BLUE SKY ENERGY INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended October 31, 2018 and 2017

(Unaudited)

(Expressed in Canadian Dollars)

BLUE SKY ENERGY INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)

($ Canadian)	October 31, 2018	July 31, 2018
ASSETS		
Current		
Cash	$ 6,958	$ 6,442
Amounts receivable (Note 3)	14,886	18,697
Prepaid expenses and deposits	7,376	2,213
Total assets	$ 29,220	$ 27,352
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Notes 5 and 9)	$ 1,201,598	$ 1,050,284
Loans payable (Note 5)	306,473	298,911
Discontinued operations (Notes 5 and 6)	-	4,717,906
Total liabilities	1,508,071	6,067,101
SHAREHOLDERS' DEFICIENCY		
Common shares (Note 7(b))	2,840,921	2,840,921
Contributed surplus (Note 7(c))	794,033	765,069
Deficit	(5,113,805)	(10,703,419)
Accumulated other comprehensive income	-	1,057,680
Total shareholders' deficiency	(1,478,851)	(6,039,749)
Total liabilities and shareholders' deficiency	$ 29,220	$ 27,352

Nature and continuance of operations (Note 1)
Commitments and contingencies (Note 8)
Subsequent event (Note 10)

APPROVED ON BEHALF OF THE BOARD ON DECEMBER 18, 2018:

Signed *"Ahmed Said"*, DIRECTOR

Signed *"Scott Moore"*, DIRECTOR

BLUE SKY ENERGY INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (UNAUDITED)

	Three months ended	
($ Canadian)	October 31, 2018	October 31, 2017
Expenses		
Wages, salaries and consulting fees (Note 9)	116,597	112,009
Professional fees	6,000	6,000
General office expenses	19,369	3,485
Travel expenses	-	30,602
Share based compensation (Notes 7(c) and 9)	28,964	-
Shareholder communications and filing fees	7,476	1,536
Foreign exchange (gain)/ loss	6	(126)
Total expenses before other income and expenses	178,412	153,506
Other income and expenses		
Interest (expense)	(7,560)	(7,562)
(Loss) before discontinued operations	(185,972)	(161,068)
Gain on disposal of discontinued operations (Note 6)	4,804,947	-
(Loss)/ income from discontinued operations (Note 6)	(87,041)	76,161
Net income/ (loss) from discontinued operations	4,531,934	(84,907)
Other comprehensive income from discontinued operations		
Foreign currency translation	1,057,680	-
Comprehensive income/ (loss) for the period	$ 5,589,614	$ (84,907)
Basic and diluted (loss) from continuing operations per share	$ (0.01)	$ (0.01)
Basic and diluted income from discontinued operations per share	$ 0.19	$ 0.00
Weighted average number of common shares outstanding basic and diluted	30,884,961	30,884,961

See accompanying notes to the condensed interim consolidated financial statements

BLUE SKY ENERGY INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY (UNAUDITED)

($ Canadian)	Common Shares		Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Shareholders' Deficiency
	#	$	$	$	$	$
Balance, July 31, 2018	30,884,961	2,840,921	765,069	(10,703,419)	1,057,680	(6,039,749)
Option vesting (Note 7(c))	-	-	28,964	-	-	28,964
Income for the period	-	-	-	4,531,934	-	4,531,934
Other comprehensive income for the period	-	-	-	1,057,680	(1,057,680)	-
Balance, October 31, 2018	30,884,961	2,840,921	794,033	(5,113,805)	-	(1,478,851)
Balance, July 31, 2017	30,884,961	2,840,921	430,028	(10,290,086)	1,057,680	(5,961,457)
Loss for the period	-	-	-	(161,068)	-	(161,068)
Income from discontinued operations (Note 6)	-	-	-	76,161	-	76,161
Balance, October 31, 2017	30,884,961	2,840,921	430,028	(10,374,993)	1,057,680	(6,046,364)

See accompanying notes to the condensed interim consolidated financial statements

