



Blusky Carbon Inc.

Condensed Interim Consolidated Financial Statements

For the three months ended November 30, 2024 and 2023

(Expressed in United States dollars)

(Unaudited)

**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying unaudited condensed interim consolidated financial statements of BluSky Carbon Inc. as at November 30, 2024 and for the three months ended November 30, 2024 and 2023, have been prepared by, and are the responsibility of the management of the Company and approved by the Company's Audit Committee and Board of Directors.

Under National Instrument 51-102 Continuous Disclosure Obligations, 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 an auditor has not reviewed the financial statements.

The Company's independent auditor has not performed a review of these unaudited condensed interim financial statements in accordance with standards established by CPA (Chartered Professional Accountants) Canada for a review of interim financial statements by an entity's auditor.

BluSky Carbon Inc.Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in United States Dollars - Unaudited)

As at:	November 30, 2024	August 31, 2024
ASSETS		
Current assets		
Cash	\$ 348,592	\$ 2,458,821
Prepaid expenses and deposits (Note 5)	232,964	160,357
Other receivables	43,241	-
Inventory (Note 6)	543,807	524,438
	1,168,604	3,143,616
Equipment (Note 7)	2,968,413	2,129,672
Prepaid expenses and deposits (Note 5)	42,823	41,439
Right-of-use assets (Note 8)	650,879	742,336
Total assets	\$ 4,830,719	\$ 6,057,063
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,078,463	\$ 661,690
Deferred revenue	660,817	569,650
Current portion of lease liabilities (Note 10)	334,791	336,512
	2,074,071	1,567,852
Lease liabilities (Note 10)	364,385	444,992
Total liabilities	2,438,456	2,012,844
Shareholders' equity		
Share capital (Note 11)	11,352,198	10,262,729
Reserves	3,308,850	3,559,523
Obligation to issue shares (Note 11)	2,927	-
Deficit	(12,271,930)	(9,797,013)
Accumulated other comprehensive loss	218	18,980
Total shareholders' equity	2,392,263	4,044,219
Total liabilities and shareholders' equity	\$ 4,830,719	\$ 6,057,063

Subsequent events (Note 16)

Approved and authorized for issue by the Board of Directors on January 29, 2025:

"Alex McAulay" Director "William Hessert" Director

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

BluSky Carbon Inc.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in United States dollars - Unaudited)

	Three months ended November 30, 2024	Three months ended November 30, 2023
Operating Expenses		
Depreciation (Notes 7 and 8)	\$ 98,833	\$ 23,928
Interest expense	562	12,985
Interest on lease liability (Note 10)	25,411	7,221
Legal and professional fees (Note 12)	313,133	117,262
Marketing	902,057	7,276
Office expenses	268,854	21,965
Salaries and benefits (Note 12)	228,777	88,510
Share-based compensation (Note 11 and 12)	540,967	591,133
Consulting fees	72,601	6,031
Subcontractor fees	31,021	8,151
	2,482,216	884,462
Other Expense (Income)		
Interest income	(11,860)	-
Foreign exchange	4,561	1,017
	(7,299)	1,017
Net loss	\$ (2,474,917)	\$ (885,479)
Other comprehensive loss, items that will be reclassified through profit and loss:		
Currency translation adjustment	(18,762)	-
Net loss and comprehensive loss	\$ (2,493,679)	\$ (885,479)
Basic and diluted loss per share	\$ (0.04)	\$ (0.05)
Weighted average number of common shares outstanding – basic and diluted	64,322,774	18,252,500

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

BluSky Carbon Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(Expressed in United States dollars - Unaudited)

