AUDIT 2020

bluesky
DIGITAL ASSETS

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR YEARS ENDED DECEMBER 31, 2020 AND 2019

(EXPRESSED IN CANADIAN DOLLARS)

MAY 31, 2021

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The following is Management's Discussion and Analysis ("MD&A") of the financial condition of Bluesky Digital Assets Corp. ("Bluesky" or the "Corporation") (formerly Gunpowder Capital Corp.) and the financial performance for the years ended December 31, 2020 and 2019. This information, prepared as of May 31, 2021, and should be read in conjunction with the unaudited condensed interim consolidated financial statements of Bluesky for the years ended December 31, 2020 and 2019 as well as the audited consolidated financial statements for the year ended December 31, 2019 and the related management's discussion and analysis (the "Annual MD&A"). The unaudited condensed interim consolidated financial statements for the years ended December 31, 2020 and 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are expressed in Canadian dollars unless otherwise indicated.

Forward Looking Statements

This MD&A, and specifically the "Outlook" section contains or incorporates forward-looking statements within the meaning of Canadian securities legislation (collectively, "forward-looking statements"). These forward-looking statements relate to, among other things, revenue, earnings, changes in cost and expenses, capital expenditures and other objectives, strategic plans and business development goals, and may also include other statements that are predictive in nature or that depend upon or refer to future events or conditions, and can generally be identified by words such as "may", "will", "expects", "anticipates", "intends", "plans", "believes", "estimates" or similar expressions. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. These statements are not historical facts but instead represent only the Corporation's expectations, estimates and projections regarding future events.

Although the Corporation believes the expectations reflected in such forward-looking statements are reasonable, such statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. Undue reliance should not be placed on such statements. Certain material assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such statements.

The forward-looking statements contained in this MD&A are made as at the date of this MD&A and, accordingly, are subject to change after such date. Except as required by law, Bluesky Digital Assets Corp., does not undertake any obligation to update or revise any forward-looking statements made or incorporated in this MD&A, whether as a result of new information, future events or otherwise. For a description of material factors that could cause the Corporation's actual results to differ materially from the forward-looking statements in this MD&A, please see "Risks related to our business".

Overview

Since September of 2019, the Corporation has been focused on building a Digital Assets Mining and Blockchain software business. In 2020, despite COVID-19, the Corporation made significant progress in building out Digital Assets Mining. While our software focus is in its early stages, our Digital Assets Mining division has benefited from multiple staged deployments of carefully and economically purchased mining hardware and deployed software solutions resulting in highly customized Mining Rigs as well as optimized power usage for our hardware. In the first quarter of 2020, the Corporation was able to accomplish a reasonable additional deployment of new Mining Rigs just before markets fundamentally closed due COVID-19. Just under two hundred additional Mining Rigs were acquired and put online between January and April of 2020.

During fiscal 2020, as with the majority of businesses in every sector, the Corporation faced numerous challenges due to COVID-19. The most significant challenge the Corporation faced was the virtual halt of global markets due to COVID-19 which greatly impeded the Corporation's ability to raise capital and acquire mining rigs and other vital equipment needed to advance the Corporation's Digital Assets Mining division. In the first quarter of 2020, COVID-19 also greatly impacted the price of Bitcoin which rapidly declined 53.75% in less than a 30-day period as the price of Bitcoin declined from a price of $10,630 USD (Feb 15, 2020) which was the highest price for Bitcoin in first quarter of 2020, to a low of $4,916 USD which occurred on March 13, 2020.

During the second and third quarters of fiscal 2020, the Corporation successfully reduced expenditures where possible and managed to further streamline. In August of 2020, the Corporation launched its Decentralized Finance "DeFi" initiative as the Corporation created a separate "DeFi" Assets division or subsidiary in order to fund and develop it's early-stage research and development into a potential additional diversified market position for the Corporation separate from digital mining. In the fourth quarter of 2020 a significant rebound in the valuation of Bitcoin occurred which increased the Corporation's incoming revenues. A rebound in the valuation of digital currencies also allowed the Corporation to successfully close a non-brokered private placement financing in December of 2020 where it raised a total amount of $805,750 CDN via the issuance of 8,952,778 Units of the Corporation. The majority of the proceeds raised from that financing were allocated to further expand the Corporation's Digital Assets Mining division through the purchase of additional Digital Assets Mining Rigs which occurred in January of 2021.

