BLUE SKY ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended July 31, 2019

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

This Management's Discussion and Analysis ("MD&A") relates to the financial position and results of Blue Sky Energy Inc. ("Blue Sky" or the "Company") for the year ended July 31, 2019. This MD&A should be read in conjunction with the consolidated financial statements for the year ended July 31, 2019. Unless otherwise noted, all references to currency in this MD&A are in Canadian dollars.

All financial statement information discussed in this MD&A have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, 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 come due.

The Company's certifying officers are responsible for ensuring the consolidated financial statements do not contain any untrue statement of material fact or omit a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made. The Company's officers certify that the consolidated financial statements fairly present, in all material respects, the financial condition, result of operations and cash flows, of the Company as of the date hereof. The Board of Directors approves the consolidated financial statements and ensures that management has discharged its financial responsibilities. The Board of Directors' review is accomplished principally through the Audit Committee, which meets periodically to review all financial reports, prior to filing.

This MD&A is as of October 23, 2019. The reader should be aware that historical results are not necessarily indicative of future performance.

OVERVIEW

Blue Sky Energy Inc. is an independent Canadian oil and gas exploration company focused on pursuing the exploration, evaluation and development of resource assets. Blue Sky's shares are listed on the TSX Venture Exchange ("TSXV") under the symbol "BSI". Additional information relating to the Company can be found on SEDAR at www.sedar.com.

OUTLOOK

The Company will continue its efforts to raise additional financing to advance its Iraq property and evaluate other opportunities which would create shareholder value.

HIGHLIGHTS

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 was recognized on the consolidated statement of income (loss).

On December 18, 2018, the Company terminated its planned reverse take-over transaction with Irati Energy Corp. The Company has applied to the TSX Venture Exchange to have its common shares resume trading.

On July 30, 2019, 10,000 options expired, unexercised.

IRAQ PROPERTY

On November 29, 2016, the Company acquired from Sonoro Energy International Holdings B.V. (the "Vendor") all the issued and outstanding shares of Sonoro Energy Iraq B.V. ("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.

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. To date, the Company is still waiting for the grant of the investment license.

SELECTED ANNUAL INFORMATION

The table below provides a summary of selected annual information for the years ended July 31, 2019, 2018, and 2017.

	Years ended		
($, except per share amounts)	July 31, 2019	July 31, 2018	July 31, 2017
Funds (used in) operating activities	(5,716)	(165,447)	(335,411)
Impairment of exploration and evaluation assets	-	-	-
Concession from creditors	-	-	-
Net loss before discontinued operations	(703,623)	(1,124,623)	(1,240,784)
Net income/ (loss) for the year	4,014,283	(413,333)	(1,240,784)
Per share - basic and diluted (loss) from continuing operations	(0.02)	(0.04)	(0.04)
Per share - basic and diluted income from discontinued operations	0.15	0.02	0.00
Per share - basic and diluted comprehensive income (loss)	0.16	0.02	(0.04)
Other comprehensive (loss)/ income	(87,041)	-	47,601
Total assets	13,325	27,352	178,217
Shares outstanding at year end	30,884,961	30,884,961	30,884,961

SUMMARY OF QUARTERLY RESULTS

The loss of $146,610 in the quarter ended July 31, 2019, is mainly due to $111,134 spent on wages, salaries and consulting fees. The other main expenses for the quarter were professional fees of $6,533, shareholder communication and filing fees of $2,400 and general office expenses of $19,157. The income of $32,065 in the quarter ended July 31, 2018, is mainly due to income from discontinued operations of $291,044 from foreign exchange gains which was greater than all the expenses for the quarter of $258,979. The main expenses for the quarter were wages, salaries and consulting fees of $128,339, professional fees of $50,383, share based compensation of options vested of $46,165 and general office expenses of $20,254.

