

BLUE SKY ENERGY INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended January 31, 2021 and 2020

(Unaudited)

(Expressed in Canadian Dollars)

BLUE SKY ENERGY INC.

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

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

BLUE SKY ENERGY INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$ Canadian)	January 31, 2021	July 31, 2020
	(unaudited)	
ASSETS		
Current		
Cash	\$ 8,278	\$ 1,504
Amounts receivable (Note 3)	8,205	6,009
Prepaid expenses and deposits	6,317	1,500
Total assets	\$ 22,800	\$ 9,013
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Notes 5 and 8)	\$ 1,728,943	\$ 1,556,000
Loans payable (Notes 5 and 8)	480,627	487,713
Total liabilities	2,209,570	2,043,713
SHAREHOLDERS' DEFICIENCY		
Common shares (Note 6(b))	2,840,921	2,840,921
Contributed surplus (Note 6(c))	505,747	688,577
Deficit	(5,533,438)	(5,564,198)
Total shareholders' deficiency	(2,186,770)	(2,034,700)
Total liabilities and shareholders' deficiency	\$ 22,800	\$ 9,013

Nature and continuance of operations (Note 1)

Commitments and contingencies (Note 7)

Subsequent events (Note 10)

APPROVED ON BEHALF OF THE BOARD ON March 5, 2021:

Signed "Ron Hite", DIRECTOR

Signed "Orlando Bustos", DIRECTOR

BLUE SKY ENERGY INC.

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

(\$ Canadian)	Three months ended		Six months ended	
	January 31, 2021	January 31, 2020	January 31, 2021	January 31, 2020
Expenses				
Wages, salaries and consulting fees (Note 8)	73,366	(397,109)	\$ 145,935	\$ (287,248)
Professional fees	5,895	11,479	6,650	15,919
General office expenses	19,557	18,819	40,176	38,369
Travel expenses	-	-	-	67
Share based compensation (Notes 6(c) and 8)	257,680	-	257,680	-
Shareholder communications and filing fees	2,882	2,288	9,295	7,111
Foreign exchange loss	12	(548)	123	(368)
Consession from creditor (Note 5)	-	-	(69,712)	-
Total expenses before other income and expenses	359,392	(365,071)	390,147	(226,150)
Other income and expenses				
Interest (expense)	(10,326)	(10,057)	(19,603)	(19,403)
Net and comprehensive (loss) income for the period	\$ (369,718)	\$ 355,014	\$ (409,750)	\$ 206,747
Basic and diluted (loss) income per share	(0.01)	0.01	(0.01)	0.01
Weighted average number of common shares outstanding basic and diluted	30,884,961	30,884,961	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	Deficit	Shareholders'
	#	\$	Surplus	\$	Deficiency
			\$	\$	\$
Balance, July 31, 2020	30,884,961	2,840,921	688,577	(5,564,198)	(2,034,700)
Option grant (Note 6(c))	-	-	257,680	-	257,680
Forfeited stock options (Note 6(c))	-	-	(440,510)	440,510	-
Loss for the period	-	-	-	(409,750)	(409,750)
Balance, January 31, 2021	30,884,961	2,840,921	505,747	(5,533,438)	(2,186,770)
Balance, July 31, 2019	30,884,961	2,840,921	802,375	(5,624,114)	(1,980,818)
Expiry of options (Note 6(c))	-	-	(91,773)	91,773	-
Loss for the period	-	-	-	206,747	206,747
Balance, January 31, 2020	30,884,961	2,840,921	710,602	(5,325,594)	(1,774,071)

See accompanying notes to the condensed interim consolidated financial statements

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

(\$ Canadian)	Six months ended	
	January 31, 2021	January 31, 2020
CASH (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES		
Net (loss) income	\$ (409,750)	\$ 206,747
Items not involving cash:		
Interest accrued (Note 5)	19,603	19,382
Share-based compensation (Note 6(c))	257,680	-
Concession from creditor	(69,712)	-
	(202,179)	226,129
Net change in non-cash working capital	165,930	(245,371)
Net cash flows (used in) operating activities	(36,249)	(19,242)
FINANCING ACTIVITIES		
Proceeds from loans payable (Note 5)	43,023	20,000
Net cash flows provided by financing activities	43,023	20,000
Effect of exchange rate change	-	(368)
CHANGE IN CASH DURING THE PERIOD	6,774	390
CASH, beginning of the period	1,504	555
CASH, end of the period	\$ 8,278	\$ 945

See accompanying notes to the condensed interim consolidated financial statements

BLUE SKY ENERGY INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended January 31, 2021 and 2020

1. NATURE AND CONTINUANCE OF OPERATIONS

Blue Sky Energy Inc. (the “Company” or “Blue Sky”) is a public company and trades on the NEX board of the TSX Venture Exchange (“TSXV”) under the symbol “BSI.H”. The Company was continued into Ontario, Canada on September 27, 2013 with a registered office address of 65 Queen Street West, 9TH Floor, 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.