Business Objectives & 2021 Outlook

For fiscal 2021, the Corporation's goals are to raise a minimum of $2,000,000 CDN to a maximum of $20,000,000 CDN via an equity raise or a combination of raises with the purpose of expanding the Corporation's active digital mining business and to further move forward on its Research and Development endeavors. The Corporation has set a goal to mine $4,000,000 CDN in Digital Asset top line revenue, assuming that the Corporation only raises the $2,000,000 CDN minimum amount via an equity raise or combination of raises. The Corporation is also striving to have its Digital Assets mining subsidiary produce four consecutive quarters of profitability. The Corporation also plans on changing its business model slightly where it may elect to speculate on an increased value potential and shareholder return by holding on to Digital Assets versus converting them to CDN Dollars based on a conservative schedule after they are mined and then converting the digital assets to fiat currency at a more beneficial time. The Corporation plans to expand on its current crypto mining capabilities and pivot from a focused Bitcoin (BTC) mining strategy to a balanced approach with asset targets like Ethereum / Ether (ETH) and others as appropriate for the current market conditions. The Corporation may also elect to hold onto the resulting mined digital assets and speculate on the continuing growth of the market in an effort to realize increased revenue and profitability for all shareholders and stakeholders.

Annual Financial Information

The following table shows the results of operations for the year ended December 31, 2020 compared to the same periods for the three years prior. All figures presented in this table are stated in CDN Dollars.

	2020	2019	2018	2017
Total revenues	694,639	695,047	966,852	975,974
Loss from continuing operations	(1,504,586)	(4,834,136)	(2,637,366)	(337,154)
Earning / Loss per share from continuing operations	(0.08)	(0.04)	(0.07)	(0.01)
Total loss	(1,631,538)	(4,672,744)	(2,625,683)	(337,154)
Total assets	2,018,290	2,787,250	6,979,518	7,364,176
Total liabilities	(645,111)	(717,032)	(3,481,600)	(2,463,520)

Fiscal Year 2020 Revenue from continuing operations for the year ended December 31, 2020 was $694,639, compared to $337,354 earned in the prior year.

Revenue from continuing operations earned in 2019 was categorized into four segments – Digital Assets Mining, Merchant banking (Interest), Advisory Services. The amounts of $665,533, $20,655, $8,451 were earned in 2020 in each of those segments respectively as compared to $94,456, $100,693, $133,485 which were earned in 2019 in each of those segments, respectively.

In 2019, the Corporation had one additional segment "Rental" which earned $8,720 in fiscal 2019 and of which this segment was also discontinued in 2019. Management fully expects to see continued gains in revenues from its Digital Assets Mining segment and continued decline in revenues from the Merchant banking and Advisory Services segments in the immediate and long-term future as the Corporation focus was fully redirected to Digital Assets Mining effective Jan 1, 2020.

December 31, 2020 represented the second full completed year of the Corporation's Digital Assets mining endeavors. The following table shows the results of Digital Assets Mining operations for the year ended December 31, 2020 compared to the same period for the year prior. All figures presented in this table are stated in CDN Dollars.

	2020	2019
Total revenues from Digital Assets mining	665,533	94,456
Increase / (decrease) in $	571,077	-
Increase / (decrease) in %	604%	-
Total monthly average mined in $	55,461	7,871
Site operating costs	(590,769)	(176,361)
Gross profit / (loss) (equipment depreciation not included in these totals)	74,764	(81,905)
Equipment depreciation	(364,723)	(39,318)
Net income (loss) from digital assets mining operations	(260,853)	(121,223)

Despite the significant year-over-year gain in revenue from the Corporation's Digital Assets mining segment, revenue was negatively impacted by two events that occurred in fiscal 2020.

The first event was the collapse in the price of Bitcoin which occurred in March of 2020. Due to arrival of COVID – 19 and the collapse in the Global financial markets, the price of Bitcoin rapidly declined 53.75% in less than a 30-day period as the price of Bitcoin declined from a price of $10,630 USD (Feb 15, 2020) to a low of $4,916 USD which occurred on March 13, 2020.