(in $)	Quarter Ended							
	Jul-19	Apr-19	Jan-19	Oct-18	Jul-18	Apr-18	Jan-18	Oct-17
Net (loss) income	(146,610)	(219,495)	(151,546)	4,531,934	32,065	(38,908)	(321,583)	(84,907)
Net (loss) income from continuing operations	(146,610)	(219,495)	(151,546)	(185,972)	(258,979)	(293,232)	(411,344)	(161,068)
Per share - basic and diluted from discontinued operations	(0.00)	(0.00)	(0.00)	0.19	0.00	0.01	(0.00)	(0.01)
Per share - basic and diluted from continuing operations	(0.00)	(0.01)	(0.00)	(0.01)	(0.01)	(0.03)	(0.01)	(0.01)
Total assets	13,325	17,392	29,060	29,220	27,352	62,571	167,670	211,591

The Company has and expects to continue to report negative earnings until the Company's exploration program finds and develops producing assets. The Company will continue to utilize proceeds from debt, financing and equity issuances to fund its exploration program and general and administrative operating costs.

As at July 31, 2019, the Company had no operating assets and expects to generate negative cash flow from operations for the foreseeable future.

REVIEW OF FINANCIAL RESULTS

Selected Financial Information

	Three months ended		Year ended	
	July 31, 2019	July 31, 2018	July 31, 2019	July 31, 2018
Net (loss)/ income for the period	$ (146,610)	$ 32,065	$ 4,014,283	$ (413,333)
(Loss) before discontinued operations	(146,610)	(258,979)	(703,623)	(1,124,623)
Comprehensive (loss)/ income for the period	(146,610)	32,065	5,071,963	(413,333)
Gain on disposal of discontinued operations	-	-	4,804,947	-
Income/ (loss) from discontinued operations	-	291,044	(87,041)	711,290
(Loss) per share from continuing operations	(0.00)	(0.01)	(0.02)	(0.04)
(Loss)/ income per share from discontinued operations	(0.00)	0.01	0.15	0.02
Comprehensive (loss)/ income per share	(0.00)	0.00	0.16	(0.01)
General and administrative:				
General office expenses	19,157	20,254	74,951	48,082
Wages, salaries and consulting fees	111,134	128,339	486,091	486,121
Professional fees	6,533	50,383	33,377	163,241
Shareholder communications and filing fees	2,400	6,276	34,729	31,648
Travel expenses	-	-	-	30,602
	139,224	205,252	629,148	759,694
Non-cash:				
Share based compensation	-	46,165	44,648	335,041
	-	46,165	44,648	335,041
Foreign exchange (gain) loss	(176)	3	(171)	(106)
Interest expense	7,562	7,559	29,998	29,994
Gain on deconsolidation	-	-	(4,804,947)	-
(Income)/ loss from discontinued operations	-	(291,044)	87,041	(711,290)
Net loss/ (income)	$ 146,610	$ (32,065)	$ (4,014,293)	$ 413,333

There were no exploration and evaluation expenditures during the year ended July 31, 2019 and 2018. Água Grande Exploração e Produção de Petróleo Ltda deconsolidation transaction closed on October 19, 2018.

Expenses

During the three months and year ended July 31, 2019, the Company recorded general office expenses of $19,157 and $74,951 compared to $20,254 and $48,082 in the same period for the prior year. The Company is trying to minimize this type of expenses.

During the three months and year ended July 31, 2019, wages, salaries and consulting fees were $111,134 and $486,091 compared to $128,339 and $486,121 in the same period in the prior year.

Professional fees of $6,533 and $33,377 during the three months and year ended July 31, 2019 has decreased from $50,383 and $163,241 compared to the same period last year due to a reduction in legal costs. The fees are mainly for audit and other accounting fees incurred and/or accrued in the periods.

Shareholder communications and filing fees are the costs associated with maintaining public company filings and investor relations. There was $2,400 and $34,729 spent during the three months and year ended July 31, 2019, compared to $6,276 and $31,648 in the comparative period last year. The increase in shareholder communications for the current year was due to the potential reverse take-over transaction with Irati Energy Corp. which was terminated on December 18, 2018.