BLUE SKY ENERGY INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three months ended	
($ Canadian)	October 31, 2018	October 31, 2017
CASH (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES		
Net income/ (loss)	$ 4,531,934	$ (84,907)
Items not involving cash:		
Interest accrued (Note 5)	7,562	7,562
Share-based compensation (Note 7(c))	28,964	-
Gain on disposal of discontinued operations (Note 6)	(4,804,947)	-
	(236,487)	(77,345)
Net change in non-cash working capital	149,956	134,646
Continued operating activities	(86,531)	57,301
Discontinued operations (Note 6)	87,041	(76,161)
Net cash flows provided by (used in) operating activities	510	(18,860)
Effect of exchange rate change	6	(126)
CHANGE IN CASH DURING THE PERIOD	516	(18,986)
CASH, beginning of the period	6,442	171,889
CASH, end of the period	$ 6,958	$ 152,903

1. NATURE AND CONTINUANCE OF OPERATIONS

Blue Sky Energy Inc. (the "Company" or "Blue Sky") is a public company and trades on the TSX Venture Exchange ("TSXV") under the symbol "BSI". The Company was continued into Ontario, Canada on September 27, 2013 with a registered office address of 65 Queen Street West, Suite 805, Toronto, ON, M5H 2M5. Blue Sky is an international oil and gas exploration company, primarily engaged in exploring potential opportunities in the domestic and international oil and gas sector with a focus on competitive and stable energy jurisdictions.

Going concern

The accompanying condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The business of exploration for oil and gas involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable oil and gas operations. The Company's continued existence is dependent upon the acquisition of oil and gas properties, preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The Company does not have any operating assets that generate revenues, does not have proven reserves and incurred a net income of $4,531,934 during the three months ended October 31, 2018 (October 31, 2017 - $84,907). As at October 31, 2018, the Company had a working capital deficiency of $1,478,851 (July 31, 2018 - $6,039,749). Consequently, the Company's ability to continue as a going concern is dependent on the Company's ability to obtain additional financing if, as and when required, and, ultimately, the attainment of profitable operations or the profitable sale of the Company's exploration interests.

These condensed interim consolidated financial statements do not give effect to adjustments that would be necessary and could be material to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These condensed interim consolidated financial statements of the Company and its subsidiaries were prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB") and in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. These condensed interim consolidated financial statements have been prepared in accordance with the accounting policies the Company adopted in its July 31, 2018 annual financial statements except for the accounting changes described below. These condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended July 31, 2018.

Basis of presentation

The condensed interim consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The condensed interim consolidated financial statements are presented in Canadian dollars unless otherwise noted.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiary Sonoro Energy Iraq B.V. ("Sonoro Iraq"). Água Grande Exploração e Produção de Petróleo Ltda ("Agua Grande") which was its other subsidiary was deconsolidated on October 19, 2018 (see Note 6).

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are deconsolidated from the date control ceases. The condensed interim consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiary after eliminating inter-entity balances and transactions.

The Company's oil and natural gas activities involved jointly controlled operations. The condensed interim consolidated financial statements include the Company's proportionate share of the related exploration and evaluation costs incurred.

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the condensed interim consolidated financial statements.

Accounting changes

On August 1, 2018, the Company adopted a number of new IFRS standards, interpretations, amendments and improvements of existing standards, including IAS 7 and IAS 12. These new standards and changes did not have any material impact on the Company's condensed interim consolidated financial statements. Accounting pronouncements not yet adopted were IFRS 2, IFRS 9, IFRIC 22 and IFRIC 23.

3. AMOUNTS RECEIVABLE

Amounts receivable balances as at October 31, 2018 and July 31, 2018 consist of amounts receivable from the Government of Canada for Harmonized Sales Taxes (HST).

4. EXPLORATION AND EVALUATION EXPENDITURES

On November 29, 2016, the Company announced that it had acquired from Sonoro Energy International Holdings B.V. (the "Vendor") all the issued and outstanding shares of Sonoro Iraq, a company incorporated in the Netherlands and the designated operator and holder of the license agreement with the Al-Salah ad Din Provincial Government of Iraq for bitumen exploration and asphalt production (the "Salah ad Din License") defined in the license as hydrocarbons with an API gravity of less than 25 degrees.