	Number of common shares*	Share capital \$	Obligation to issue shares \$	Reserves \$	Deficit \$	Accumulated other comprehensive loss \$	Total \$
Balance at August 31, 2023	4,900,000	1,000	30	-	(342,213)	-	(341,183)
Share subscriptions received in advance	-	-	215,850	-	-	-	215,850
Settlement of obligation to issue shares	735,000	30	(30)	-	-	-	-
Share-based compensation	18,865,000	591,173	-	-	-	-	591,173
Net loss for the year	-	-	-	-	(885,479)	-	(885,479)
Balance at November 30, 2023	24,500,000	592,203	215,850	-	(1,227,692)	-	(419,639)
Balance at August 31, 2024	63,226,779	10,262,729	-	3,559,523	(9,797,013)	18,980	4,044,219
Proceeds on warrants exercise received in advance	-	-	2,927	-	-	-	2,927
Shares issued on exercise of warrants	3,744,750	998,625	-	(700,796)	-	-	297,829
Shares issued on conversion of RSU	243,677	90,844	-	(90,844)	-	-	-
Share-based compensation	-	-	-	540,967	-	-	540,967
Net loss for the year	-	-	-	-	(2,474,917)	-	(2,474,917)
Foreign exchange difference on translation of foreign operation	-	-	-	-	-	(18,762)	(18,762)
Balance at November 30, 2024	67,215,206	11,352,198	2,927	3,308,850	(12,271,930)	218	2,392,263

*The number of common shares outstanding before the RTO have been restated to reflect the effect of exchanging 4,900 common shares of the Company for each common share of Bluski outstanding at closing of the Arrangement.

The accompanying notes are an integral part of these condensed interim consolidated financial statements..

BluSky Carbon Inc.Condensed Interim Consolidated Statements of Cash Flows
(Expressed in United States dollars - Unaudited)

	Three months ended November 30, 2024	Three months ended November 30, 2023
Operating activities		
Net loss	\$ (2,474,917)	\$ (885,479)
Items not affecting cash:		
Depreciation	98,833	23,928
Share-based compensation	540,967	591,133
Interest expenses	-	12,667
Changes in non-cash working capital items:		
Prepaid expenses	(77,488)	(448,885)
Inventory	(19,369)	-
Other receivables	(44,045)	230
Accounts payable and accrued liabilities	436,995	100,960
Deferred revenue	91,167	-
Net cash used in operating activities	(1,447,857)	(605,446)
Investing activity		
Purchase of equipment	(847,502)	(3,701)
Lease deposit	-	(55,415)
Net cash used in investing activity	(847,502)	(59,116)
Financing activities		
Due to related parties	-	68
Lease payments	(82,328)	(20,207)
Proceeds on warrants exercise received in advance	2,927	215,850
Proceeds from warrant exercise	297,829	-
Proceeds from share issuance	-	40
Proceeds from promissory note	-	500,000
Net cash provided by financing activities	218,428	695,751
Change in cash	(2,076,931)	31,189
Impact of foreign currency translation on cash	(33,298)	-
Cash (bank indebtedness), beginning	2,458,821	(9)
Cash (bank indebtedness), ending	\$ 348,592	\$ 31,180
Supplemental cash flow information:		
Interest received	\$ 11,860	\$ -
Interest paid	\$ 25,411	\$ 318
Income taxes paid	\$ -	\$ -

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

BluSky Carbon Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended November 30, 2024 and 2023

(Expressed in United States dollars, unless indicated otherwise - Unaudited)

1. NATURE OF OPERATIONS AND GOING CONCERN

BluSky Carbon Inc. (the "Company") was incorporated under the Business Corporations Act of British Columbia on July 25, 2023. On May 24, 2024, the Company changed its name from 1429798 B.C. Ltd. to BluSky Carbon Inc. The principal business of the Company is converting organic and industrial wastes into biochar, renewable power, and carbonate rocks. The head office, and registered and records office of the Company is located at Suite 214, 257 12th Street East, North Vancouver, BC, V7L 2J8.