The Company recorded travel expenses of $Nil during the three months and year ended July 31, 2019 compared with $Nil and $30,602 during the three months and year ended July 31, 2018.

During the three months and year ended July 31, 2019, the Company recorded share-based compensation expenses of $Nil and $44,648 compared to $46,165 and $335,041 for the three months and year ended July 31, 2018. The share-based compensation expenses relate to partial vesting of 1,105,000 options to directors, and consultants of the Company from the February 8, 2017 option grant. The options started vesting April 30, 2017 and completed vesting on April 30, 2019.

During the three months and year ended July 31, 2019, the Company incurred interest expense of $7,562 and $29,998 compared to $7,559 and $29,994 for the three months and year ended July 31, 2018. The Company acquired 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, is due on demand, and at July 31, 2019, the loan balance including accrued interest and arrangement fees was $328,911. A loan of $62,500 from 2227929 Ontario Inc. is included in accounts payable and accrued liabilities as at July 31, 2019 (July 31, 2018 - $35,000). It is non-interest bearing and due on demand.

On October 19, 2018, the Company closed the sale of Agua Grande to Umeq Al-Nahrain for General Trading, Import & Export Ltd., which resulted in a gain on deconsolidation of $4,804,947.

For the three months and year ended July 31, 2019, the Company incurred loss from discontinued operations of $Nil and $87,041 from foreign exchange loss due to the weakening of the Canadian dollar against the Brazilian Real. For the three months and year ended July 31, 2018, the Company incurred income from discontinued operations of $291,044 and $711,290 from foreign exchange gain due to the strengthening of the Canadian dollar against the Brazilian Real.

CASH FLOWS

	Three months ended		Year ended	
($ Canadian)	July 31, 2019	July 31, 2018	July 31, 2019	July 31, 2018
Cash flows (used in) operating activities	$ 527	$ (27,385)	$ (5,716)	$ (165,341)
Effect of exchange rate	(176)	3	(171)	(106)
Net change in cash	$ 351	$ (27,382)	$ (5,887)	$ (165,447)

Cash flows used in operating activities during the three months and year ended July 31, 2019 was $527 and $5,716. This is due to the holding of accounts payables. Cash used by operating activities during the three months and year ended July 31, 2018 was $27,385 and $165,341. There were no financing or investing activities for the three months and year ended July 31, 2019 and 2018.

LIQUIDITY AND CAPITAL RESOURCES

Funding for the Company's exploration program and operations has come from a loan from Aberdeen International Inc. The Company expects to continue to use cash until such time as the Company is able to establish a production base. The Company will require additional financing in order to execute its business plan and will continue its efforts to seek appropriate financing initiatives that benefit the Company. If the Company is not able to secure additional financing, it may not be able to continue as a going concern. The consolidated financial statements for the year ended July 31, 2019 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. The Company has no off-balance sheet transactions.

Going concern

Blue Sky is a development stage enterprise. To date, the Company has not found proven reserves. 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 loss before discontinued operations of $703,623 during the year ended July 31, 2019. As at July 31, 2019 the Company had a working capital deficiency of $1,980,818. 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.

COMMITMENTS AND CONTINGENCIES

Sonoro Iraq acquisition

On November 29, 2016, the Company acquired Sonoro Iraq. In consideration for the acquisition, the Company will make 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 July 31, 2019, the above amounts have not been recorded in the consolidated financial statements.

Management contracts

The Company is party to certain management and independent contractor contracts. These contracts require payments of approximately $1,170,000 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 the consolidated financial statements. The Company is also committed to payments upon termination of approximately $398,000 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.

SHARE CAPITAL

As at the date of this report, there are 30,884,961 common shares of Blue Sky are outstanding. There are no off-balance sheet financing arrangements.

