordinary transaction; the purchase, sale or transfer of a material amount of assets by Blue Sky or a subsidiary; an issuer bid for or other acquisition of securities by or of Blue Sky; or any material change in the present capitalization or dividend policy of Blue Sky.

STATUTORY RIGHTS

Securities legislation in certain of the provinces and territories of Canada provides Shareholders of Blue Sky with, in addition to any other rights they may have at law, rights of rescission or to damages, or both, if there is a misrepresentation in a circular or notice that is required to be delivered to such Shareholders. However, such rights must be exercised within prescribed time limits. Shareholders should refer to the applicable provisions of the securities legislation of their province or territory for particulars of those rights or consult with a lawyer.

DIRECTORS APPROVAL

The contents of this Directors' Circular have been approved and the delivery thereof has been authorized by Blue Sky's Board of Directors.

CERTIFICATE OF THE CORPORATION

Dated: July 10, 2000

The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. In addition, the foregoing does not contain any misrepresentation likely to affect the value or market price of the securities which are the subject of the Offer.

ON BEHALF OF THE BOARD OF DIRECTORS

“Glen A. Tarrant”

Glen A. Tarrant
President and Director

“Brent G. Marzolf”

Brent G. Marzolf
Director