On November 10, 2023, as amended on November 23, 2023, February 27, 2024, and April 30, 2024, the Company, Bluski Inc. ("Bluski") and 1448451 B.C. Ltd. (a wholly-owned subsidiary of the Company) entered into an Arrangement Agreement (the "Arrangement"). The Arrangement closed on May 24, 2024. Under the Arrangement, the Company acquired all of the issued and outstanding shares of the Bluski by way of exchanging 4,900 common shares and 4,900 share purchase warrants of the Company for each issued and outstanding common share and share purchase warrant of Bluski. 1448451 B.C. Ltd. merged with Bluski to form and amalgamated entity under the name "Bluski Inc." which became a wholly-owned subsidiary of the Company.

The closing of the Arrangement completed the reverse take over ("RTO") of Bluski, which was incorporated under the laws of the state of Connecticut, United States, on May 26, 2021. These consolidated financial statements are presented as a continuation of Bluski as the deemed acquirer (Note 4).

The Company filed its final long form prospectus on May 28, 2024 and amendment to its final long form prospectus on June 12, 2024, and began trading on the Canadian Securities Exchange ("CSE") under symbol BSKY on June 20, 2024. The Company also trades on the Frankfurt Stock Exchange under the symbol QE4.

Going concern

These condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. For the three months ended November 30, 2024, the Company incurred a net loss of \$2,474,917. As of November 30, 2024, the Company had a working capital deficit of \$905,467 and has an accumulated deficit of \$12,271,930. These circumstances indicate that material uncertainties exist that may cast significant doubt about the Company's ability to continue as a going concern and, accordingly, the ultimate use of accounting principles applicable to a going concern.

The Company's ability to continue as a going concern is dependent upon raising equity or debt to meet its present and future commitments, the continued support of certain shareholders and trade creditors, and on achieving profitable commercial operations. These condensed interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported expenses, and the condensed interim consolidated statement of financial position classification used, that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

BluSky Carbon Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended November 30, 2024 and 2023

(Expressed in United States dollars, unless indicated otherwise - Unaudited)

2. BASIS OF PRESENTATION

Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financing statements, including International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”). These condensed interim consolidated financial statements do not include all disclosures required for annual audited financial statements. Accordingly, they should be read in conjunction with the notes to the Company’s audited consolidated financial statements for the year ended August 31, 2024, which have been prepared in accordance with IFRS issued by the IASB.

The condensed interim consolidated financial statements were approved and authorized for issuance on January 29, 2025 by the board of directors of the Company.

Basis of presentation and measurement

These condensed interim consolidated financial statements have been prepared on a historical cost basis. In addition, they have been prepared using the accrual basis of accounting, except for the cash flow information.

On May 24, 2024, on closing of the Arrangement, the Company issued 25,545,490 common shares to former shareholders of Bluski at an exchange ratio of 4,900 common shares of the Company for each outstanding common shares of Bluski at the time of closing. All references to share and per share amounts in the consolidated financial statement and accompanying notes have been retrospectively adjusted to reflect the exchange ratio as if it had occurred at the beginning of the earlier period presented.

Functional and presentation currency

The condensed interim consolidated financial statements are presented in United States dollars. The functional currency of the Company is determined based on the currency of the primary economic environment in which the Company operates. The functional currency of the Company is the Canadian dollar and the functional currency of Bluski is the United States dollar.

Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Bluski. Subsidiaries are those entities over which the Company has control. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity and be exposed to variable returns from its activities. Intercompany balances are eliminated on consolidation.

Critical Accounting Estimates and Judgements

The preparation of these condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and income and expenses. Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

Blusky Carbon Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended November 30, 2024 and 2023

(Expressed in United States dollars, unless indicated otherwise - Unaudited)

2. BASIS OF PRESENTATION (continued)

The estimates and judgements made by the Company in these condensed interim consolidated financial statements are consistent with the disclosure set out in Note 2 to the audited consolidated financial statements for the year ended August 31, 2024.

3. MATERIAL ACCOUNTING POLICY INFORMATION

The material accounting policies followed by the Company are set out in Note 3 to the audited consolidated financial statements for the year ended August 31, 2024. The accounting policies have been consistently applied in the preparation of these condensed interim consolidated financial statements.