RELATED PARTY TRANSACTIONS

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. Key management personnel compensation comprised:

		Year ended July 31, 2019		Year ended July 31, 2018
Short term employee benefits	$	164,556	$	183,333
Share-based payments		28,337		212,652
	$	192,893	$	395,985

Included in accounts payable and accrued liabilities as at July 31, 2019, is $476,389 (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.

CHANGES IN ACCOUNTING POLICIES

The Company will monitor the development of the relevant IFRS and change its accounting policies accordingly.

Accounting pronouncements not yet adopted

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after August 1, 2019 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company's consolidated financial statements.

IFRS 16, Leases ("IFRS 16") was issued in January 2016. It replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. IFRS 16 is effective from January 1, 2019.

IFRIC 23 – Uncertainty Over Income Tax Treatments ("IFRIC 23") was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The interpretation committee concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019.

IAS 1 – Presentation of Financial Statements ("IAS 1") and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

Other accounting changes

During the year ended July 31, 2019, the Company adopted a number of new IFRS standards, interpretations, amendments and improvements of existing standards. These included IFRS 2 and IFRIC 22. These new standards and changes did not have any material impact on the Company's consolidated financial statements.

Effective August 1, 2018, the Company adopted IFRS 9, *Financial Instruments*, which resulted in changes in accounting policies as described below. In accordance with the transitional provisions in both standards, the Company adopted these standards retrospectively without restating comparatives, with the cumulative impact adjusted in the opening balances as at August 1, 2018. There were no effects on opening balances at August 1, 2018 with respect to the adoption of this policy.

IFRS 9, Financial Instruments

IFRS 9 replaces International Accounting Standard ("IAS") 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets and hedge accounting. It establishes two primary measurement categories for financial assets: (i) amortized cost and (ii) fair value either through profit or loss ("FVPL") or through other comprehensive income ("FVOCI"); establishes criteria for the classification of financial assets within each measurement category based on business model and cash flow characteristics; and eliminates the existing held for trading, held to maturity, available for sale, loans and receivable and other financial liabilities categories. IFRS 9 also introduces a new expected credit loss model for the purpose of assessing the impairment of financial assets and requires that there be a demonstrated economic relationship between the hedged item and hedging instrument.

The following table shows the previous classification under IAS 39 and the new classification under IFRS 9 for the Company's financial instruments:

	Financial instrument classification	
	Under IAS 39	Under IFRS 9
Financial assets		
Cash and cash equivalents	Loans and receivables	Amortized cost
Amounts receivable	Loans and receivables	Amortized cost
Financial liabilities		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Loans payable	Other financial liabilities	Amortized cost

The Company adopted IFRS 9 retrospectively without restating comparatives and therefore the comparative information in respect of financial instruments for the year ended July 31, 2018 was accounted for in accordance with the Company's previous accounting policy under IAS 39. See significant accounting policies in the consolidated financial statements for the year ended July 31, 2019, which outline the current and previous accounting policies pertaining to financial instruments.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results could differ from those estimates and these estimates could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Assets' carrying values and impairment charges

In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

Share-based payments and warrants

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Similar calculations are made in order to value warrants. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Income, value added, withholding and other taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities require interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

Contingencies and provisions

Contingencies can be either possible assets or possible liabilities arising from past events which, by their nature, will only be resolved when one or more future events not wholly within our control occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. In assessing loss contingencies related to legal proceedings that are pending against us or un-asserted claims, that may result in such proceedings or regulatory or government actions that may negatively impact our business or operations, the Company and its legal counsel evaluate the perceived merits of any legal proceedings or un-asserted claims or actions as well as the perceived merits of the nature and amount of relief sought or expected to be sought, when determining the amount, if any, to recognize as a contingent liability or assessing the impact on the carrying value of assets. Contingent assets are not recognized in the consolidated financial statements.

The Company has provided for contingent payments related to the eventual settlement of its arbitration proceedings related to its farm-out agreement with Sonangol. For further details please see the Commitments and Contingencies section above.