The second event was the Bitcoin "halving" which occurred in May of 2020. Bitcoin halving occurs whenever 210,000 blocks have been mined. Once 210,000 blocks have been mined the Bitcoin network / blockchain reduces the amount of Bitcoin miners can receive by half whenever a miner successfully mines / adds a block on the Bitcoin blockchain.

In May of 2020, the Bitcoin halving caused the total number of Bitcoin mined by miners per block to be reduced from 12.5 BTC to 6.25 BTC per day. The May of 2020 halving event suppressed the price of Bitcoin up until October of 2020. It takes approximately four years for 210,000 blocks to be mined. Consequently, the Bitcoin halving usually occurs in four-year intervals. The next Bitcoin halving is expected to occur at some point in the year 2024. With the global economy recovering and adapting to the realities of COVID – 19 and with no more halving events occurring for the next three years, the Corporation anticipates significant revenue gains to occur from its active Digital Assets Mining division in fiscal 2021 as the price of Bitcoin averaged $9,678 USD per coin in 2020 and is averaging a price of $42,850 USD per coin through the first four months of fiscal 2021.

Quarterly results

The following table shows our results of operations for the last eight quarters. All figures presented in this table are stated in CDN Dollars.

	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Digital Assets Mining Revenue	183,158	198,264	182,500	101,611	37,200	42,792	14,464	Nil / 0
Total Revenue	182,054	204,178	186,896	121,511	95,858	162,692	182,273	254,224
Net Income (Loss)	(870,093)	(198,234)	(191,476)	(371,735)	(1,946,278)	(1,809,243)	(693,501)	(223,722)
Income (Loss) per share	(0.05)	(0.01)	(0.01)	(0.02)	(0.20)	(0.19)	(0.08)	(0.03)
Cash	1,075,495	325,996	455,610	636,127	852,926	330,033	728,144	587,380

Results of Operations

The following table shows the results of operations for the year ended December 31, 2020 compared to the same period last year. All figures presented in this table are stated in CDN Dollars.

	2020	2019
Revenue		
Digital assets mined	$ 665,533	$ 94,456
Interest	20,655	100,693
Advisory services	8,451	133,485
Rental	-	8,720
Cost of revenue		
Site operating costs	(590,769)	(176,361)
Depreciation	(364,723)	(39,318)
Total development expenses	(260,853)	121,675
Operating expenses		
Management fees	$ 380,834	$ 1,210,400
Share-based payments	194,845	517,641
Loan interest and fees	45,379	546,936
Consulting and other professional fees	147,601	373,442
General, office and miscellaneous	24,540	178,496
Marketing and investor relations	69,347	131,384
Travel and accommodations	8,517	97,502
Legal and audit	98,995	120,153
Transfer agent and filling fees	51,887	77,467
Non-recoverable input tax credits	173,589	57,981
Amortization	117	71,285
Property taxes and maintenance	-	5,142
Loss before other items	(1,456,504)	(3,266,154)
Unrealized (loss) on investments	(37,217)	(916,998)
Realized (loss) on investments	(41,954)	(85,822)
Impairment of financial instruments	(57,081)	(531,294)
Foreign exchange (loss) gain	72,339	(33,868)
Accretion	8,665	-
Gain on sale of assets	2,788	-
Gain on sale on settlement of payables	4,378	
Net loss for the year on continued operations	$ (1,504,586)	$ (4,834,136)
Discontinued operations		
Revenue	1,490	357,693
Expenses	(10,610)	(432,538)
Loss from sale of building	(117,832)	236,237
Net (loss) income for the year on discontinued operations	(126,952)	161,392
Total loss and comprehensive loss for the year	$ (1,631,538)	$ (4,672,744)
Basic and diluted net loss per share		
continued operations	(0.08)	(0.05)
discontinued operations	(0.01)	0.02
Weighted average number of common shares outstanding	18,861,730	9,616,603

Total revenues increased to $694,639 for year ended December 31, 2020 from $337,354 for year ended December 31, 2019 which represented a year over year increase of 94% and was primarily driven by the success of the Corporation's Digital Assets Mining division. Total loss and comprehensive loss for the for year ended December 31, 2020 amounted to $(1,631,538) from $(4,672,744) for year ended December 31, 2019 which represented a decrease of 65%. The Management of the Corporation worked to reduce costs wherever possible. The majority of the savings from cost cutting measures were directed to further advance the Corporation's active Mining operations.