4. REVERSE TAKE-OVER

On May 24, 2024, the Arrangement closed and the Company acquired all issued and outstanding Bluski common shares in exchange for common shares of the Company on a 1 for 4,900 basis. In addition, all of the outstanding convertible securities of Bluski were exchanged for securities of the Company on a 1 for 4,900 basis and on substantially the same economic terms and conditions.

The Arrangement constitutes a reverse takeover ("RTO") with Bluski deemed as the acquirer for accounting purposes. The RTO has been accounted for in accordance with guidance provided in IFRS 2, Share-Based Payment ("IFRS 2") as the Company did not qualify as a business according to the definition in IFRS 3, Business Combinations, as there were no substantive processes in place. As a result, the RTO has been accounted for as an asset acquisition with an issuance of shares by Bluski for the net assets of the Company and its listing status.

The assets, liabilities and operations of Bluski are included in the condensed interim consolidated financial statements at their historical carrying value. The Company's operations are considered to be a continuance of the business and operations of Bluski with the Company's operations being included from May 24, 2024, the closing date of the Arrangement, onwards.

In consideration for the RTO, the Company issued 25,545,490 common shares and 522,754 consideration warrants of the Company to former shareholders of Bluski. Each warrant is exercisable at CAD\$0.50 for one common share of the Company until May 24, 2026.

The former shareholders of the Company retained 26,071,859 common shares. The fair value of the shares was estimated to be \$6,481,880 based on the share price of the Company's recent financings.

As at May 24, 2024, the Company had 13,405,833 warrants outstanding exercisable at between CAD\$0.10 – CAD\$0.75 per warrant and expiring between October 19, 2025 to March 26, 2026. The fair value of the warrants was estimated to be \$1,964,161 based on the Black-Scholes Option Pricing Model using the following assumptions:

Blusky Carbon Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended November 30, 2024 and 2023

*(Expressed in United States dollars, unless indicated otherwise - Unaudited)***4. REVERSE TAKE-OVER (continued)**

Assumptions	May 24, 2024
Risk-free interest rate	4.25% - 4.35%
Expected volatility	100%
Fair value of underlying share	CAD\$0.34
Dividend yield	0%
Expected life	1.41 – 1.84 years

The excess of the purchase price over the net assets was charged to profit or loss as a listing expense.

The purchase price is allocated as follows:

	\$
Fair value of shares retained by former shareholders of the Company (26,071,859 shares at CAD\$0.34 (\$0.24))	6,481,880
Fair value of replacement warrants	1,964,161
Promissory note due to the Company (Note 9)	(3,017,990)
Total consideration	5,428,051
Net assets (liabilities) acquired (assumed):	
Cash	238,283
Prepaid expenses	30,808
Accounts payable and accrued liabilities	(623,290)
Net liabilities	(354,199)
Listing expense	5,782,250

5. PREPAID EXPENSES AND DEPOSITS

	November 30, 2024		August 31, 2024	
Security deposits (Note 8)	\$	42,823	\$	41,439
Insurance		48,522		26,789
Marketing		129,055		39,308
Legal retainers		6,400		7,800
Other		48,987		86,460
	\$	275,787	\$	201,796
Current	\$	232,964	\$	160,357
Non-current		42,823		41,439
	\$	275,787	\$	201,796

BluSky Carbon Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended November 30, 2024 and 2023

*(Expressed in United States dollars, unless indicated otherwise - Unaudited)***6. INVENTORY**

As at November 30, 2024 and August 31, 2024, inventory consists of machinery that is being developed for resale for one specific customer order.