Foreign Currency Determination

Under IFRS, each entity must determine its own functional currency, which becomes the currency that entity measures its results and financial position in. Judgment is necessary in assessing each entity's functional currency. In determining the functional currencies of the Company and its subsidiaries, the Company considered many factors, including the currency that mainly influences sales prices for goods and services, the currency of the country whose competitive forces and regulations mainly determine the sales prices, and the currency that mainly influences labour material and other costs for each consolidated entity.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value

Blue Sky's financial instruments as at July 31, 2019, consist of cash, accounts receivable, accounts payable, accrued liabilities and loans payable and the amounts reflected in the consolidated statements of financial position approximate fair value due to the short term maturity of these instruments.

Financial instruments recorded at the reporting date at fair value are classified into one of three levels based upon the fair value hierarchy. Items are categorized based on inputs used to derive fair value based on:

Level 1 - quoted prices that are unadjusted in active markets for identical assets or liabilities;
Level 2 - inputs other than quoted prices included in level I that are observable for the asset/liability either directly or indirectly; and
Level 3 - inputs for the instruments are not based on any observable market data.

The Company had no financial instruments recorded at fair value in the consolidated statements of financial position at either July 31, 2019 and July 31, 2018.

Fair value estimates are made at the relevant transaction date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

Risk management overview

The Company has exposure to credit, liquidity and market risks from its use of financial instruments. This note provides information about the Company's exposure to each of these risks, the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout this MD&A and the consolidated financial statements for the year ended July 31, 2019.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from joint venture partners.

The carrying amount of accounts receivable represents the maximum credit exposure. As at July 31, 2019 the Company's total receivables was $12,032 (July 31, 2018 - $18,697). There were no derivative instruments held at July 31, 2019 and 2018.

Market risk

Market risk is the risk that changes in market conditions, such as commodity prices, interest rates, and foreign exchange rates, will affect the Company's net income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing the Company's returns.

(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 petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar, as outlined below, but also global economic events that dictate the levels of supply and demand. Lower commodity prices can also reduce the Company's ability to raise capital. As the Company is not generating revenues, commodity price risk does not directly impact the Company's financial results.

(ii) Foreign exchange risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates.

As at July 31, 2019 the Company had the following assets and liabilities denominated in foreign currencies:

July 31, 2019	USD$	Euro
Cash	$ 55	$ $ -
Accounts payable	(25)	(363)
	$ 30	$ $ (363)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with the financial liabilities. The Company's financial liabilities consist of accounts payable, accrued liabilities and loans payable.

The Company prepares annual capital expenditure budgets, which are monitored and updated as considered necessary. Financial modeling is used to provide economic outlooks and the Company utilizes authorizations for expenditures on projects to monitor capital expenditures.

Accounts payable and accrued liabilities consist of invoices payable to trade suppliers for office, field operating activities and capital expenditures. The Company processes invoices within a normal payment period. Accounts payable have contractual maturities of less than one year.

The Company has an unsecured loan from Aberdeen International Inc. bearing a 12% annual interest rate.

Sensitivity analysis

The Company has, for accounting purposes, designated its cash and amounts receivable as loans and receivables which are measured at amortized cost. Accounts payable, accrued liabilities and loans payable are classified for accounting purposes as other financial liabilities, which are measured at amortized cost. As of July 31, 2019, both the carrying and fair value amounts of the Company's financial instruments are approximately equivalent due to the short term maturity of these instruments.

The sensitivity analysis shown in the notes below may differ materially from actual results. Based on management's knowledge of and experience with the financial markets, the Company believes the following movements are "reasonably possible" over a one year period:

(i) Cash is subject to floating interest rates. As at July 31, 2019, if interest rates had decreased/increased by 1% with all other variables held constant, there would not have been a material impact to the income (loss) for the year ended July 31, 2019 given the low level of cash on hand throughout this year.

(ii) Cash, accounts payable and accrued liabilities and provisions denominated in US dollar or European Euros are subject to foreign currency risk. As at July 31, 2019, had the US dollar and Euros weakened/strengthened by 5% against the Canadian dollar with all other variables held constant, there would have been a change of approximately $25 in the Company's net income (loss).