The Company does not have any operating assets that generate revenues, does not have proven reserves and had a net loss of \$409,750 during the six months ended January 31, 2021 (January 31, 2020 – \$206,747). As at January 31, 2021, the Company had a working capital deficiency of \$2,186,770 (July 31, 2020 - \$2,034,700). 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 conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

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 subsidiary 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, 2020 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, 2020.

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.

BLUE SKY ENERGY INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended January 31, 2021 and 2020

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").

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.

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

Critical Judgements and estimation uncertainties

The preparation of the condensed interim 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 condensed interim 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.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those that were applied to the annual financial statements for the year ended July 31, 2020.

Other accounting changes

Effective August 1, 2020, the Company adopted the amendments to IAS 1 – Presentation of Financial Statements ("IAS 1") and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") which 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 adoption of the amendments to this standard did not have a material impact on the Company's condensed interim consolidated financial statements.

3. AMOUNTS RECEIVABLE

Amounts receivable balances as at January 31, 2021 and July 31, 2020 consist of amounts receivable from the Government of Canada for Harmonized Sales Taxes (HST).

BLUE SKY ENERGY INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended January 31, 2021 and 2020

4. EXPLORATION AND EVALUATION EXPENDITURES

On November 29, 2016, the Company 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.

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.

There were no exploration and evaluation expenditures for the six months ended January 31, 2021 and 2020.

5. TRADE AND OTHER PAYABLES

	January 31, 2021	July 31, 2020
Accounts payable and other	\$ 1,394,553	\$ 1,328,111
Accrued liabilities	334,390	227,889
Total accounts payable and accrued liabilities	\$ 1,728,943	\$ 1,556,000
Loans payable	480,627	487,713
Balance, end of period	\$ 2,209,570	\$ 2,043,713

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, is due on demand, and at January 31, 2021 (See Note 10), the loan balance including accrued interest and arrangement fees was \$374,116 (July 31, 2020 - \$358,993).

A loan of \$62,500 from 2227929 Ontario Inc. was included in accounts payable and accrued liabilities as at July 31, 2019. It was non-interest bearing and due on demand. On August 16, 2019, this loan was reclassified to loans payable as a loan agreement was made with 2227929 Ontario Inc. where it accrued interest at 12% annually and had a maturity date of February 18, 2020. During the six months ended January 31, 2021, the Company recorded a concession from creditor of \$69,172 related to the principal plus interest accrued on this loan. During August 2019, an additional loan of \$5,500 was received from 2227929 Ontario Inc. and repaid by the Company. On February 6, 2020, and September 29, 2020 the Company drew down additional amounts of \$35,000 and \$3,023, respectively, on the loan. The loan is unsecured. On January 31, 2021, the loan balance including accrued interest was \$42,289 (July 31, 2020 - \$106,738). As of the approval date of these condensed interim consolidated financial statements, the loan is in default. The lender has not proceeded with any collection actions.

On October 26, 2020, the Company incurred another unsecured loan from 2227929 Ontario Inc. of \$30,000 with a maturity date of June 1, 2021. The Company drew down \$30,000 on the loan on October 29, 2020 and \$10,000 on January 29, 2021. Interest accrues at 12% annually. As at January 31, 2021, the balance of the loan, including interest accrued, was \$41,030.

On September 16, 2019, the Company incurred an unsecured loan from Questcap Inc. in the amount of \$10,000 which accrues interest at 12% annually. On June 29, 2020, the maturity date of the loan was extended to June 30, 2021 from its original maturity date of June 30, 2020. On January 31, 2021, the loan balance including accrued interest was \$11,657 (July 31, 2020 - \$11,052).

On October 23, 2019, the Company incurred an unsecured loan from Sulliden Mining Inc. in the amount of \$10,000 which accrues interest at 12% annually and had a maturity date of June 30, 2020. On June 30, 2020, the loan was extended to January 31, 2021 (see Note 10). On January 31, 2021, the loan balance including accrued interest was \$11,535 (July 31, 2020 - \$10,930).

BLUE SKY ENERGY INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended January 31, 2021 and 2020

6. 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

Balance at January 31, 2021 and July 31, 2020	30,884,961	\$	2,840,921
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There were no new common shares issued for the six months ended January 31, 2021 or the year ended July 31, 2020.