7. EQUIPMENT

	Equipment	Leasehold improvements	Asset under construction	Total
Cost				
Balance, August 31, 2023	\$ 26,280	\$ -	\$ 101,550	\$ 127,830
Transfer	(2,652)	-	2,652	-
Additions	126,368	158,325	1,740,662	2,025,355
Balance, August 31, 2024	149,996	158,325	1,844,864	2,153,185
Additions	3,628	282,303	561,571	847,502
Balance, November 30, 2024	\$ 153,624	\$ 440,628	\$ 2,406,435	\$ 3,000,687
Accumulated depreciation				
Balance, August 31, 2023	\$ 6,657	\$ -	\$ -	\$ 6,657
Depreciation	13,966	2,890	-	16,856
Balance, August 31, 2024	20,623	2,890	-	23,513
Depreciation	7,628	1,133	-	8,761
Balance, November 30, 2024	\$ 28,251	\$ 4,023	\$ -	\$ 32,274
Net book value				
Balance, August 31, 2024	\$ 129,373	\$ 155,435	\$ 1,844,864	\$ 2,129,672
Balance, November 30, 2024	\$ 125,373	\$ 436,605	\$ 2,406,435	\$ 2,968,413

8. RIGHT-OF-USE ASSETS

	Building
Cost	
Balance, August 31, 2023	\$ 157,184
Additions	949,875
Balance, November 30, 2024 and August 31, 2024	\$ 1,107,059
Accumulated depreciation	
Balance, August 31, 2023	\$ (67,677)
Depreciation	(297,046)
Balance, August 31, 2024	(364,723)
Depreciation	(91,457)
Balance, November 30, 2024	\$ (456,180)

BluSky Carbon Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended November 30, 2024 and 2023

(Expressed in United States dollars, unless indicated otherwise - Unaudited)

8. RIGHT-OF-USE ASSETS (continued)

Net book value	
Balance, August 31, 2024	\$ 742,336
Balance, November 30, 2024	\$ 650,879

On initial recognition, the Company capitalized the discount on a security deposit of \$18,030 to its right-of-use assets. The security deposit will be amortized using the effective interest rate over the lease term in accordance with IFRS 16 – Leases, at an effective interest rate of approximately 15%, and has been recorded as prepaid expenses and deposits (Note 5).

A reconciliation of the lease deposit is as follows:

Balance, August 31, 2024	\$ 41,439
Accretion	1,384
Balance, November 30, 2024	\$ 42,823

The accretion of \$1,384 is recorded as a reduction of the right-of-use asset depreciation.

9. JOINT VENTURES

Joint Venture Agreement (Red Mountain):

On October 11, 2024, the Company entered into an agreement with Red Mountain Biochar LLC (“Red Mountain”) to create a joint venture to be known as BluMountain Carbon (“BluMountain”) to commercialize multiple potential biochar offtake and project financing opportunities for the benefit of each of the Company and Red Mountain, with a particular emphasis on the Southern United States and the (i) production and processing of biochar, (ii) deployment of carbon removal technologies, and (iii) exploration and deployment of opportunities in related industries and technologies.

On November 6, 2024, BluMountain entered into a preliminary agreement, signing a letter of intent with Carbon Market Exchange Inc. (“CMX”) to collaborate on the development and operation of biochar production facilities utilizing local biomass feedstock provided by an existing agreement (to which CMX is a party) with a regional growers’ association and other parties in Tanzania.

On November 6, 2024, BluMountain entered into a preliminary agreement, signing a letter of intent with Neutralizing Environmental Trash Inc. (“N.E.T. Inc.” or “NET”) to form a joint venture, under which BluMountain is to provide Vulcan pyrolysis equipment, operational and consulting service for biochar production, bioenergy production, and biomass carbon removal under the business joint venture brand “NET of the Villages LLC”. This agreement was finalized on November 21, 2024.

BluSky Carbon Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended November 30, 2024 and 2023

*(Expressed in United States dollars, unless indicated otherwise - Unaudited)***9. JOINT VENTURES (continued)****Joint Venture Agreement (Ikigai):**

On November 12, 2024, the Company entered into an agreement with Ikigai Carbon Corporation (“Ikigai”) to create a joint venture aimed at establishing and deploying future biochar projects in the African Republic of Namibia (“Namibia”) by utilizing the Company’s biomass Vulcan pyrolysis technology, operation and consulting services for biochar production, and biomass carbon removal.