For the year ended December 31, 2020

The following table shows revenues from continuing operations from the year ended December 31, 2020 compared to the same period in the prior year. All figures presented in this table are stated in CDN Dollars.

	2020	2019		Increase / (decrease) in $	Increase / (decrease) in %
INCOME					
Digital Assets Mined	665,533	94,456		571,077	+604%
Interest	20,655	100,693		(80,038)	-79%
Advisory Services	8,451	133,485		(125,034)	-93%
Rental	-	8,720		(8,720)	-100%
TOTAL INCOME	694,639	337,354		357,285	+86%

As previously stated on page 2 of this MD&A, Management fully expects to see continued gains in revenues from its Digital Assets Mining segment and continued decline in revenues from the Merchant banking and Advisory Services segments in the immediate and long-term future as the Corporation focus was fully redirected to Digital Assets Mining effective Jan 1, 2020.

The following table shows operating costs for the year ended December 31, 2020 compared the prior year. All figures presented in this table are stated in CDN Dollars.

	2020	2019		Increase / (decrease) in $	Increase / (decrease) in %
Operating expenses					
Management fees	380,834	1,210,400		(829,566)	(-68%)
Share-based payments	194,845	517,641		(322,796)	(-62%)
Loan interest and fees	45,379	546,936		(501,557)	(-92%)
Consulting and other professional fees	147,601	373,442		(225,841)	(-60%)
General, office and miscellaneous	24,540	178,496		(153,956)	(-86%)
Marketing and investor relations	69,347	131,384		(62,037)	(-47%)
Travel and accommodations	8,517	97,502		(88,985)	(-91%)
Legal and audit	98,995	120,153		(21,158)	(-17%)
Transfer agent and filling fees	51,887	77,467		(25,580)	(-34%)
Non-recoverable input tax credits	173,589	57,981		115,608	99%
Amortization	117	71,285		(71,168)	(-99%)
Property taxes and maintenance	-	5,142		(5,142)	(-100%)
Loss before other items	1,456,504	3,266,154		(2,192,178)	(-57%)

Loss before other items for the year was $1,456,504 compared to $3,266,154 in the prior year. Management fees of $380,834 was incurred in the year ended December 31, 2020 compared to $1,210,400 during the prior year.

Liquidity and Capital Resources

The following table summarizes cash flows from the year ended December 31, 2020 compared to the same period in the prior year. All figures presented in this table are stated in CDN Dollars.

	2020	2019
Cash (used in) operating activities	(573,360)	(1,604,548)
Cash (used in) provided by financing activities	794,213	503,015
Cash (used in) provided by investing activities	1,716	973,105
Net change in cash	222,569	(128,428)
Cash, beginning of year	852,926	981,354
Cash, end of year	1,075,495	852,926

As at December 31, 2020, Corporation had total current assets of $2,018,290 to meet its total liabilities of $645,111. To successfully pursue its digital assets mining model, the Corporation plans to continue to raise equity and possibly debt, in order to pursue additional deals and build scale. The ability of the Corporation to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Corporation. There can be no assurance that the Corporation will be successful in its efforts to arrange additional financing, if needed, on terms satisfactory to the Corporation. If additional financing is raised by the issuance of shares from the treasury of the Corporation, control of the Corporation may change and shareholders may suffer dilution. If adequate financing is not available, the Corporation may be required to sell its interests in some or all of its assets / holdings and / or reduce or terminate some or all of its operations.

Additional disclosures

Critical Accounting Estimates

The preparation of financial statements requires the Corporation to estimate the effect of various matters that are inherently uncertain as at the date of the financial statements. Each of these required estimates varies with respect to the level of judgment involved and the potential impact on the Corporation's reported financial results. Estimates are deemed critical when the Corporation's financial condition, change in financial condition or results of operations would be materially impacted by a different estimate or a change in estimate from period to period. The Corporation's significant accounting policies are discussed in Note 3 of the notes to consolidated financial statements. Critical estimates inherent in these accounting policies are discussed in the following paragraphs.