In consideration of the acquisition of Sonoro Iraq, the Company will make contingent payments to the Vendor, in tranches, totaling up to $4 million based on the start of crude oil production up to eighty thousand barrels per day. In the event that no production is achieved related to Sonoro Iraq's license agreements, no consideration or payments shall be owing or payable to the Vendor. See Note 8 for details.

On the acquisition date, the net assets of Sonoro Iraq were determined to be a nominal value of $1. Its primary contract, the Salah ad Din License has been under Force Majeure since July 2013. The acquisition was accounted for as an asset acquisition.

On March 15, 2017, the Company announced that it had received a letter from the Republic of Iraq Salah Ad Din Investment Commission confirming the resumption of work and removal of Force Majeure status related to the Asphalt License that the Company controls through its subsidiary, Sonoro Iraq, subject to securing an investment license. Once the investment license is granted, the Company can plan a new work program.

There were no exploration and evaluation expenditures for the three months ended October 31, 2018 and 2017.

5. TRADE AND OTHER PAYABLES

	October 31, 2018	July 31, 2018
Accounts payable other	$ 829,409	$ 704,449
Accrued liabilities	372,189	345,835
Total accounts payable and accrued liabilities	$ 1,201,598	$ 1,050,284
Loans payable	306,473	298,911
Discontinued operations	-	4,717,906
Balance, period end	$ 1,508,071	$ 6,067,101

The Company incurred an unsecured loan from Aberdeen International Inc. on May 10, 2017 of $50,000 which was subsequently increased to $250,000 on May 15, 2017 with an original maturity date of July 5, 2017. Interest accrues at 12% annually. The loan maturity was extended until December 31, 2017 with the payment of an arrangement fee of $12,500. The loan was further extended and will most likely be paid before December 31, 2018. As at October 31, 2018 the loan balance including accrued interest and arrangement fees was $306,473 (July 31, 2018 - $298,911).

6. DISCONTINUED OPERATIONS

On November 9, 2017, the Company signed an agreement to dispose of its wholly owned Brazilian subsidiary, Agua Grande to Umeq Al-Nahrain for General Trading, Import & Export Ltd., an Iraqi corporation for a nominal $1. The transaction closed on October 19, 2018 at which time the subsidiary was deconsolidated and a non-cash gain of $4,804,947 recognized.

The liabilities related to this subsidiary were deconsolidated on the condensed interim consolidated statements of financial position as at October 31, 2018 and was part of discontinued operations on July 31, 2018. The Company's liabilities associated with discontinued operations are comprised of the following:

Liabilities	As at October 31, 2018	As at July 31, 2018
Accounts payable trade - Block 166	$ -	$ 1,028,762
Accounts payable trade	-	50,655
Payroll & social contributions	-	3,310
Taxes payable	-	5,444
Accrued vacation payroll	-	5,471
Provisions	-	3,624,264
	$ -	$ 4,717,906

The operating results related to this subsidiary have been included in discontinued operations in the condensed interim consolidated statements of loss and comprehensive loss and the condensed interim consolidated statements of cash flow for the three months ended October 31, 2018 and 2017.

	Three months ended October 31, 2018	Three months ended October 31, 2017
(Loss)/ Income		
Foreign exchange (loss)/ gain on translation	$ (87,041)	$ 76,161
	$ (87,041)	$ 76,161

7. CAPITAL STOCK

a. Authorized

Unlimited number of common shares, without par value
Unlimited number of 1st and 2nd preferred shares, without par value, issuable in series

b. Common shares issued

	Number of shares	Amount
Balance at July 31, 2017 and 2018, October 31, 2018	30,884,961	$ 2,840,921

There were no new common shares issued for the years ended July 31, 2017 and 2018 or for the three months ended October 31, 2018.

c. Contributed surplus

The Company has granted options for the purchase of common shares to its directors, officers, consultants and employees. The aggregate number of shares that may be issuable pursuant to options granted under the Stock Option Plan will not exceed 10% of the issued common shares of the Company at the date of grant. No more than 5% of the issued shares of the Company may be granted to any one optionee, and no more than 2% of the issued shares of the Company may be granted to any one consultant or person engaged in investor relations activities in any 12 month period. The options are non-transferable and non-assignable and may be granted for a term not exceeding five years. The exercise price of the options may not be less than the market price of the Blue Sky common shares at the time of the option grant.