No transactions related to these joint ventures have occurred during the period ended November 30, 2024.

10. LEASE LIABILITIES

Bluski leases a building with a three-year term expiring on April 30, 2025. The present value of the lease liability was calculated using an incremental borrowing rate of 15% per annum on initial recognition.

On November 17, 2023, the Company entered into a lease agreement for a facility located at 35 Research Parkway, Old Saybrook, Connecticut (the “Facility”). The lease commenced on November 19, 2023 and ends on November 30, 2026, and the present value of the lease liability was calculated using an incremental borrowing rate of 15% per annum on initial recognition.

Changes in the lease liabilities are as follows:

		Building
Lease Liability		
Balance, August 31, 2023	\$	98,247
Additions		931,845
Interest		102,057
Payments		(350,645)
Balance, August 31, 2023		781,504
Interest		25,411
Payments		(107,739)
Balance, November 30, 2024	\$	699,176

BluSky Carbon Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended November 30, 2024 and 2023

*(Expressed in United States dollars, unless indicated otherwise - Unaudited)***10. LEASE LIABILITIES (continued)**

	November 30, 2024		August 31, 2024	
Current portion	\$	334,791	\$	336,512
Non-current portion		364,385		444,992
	\$	699,176	\$	781,504

A maturity analysis of the undiscounted contractual balances of lease payments is as follows:

Maturity analysis	November 30, 2024	
Less than one year	\$	406,584
One to two years		388,277
Three to four years		-
Total undiscounted lease payments		794,861
Amount representing implicit interest		(95,685)
Lease liability	\$	699,176

11. SHARE CAPITAL**Authorized capital**

The authorized share capital consists of unlimited common shares without par value.

Issued and outstanding capital*Three months ended November 30, 2024*

During the three months ended November 30, 2024, 243,677 RSUs which had vested were converted into common shares of the Company.

During the three months ended November 30, 2024, 101,000 warrants were exercised at an exercise price of CAD\$0.50 for gross proceeds of CAD\$50,500 (\$36,320).

During the three months ended November 30, 2024, 3,643,750 warrants were exercised at an exercise price of CAD\$0.10 for gross proceeds of CAD\$364,375 (\$261,509). As at November 30, 2024, the Company received CAD\$4,125 (\$2,927) for warrant exercises whose shares were yet to be issued, these amounts are recorded as obligation to issue shares.

BluSky Carbon Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended November 30, 2024 and 2023

*(Expressed in United States dollars, unless indicated otherwise - Unaudited)***11. SHARE CAPITAL (continued)***Three months ended November 30, 2023*

On September 29, 2023, the Company issued 18,865,000 common shares to the key management team members for gross proceeds of \$40. The fair value of the shares was estimated to be \$591,173 based on a concurrent equity financing of the Number Co and the share exchange ratio with the Number co. under the Arrangement. The fair value amount in excess of the proceeds, \$591,133 is recognized as share-based compensation. The fair value was estimated using the Black-Scholes Options Pricing Model using the following assumptions: Exercise price - \$0.10, expected dividend yield – 0%, expected volatility – 100%, risk-free interest rate – 4.55%, and an expected remaining life – 2 years.

On September 29, 2023, the Company issued 735,000 common shares to settle its obligation to issue shares of \$30 as at August 31, 2023.

In connection with the Arrangement, in November 2023, the Company commenced a round of equity financing with the issuance of up to 1,045,490 units at \$0.22 per unit for gross proceeds of up to \$230,007. Each unit consists of one common share and one-half of one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of \$0.365 for 24 months following the closing of the equity financing. As of November 30, 2023, the Company received unit subscriptions in advance of \$215,850 and recorded as obligation to issue units.