Changes in Accounting Policies and Future Pronouncements

The Corporation has adopted the following new standards, along with any consequential amendments, effective January 1, 2019. These changes were made in accordance with the applicable transitional provisions.

IAS 23 – Borrowing Costs ("IAS 23") was amended in April 2018 to clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

IFRS 16 – Leases ("IFRS 16") specifies how to recognize, measure, present and disclose leases. The new standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Consistent with its predecessor, IAS 17, the new lease standard continues to require lessors to classify leases as operating or finance.

IFRS 16 was applied retrospectively for annual periods beginning on or after January 1, 2019. During the year ended December 31, 2019 and prior to January 1, 2019, the Corporation entered into two leases (Note 8 of the financial statements), all of which have been accounted for under the new standard using a modified retrospective approach with an adoption date of January 1, 2019

Standards, amendments and interpretations not yet effective

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2020. 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 Corporation.

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.

IFRS 10 – Condensed interim consolidated financial statements ("IFRS 10") and IAS 28 – Investments in Associates and Joint Ventures ("IAS 28") were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

Financial Instruments

Financial assets and financial liabilities as at December 31, 2020. All figures presented in this table are stated in CDN Dollars.

	Assets & liabilities at amortized cost
Cash	1,075,495
Accounts and other receivables	14,777
Investments	506,720
Accounts payable & accrued liabilities	353,712
Loans payable	(151,722)

Liquidity Risk

Liquidity risk is the risk that the Corporation is not able to meet its financial obligations as they fall due. The Corporation manages liquidity risk through the management of its capital structure and financial leverage. As at December 31, 2020, the Corporation's current liabilities totaled $462,369 (2019 - $429,829) and cash totaled $1,075,495 (2019 -$852,926). The Corporation generates cash flow from advisory fees, loan interest, rental income and payment processing services. The payment processing segment was discontinued in 2018. The Corporation manages liquidity risk by reviewing the amount of cash available, to ensure that it can meet its current obligations. There is no guarantee that the Corporation will be able to continue to meet its current obligations.

Currency Risk

The Corporation is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Corporation operates in Canada and a portion of its loans receivable and investments are in United States dollars. A significant change in the currency exchange rates between the United States dollar relative to the Canadian dollar could have an effect on the Corporation's results of operations, financial position or cash flows. The Corporation has not hedged its exposure to currency fluctuations.

Contractual Obligations and Commitments

The Corporation is party to certain management contracts. These contracts contain aggregate minimum commitments of approximately $360,000 (December 31, 2019 - $360,000) and additional contingent payments of up to approximately $ 388,320 upon the occurrence of a change of control. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements.

The Corporation may become party to legal proceedings and other claims in the ordinary course of its operations. Litigation and other claims are subject to many uncertainties and the outcome of individual matters is not predictable. Where management can estimate that there is a loss probable, a provision is recorded in the consolidated financial statements. Where proceedings are at a premature stage or the ultimate outcome is not determinable, then no provision is recorded. It is possible that the final resolution of any such matters may require the Corporation to make expenditures over an extended period of time and in a range of amounts that cannot be reasonably estimated and may differ significantly from any amounts recorded in these consolidated financial statements. Should the Corporation be unsuccessful in its defense or settlement of one or more of legal actions or other claims, there could be a materially adverse effect on the Corporation's financial position, future expectations, and cash flows.

Since the adoption of IFRS 16 on January 1, 2019, the Company no longer include lease agreements in commitments. Lease agreements are accounted for right-of-use assets and financial lease liabilities,

Fair value of financial instruments

The Company has determined the carrying values of its financial instruments as follows:

i. The carrying values of cash, accounts receivable, accounts payable and accrued liabilities and due to related parties approximate their fair values due to the short-term nature of these instruments.

ii. Notes receivable, long-term notes receivable and long-term investments are carried at amounts in accordance with the Corporation's accounting policies as set out in Note 3 of the audited consolidated financial statements.

iii. Mortgages payable approximate their fair values due to the short time since they were received. iv. Prior to maturity, the outstanding notes receivable are carried at their discounted value. Following their maturity, loans receivable are carried at their estimated realizable value.