On February 8, 2017, 1,105,000 options were granted. The options vest evenly over a two year period.

As at October 31, 2018, the following stock options were outstanding:

Number of options outstanding	Number of options exercisable	Grant date	Expiration date	Exercise price	Grant date				
					Estimated fair value vested	Expected volatility	Expected life (years)	Expected dividend yield	Risk-free interest rate
1,005,000	753,750	8-Feb-17	8-Feb-22	$ 0.80	$ 723,565	154%	5	0%	1.01%
50,000	37,500	8-Feb-17	8-Feb-22	$ 1.00	$ 35,620	154%	5	0%	1.01%
50,000	37,500	8-Feb-17	8-Feb-22	$ 1.50	$ 34,848	154%	5	0%	1.01%
1,105,000	828,750			$ 0.84	$ 794,033		5		

During the three months ended October 31, 2018, no options were exercised or expired. There are 1,105,000 options outstanding as at October 31, 2018. The weighted average remaining life of the options is 3.28 years (July 31, 2018 – 3.53 years).

	Number of stock options	Weighted average exercise price ($)
Balance, July 31, 2017 and 2018	1,105,000	0.84
Balance, October 31, 2018	1,105,000	0.84

8. COMMITMENTS AND CONTINGENCIES

Sonoro Iraq acquisition

On November 29, 2016, the Company announced that it had acquired Sonoro Iraq. See Note 4. In consideration for the acquisition, the Company will make the following contingent payments to the Vendor, totaling $4 million:

- $1 million on first production of petroleum and asphalt;
- $1 million once production hits 15,000 barrels per day;
- $1 million once production hits 40,000 barrels per day; and
- $1 million once production hits 80,000 barrels per day.

All production is as defined in the Salah ad Din License dated October 2, 2010. In the event, that no production is achieved related to the Salah ad Din License agreement, no consideration or payments shall be owing or payable to the Vendor. As triggering events have not taken place as at October 31, 2018, these amounts have not been recorded in these condensed interim consolidated financial statements.

Management contracts

The Company is party to certain management and independent contractor contracts. These contracts require payments of approximately $720,000 to be made upon the occurrence of a change in control to the officers of the Company. As a triggering event has not taken place, the contingent payments have not been reflected in these condensed interim consolidated financial statements. The Company is also committed to payments upon termination of approximately $243,000 pursuant to the terms of these contracts.

Contingencies

Oil and gas operations are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. The Company's operations may require licenses and permits from various governmental authorities in the countries in which it operates. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development of its projects.

Environmental

The Company's exploration and evaluation activities are subject to laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

9. RELATED PARTY DISCLOSURES

Key management personnel compensation

In addition to their contracted fees, executive officers participate in the Company's share option program. Certain executive officers are subject to a mutual termination notice ranging from three to twelve months. See Note 8. Key management personnel compensation comprised:

	Three months ended October 31, 2018	Three months ended October 31, 2017
Short term employee benefits	$ 30,556	$ 45,833
Share-based payments	18,384	-
	$ 48,940	$ 45,833

Included in accounts payable and accrued liabilities as at October 31, 2018, is $351,389 (July 31, 2018 - $320,833) owing to key management personnel for business and operational consulting services. Such amounts are unsecured, non-interest bearing, with no fixed terms of repayment.

See Note 5 for outstanding loan payable owing to Aberdeen International Inc., which owns common shares of the Company.

10. SUBSEQUENT EVENT

On December 18, 2018, the Company terminated its planned reverse take-over transaction with Irati Energy Corp.