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 October 31, 2019, 125,000 options expired, unexercised.

On November 30, 2019, 30,000 options expired, unexercised.

On January 26, 2021, the Company granted a total of 2,640,00 stock options to certain directors, officers, and consultants of the Company pursuant to the company's stock option plan. All options vest immediately. Each stock option may be exercised at a price of \$0.155 per option for a period of five years from the date of grant. The fair market value of the options vested was estimated to be \$257,600 using the Black Scholes option pricing model based on the following assumptions: risk free rate of 0.42%, expected volatility of 79%, an estimated life of 5 years and an expected dividend yield of 0%.

During the six months ended January 31, 2021, 600,000 options expired, unexercised.

As at January 31, 2021, 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
240,000	240,000	8-Feb-17	8-Feb-22	\$ 0.80	\$176,205	154%	5	0%	1.01%
50,000	50,000	8-Feb-17	8-Feb-22	\$ 1.00	\$ 36,324	154%	5	0%	1.01%
50,000	50,000	8-Feb-17	8-Feb-22	\$ 1.50	\$ 35,538	154%	5	0%	1.01%
2,640,000	2,640,000	26-Jan-21	26-Jan-26	\$ 0.155	\$257,680	79%	5	0%	0.42%
2,980,000	2,980,000			\$ 0.24	\$505,747				

The weighted average remaining life of the options is 4.54 years (July 31, 2020 – 1.53 years).

BLUE SKY ENERGY INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended January 31, 2021 and 2020

6. CAPITAL STOCK (continued)

c. Contributed surplus

Option transactions during the periods were as follows:

	Number of stock options	Weighted average exercise price (\$)
Balance, July 31, 2019	1,095,000	0.84
Forfeited	(155,000)	0.80
Balance, July 31, 2020	940,000	0.24
Forfeited	(600,000)	0.80
Granted	2,640,000	0.155
Balance, January 31, 2021	2,980,000	0.24

7. COMMITMENTS AND CONTINGENCIES

Sonoro Iraq acquisition

On November 29, 2016, the Company 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 January 31, 2021, 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 consolidated financial statements. The Company is also committed to payments upon termination of approximately \$240,000 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.

BLUE SKY ENERGY INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended January 31, 2021 and 2020

7. COMMITMENTS AND CONTINGENCIES (continued)

Novel Coronavirus

The Company's operations could be significantly adversely affected by the effects of a widespread global outbreak of a contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations.

8. 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 of twelve months. See Note 7. Key management personnel compensation comprised:

	Three months ended January 31, 2021	Three months ended January 31, 2020	Six months ended January 31, 2021	Six months ended January 31, 2020
Short term employee benefits	\$ -	\$ -	\$ -	\$ -
Share-based payments	126,888	-	126,888	-
	\$ 126,888	\$ -	\$ 126,888	\$ -

During the six months ended January 31, 2021, the Company granted 1,300,000 options to directors and officers of the Company and recorded \$126,888 in share-based payments.

Included in accounts payable and accrued liabilities as at January 31, 2021, is \$63,889 (July 31, 2020 - \$63,889) 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., an entity which owns common shares of the Company and an outstanding loan payable to Sulliden, a company whose CFO, Ryan Ptolemy, is CFO of the Company.

9. CAPITAL MANAGEMENT

The Company considers the aggregate of its common shares, contributed surplus and deficit as capital. The Company's objective, when managing capital, is to ensure sufficient resources are available to meet day to day operating requirements and to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

At January 31, 2021, the Company has no cash-generating operations; therefore, the only source of cash flow is generated from financing activities. The Company's officers and senior management are in the process of searching for additional business opportunities. Potential business activities are appropriately evaluated by senior management and a formal review and approval process has been established at the Board of Director level. The Company may enter into new financing arrangements to meet its objectives for managing capital, until such time as a viable business activity is operational and the Company can thereby internally generate sufficient capital to cover its operational requirements.

The Company's officers and senior management take full responsibility for managing the Company's capital and do so through quarterly meetings and regular review of financial information. The Company's Board of Directors is responsible for overseeing this process.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSXV which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months. As of January 31, 2021, the Company may not be compliant with the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion of the TSXV.

BLUE SKY ENERGY INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended January 31, 2021 and 2020

10. SUBSEQUENT EVENTS

On February 9, 2021, the Company extended the maturity date of its loan with Aberdeen to October 31, 2021.

On February 10, 2021, the Company extended the maturity date of its loan with Sulliden to October 31, 2021.