Warrants

A continuity of the Company's warrants is as follows:

	Number of warrants	Weighted average exercise price
Outstanding, August 31, 2023	-	-
Deemed to be issued in RTO (Note 4)	13,405,832	CAD\$0.32
Issued	6,272,754	CAD\$0.73
Cancelled	(6)	CAD\$0.50
Outstanding, August 31, 2024	19,678,580	CAD\$0.45
Exercised	(3,744,750)	CAD\$0.10
Outstanding, November 30, 2024	15,933,830	CAD\$0.53

BluSky Carbon Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended November 30, 2024 and 2023

*(Expressed in United States dollars, unless indicated otherwise - Unaudited)***11. SHARE CAPITAL (continued)**

The following table summarizes information about the warrants outstanding and exercisable as at November 30, 2024:

Exercise price	Number of warrants outstanding	Weighted-average remaining contractual life (years)	Expiration date
CAD\$0.10	3,971,250	0.88	October 19, 2025
CAD\$0.50	3,328,832	1.04	December 15, 2025
CAD\$0.75	56,000	1.32	March 26, 2026
CAD\$0.75	2,305,000	1.48	May 24, 2026
CAD\$0.50	522,748	1.48	May 24, 2026
CAD\$0.75	5,750,000	1.55	June 19, 2026
	15,933,830	1.26	

Options

A continuity of the Company's options issued under its stock option plan is as follows:

	Number of options	Weighted average exercise price
Outstanding, August 31, 2023	-	-
Granted	5,971,000	CAD\$0.57
Outstanding, August 31, 2024	5,971,000	CAD\$0.57
Granted	100,000	CAD\$0.57
Outstanding, November 30, 2024	6,071,000	CAD\$0.57

The following table summarizes the information about the options outstanding and exercisable as at November 30, 2024:

Exercise price	Number of outstanding options	Number of exercisable options	Weighted-average remaining contractual life (years)	Expiration date
CAD\$0.50	850,000	425,000	4.80	June 19, 2029
CAD\$0.58	5,046,000	-	4.91	July 29, 2029
CAD\$0.495	75,000	-	4.98	August 23, 2029
CAD\$0.57	100,000	100,000	1.76	September 5, 2026
	6,071,000	525,000	4.60	

BluSky Carbon Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended November 30, 2024 and 2023

*(Expressed in United States dollars, unless indicated otherwise - Unaudited)***11. SHARE CAPITAL (continued)**

On September 5, 2024, the Company granted 100,000 options to a consultant of the Company. The options vested immediately on the date of grant. The fair value was estimated using the Black-Scholes Options Pricing Model using the following assumptions: Exercise price - CAD\$0.57, expected dividend yield – 0%, expected volatility – 100%, risk-free interest rate – 2.83%, and an expected remaining life – 2 years.

Share-based payments relating to the vesting of options for the three months ended November 30, 2024, 2024 was \$295,118 (2023 - \$nil).

Agent Options

As at November 30, 2024 and August 31, 2024, there are 793,160 compensation options outstanding, exercisable into units of the Company at a price of CAD\$0.50. When exercised, each unit will consist of one common share and one-half of one share purchase warrant. Each whole warrant will entitle the holder to purchase one common share for an exercise price of CAD\$0.75 until June 19, 2026.

Restricted Share Units (“RSUs”)

A continuity of the Company’s RSUs is as follows:

	Number of RSUs
Outstanding, August 31, 2023	-
Granted	2,455,080
Converted	(109,430)
Outstanding, August 31, 2024	2,345,650
Granted	50,000
Converted	(243,677)
Outstanding, November 30, 2024	2,151,973

On September 5, 2024, the Company granted 50,000 RSUs with a fair value of \$19,990 to a consultant of the Company. The RSUs vested immediately on the date of grant.

Share-based payments relating to the vesting of RSUs for the period ended November 30, 2024 was \$245,849 (2023 - \$nil).

BluSky Carbon Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended November 30, 2024 and 2023

*(Expressed in United States dollars, unless indicated otherwise - Unaudited)***12. RELATED PARTY TRANSACTIONS**

Related parties consist of the directors, officers, close members of family of related parties, and companies owned or controlled in whole or in part by them. Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. Key management personnel comprise members of the Company's Board of Directors and corporate officers.