ADDITIONAL DISCLOSURES

Risks and uncertainties

The operations of the Company are speculative due to the high-risk nature of its business, which is the acquisition, financing, exploration and development of oil and gas properties. These risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking information relating to the Company.

Substantial capital requirements

The Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. In addition, uncertain levels of near term industry activity coupled with the present uncertainty in global financial markets exposes the Company to additional financing risks. There can be no assurance that debt or equity financing, or funds generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's business financial condition, results of operations and prospects.

Regulatory

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.

Litigation and arbitration

All industries, including the oil and gas industry, are subject to legal claims, with and without merit. Legal proceedings and arbitration may arise from time to time in the course of the Company's business. Such litigation may be brought against the Company or its subsidiary in the future from time to time or the Company or its subsidiary may be subject to another form of litigation. Defense and settlement costs of arbitration or legal claims can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation and arbitration process, the process of defending such claims (or any other claims that may be brought against the Company), could take away from management time and effort and the resolution of any particular legal proceeding to which the Company or its subsidiary may become subject could have a material effect on the Company's financial position and results of operations.

Third party credit risk

The Company may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Company or pursuant to contracts under which the Company is a party, such failures may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Company's ongoing capital program, potentially delaying the program and the results of such program until the Company finds a suitable alternative partner.

Competition

The petroleum industry is competitive in all its phases. Blue Sky competes with numerous other organizations in the search for and the acquisition of oil and natural gas properties and in the marketing of oil and natural gas. Our competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than Blue Sky. Our ability to acquire properties in the future will depend on our ability to select and acquire suitable properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods, reliability of delivery and control over key operations infrastructure.

Conflicts of interest

Certain of the directors and officers of the Company may serve from time to time as directors, officers, promoters and members of management of other companies involved in oil and gas or natural resource exploration and development and therefore it is possible that a conflict may arise between their duties as a director or officers of the Company and their duties as a director, officer, promoter or member of management of such other companies.

The directors and officers of the Company are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts of interest and the Company will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of its directors or officers. All such conflicts will be disclosed by such directors or officers in accordance with applicable laws and the directors and officers will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

Exploration, development and production risks

Oil and natural gas operations involve many risks which even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Blue Sky depends on its ability to find, appraise, develop and commercially produce oil and natural gas resources and reserves, which will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire additional producing properties or prospects.

The Company may not be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, Blue Sky may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that commercial quantities of oil and natural gas will be discovered or acquired by Blue Sky. Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements. Management's assessment of future plans and operations, capital expenditures, methods of financing capital expenditures and the ability to fund financial liabilities, expected commodity prices and the impact on Blue Sky, future operating costs, future transportation costs, results of arbitration or litigation proceedings; expected change in royalty rate and interest rates may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation to, statements with respect to the Company's development potential and program; the acquisition of an interest in a Farm-Out agreement of an oil and gas exploration concession in Brazil; the Company's ability to raise required capital, the future price of oil and gas; the impact of changes in management; the estimation of oil and gas reserves; the arbitration proceeding related to Block 166 in Brazil; conclusions of economic evaluation; the realization of mineral reserve estimates; the timing and amount of estimated future production; costs of production; capital expenditures; success of exploration activities; currency exchange rates; potential and stability of foreign jurisdictions; government relations and regulation; and environmental risks. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking information is based on the opinions and estimates of management as of the date such statements are made. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking statements, including but not limited to risks related to: unexpected events and delays during exploration, development and construction; revocation of government approvals and contracts; timing and availability of external financing on acceptable terms; actual results of exploration activities; changes in project parameters as plans continue to be refined; future prices of oil and gas; failure of plant, equipment or processes to operate as anticipated; litigation or arbitration proceedings; accidents, labour disputes; risks inherent in foreign operations and other risks of the oil and gas industry. Although management of the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.