All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. All amounts are non-interest bearing, unsecured, and have no fixed terms of repayments.

Remuneration attributed to key management personnel, including close family members, is summarized as follows:

Three months ended	November 30, 2024		November 30, 2023	
Salaries and benefits	\$	74,234	\$	40,391
Share-based compensation		277,227		456,017
	\$	351,461	\$	496,408

Balance due from / to related parties

As at November 30, 2024, included in accounts payable and accrued liabilities was \$8,524 (August 31, 2024 - \$4,615) owing to key management personnel.

As at November 30, 2024, included in accounts payable and accrued liabilities was \$56,769 (August 31, 2024 - \$8,149) owing to a company controlled by a director of the Company.

During the three months ended November 30, 2024, the Company incurred \$47,029 (2023 - \$Nil) in professional fees to an entity controlled by a director of the Company.

BluSky Carbon Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended November 30, 2024 and 2023

(Expressed in United States dollars, unless indicated otherwise - Unaudited)

13. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

In the normal course of business, the Company is exposed to a number of risks that can affect its operating performance. These risks and the actions taken to management them are as follows:

Fair value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level One - includes quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level Two - includes inputs that are observable other than quoted prices included in Level One.
- Level Three - includes inputs that are not based on observable market data.

The carrying value of the Company's financial liabilities as at November 30, 2024 approximate their fair value due to their short terms to maturity.

November 30, 2024	Level 1	Level 2	Level 3	Total
Financial assets				
Cash	\$ 348,592	\$ -	\$ -	\$ 348,592

During the three months ended November 30, 2024, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Financial risk management

The Company's activities are exposed to a variety of financial risks in the normal course of business. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize the Company's capital costs by using suitable means of financing and to manage and control the Company's financial risks effectively. The principal financial risks arising from financial instruments are liquidity risk. Management has assessed credit risk as low.

Liquidity risk

As at November 30, 2024, the Company's liabilities consist of accounts payable and accrued liabilities and due to related parties. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis.

The following table outlines the undiscounted contractual maturities of the Company's financial liabilities at November 30, 2024:

	Less than 1 year	1-5 years	Thereafter
Accounts payable and accrued liabilities	\$ 1,078,463	\$ -	\$ -
Lease liabilities	406,584	388,277	-
	\$ 1,485,047	\$ 388,277	\$ -

BluSky Carbon Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended November 30, 2024 and 2023

(Expressed in United States dollars, unless indicated otherwise - Unaudited)

13. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

Credit risk

Credit risk is the risk of an unexpected loss if a third party fails to meet its contractual obligations. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, and other receivables. The Company manages credit risk by depositing its cash with major financial institutions, which have been assigned high credit ratings by internationally recognized credit rating agencies, and by only paying security deposits to reputable, well-established third parties.

14. CAPITAL MANAGEMENT

The Company manages its capital to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern through the optimization of its capital structure. The capital structure consists of shareholder's equity. The basis for the Company's capital structure is dependent on the Company's expected business growth and changes in business environment. To maintain or adjust the capital structure, the Company may issue new shares through private placement, incur debt or return capital to shareholders.

The Company relies upon management to manage capital in order to accomplish the objectives of:

- Ensuring sufficient financial flexibility to achieve ongoing business objectives, including funding of future growth opportunities, and pursuit of accretive acquisitions; and,
- Maintaining a flexible capital structure, which optimizes the cost of capital at acceptable risk.

The Company's current capital consists of equity funding through issuance of common shares. There have been no changes in the way in which the Company manages capital in the period. The Company is not subject to any externally or internally imposed capital requirements as at November 30, 2024.

15. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being the conversion of organic and industrial wastes into biochar, renewable power, and carbonate rocks. All of the Company's non-current assets are located in the United States.

16. SUBSEQUENT EVENTS

Equity transactions:

Subsequent to November 30, 2024:

- 41,250 warrants were exercised at an exercise price of CAD\$0.10 for gross proceeds of CAD\$4,125 (\$2,927).