The following table illustrates the classification and hierarchy of the Corporation 's financial instruments, measured at fair value in the consolidated statements of financial position as at December 31, 2020 and 2019. All figures presented in this table are stated in CDN Dollars.

Investments, fair value	2020	2019
Publicly traded investments	323,386	343,490
Private investments	183,334	183,334
Totals	506,702	526,824

Outstanding share data

As at December 31, 2020, the Corporation had 27,844,731 Common Shares issued and outstanding, 493,020 Preferred "Class – A" shares issued and outstanding and 1,250 Preferred "Class – B" shares issued and outstanding. In addition, the Corporation has 13,532,861 Common Share Purchase Warrants outstanding priced at between $0.15 and $0.90 and 2,462,500 Stock Options entitling the holder to acquire an additional Common Share by paying $0.15 to $1.44 per Common Share.

As at May XX, 2021, the Corporation had 35,971,292 Common Shares issued and outstanding, 493,020 Preferred "Class – A" shares issued and outstanding and 1,250 Preferred "Class – B" shares issued and outstanding. In addition, the Corporation has 21,291,026 Common Share Purchase warrants outstanding priced at between $0.81 and $3.00 and 2,775,835 Stock Options entitling the holder to acquire an additional Common Share by paying $0.15 to $1.44 per Common Share.

Transactions with Related Parties

During the years ended December 31, 2020 and 2019, the Corporation entered into the following transaction in the ordinary course of business with related parties that are not subsidiaries of the Corporation. In 2019 the Corporation loaned Meryllion Resources Corporation ("Meryllion") $33,900 CDN. The Corporation had two common officers with Meryllion Resources Corporation ("Meryllion"). The amounts loaned to Meryllion were unsecured, non-interest bearing with no fixed terms of repayment. The amount owed by Meryllion to the Corporation was paid in full in fiscal 2020.

Compensation of key management personnel of the Corporation

The remuneration of directors and other members of key management personnel during the period was as follows:

	2020	2019
Short-term benefits	521,843	838,600
Share-based payments	111,858	202,765

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation directly or indirectly, including any directors (executive and non-executive) of the Corporation.

Off Balance Sheet Arrangements

The Corporation has not entered into any off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations, or with respect to any obligations under a variable interest equity arrangement.

Proposed Transactions

The Corporation is not party to any proposed transactions that have not been disclosed elsewhere in this MD&A.

Risks Related to Our Business

The Corporation has limited operating history, it's financial position is not robust, and the Corporation lacks profitable operations to date. The Corporation has incurred net losses since inception and may continue to incur net losses while it builds its business and as such it may not achieve or maintain profitability. In the year ended December 31, 2019, the Corporation changes its business to "Digital Assets Mining" from "Merchant Banking". The timeframe that the Corporation has been in the Digital Assets Mining space is very short compared to its competitors. The Corporation's limited operating history in Digital Assets Mining also makes it difficult to evaluate the Corporation's business and prospects, and there is no assurance that the business of the Corporation will grow or that it will become profitable. Because of the Corporation's limited operating history in Digital Assets Mining it is difficult to extrapolate any meaningful projections about the Corporation's future. The Corporation's competitors are significantly better funded than the Corporation is. This could prove detrimental in that the Corporation may not have the funds to attract build the business. There is no assurance that our revenues will continue to grow.

Historically incurred significant losses and our financial situation creates doubt whether we will continue as a going concern

During the year ended December 31, 2020, the Corporation realized a net loss of $1,631,538 compared with a net loss of $4,672,744 for the year ended December 31, 2019. As of December 31, 2020, the Corporation had a working capital of $1,184,104 and total assets of $2,018,290. There are no assurances that we will be able to achieve a level of revenues adequate to generate sufficient cash flow from operations or obtain additional financing through private placements, public offerings and/or bank financing necessary to support our working capital requirements. To the extent that funds generated from any private placements, public offerings and/or bank financing are insufficient, we will have to raise additional working capital. No assurance can be given that additional financing will be available, or if available, will be on acceptable terms. The Corporation may periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future. If adequate working capital is not available we may be forced to discontinue operations, which would cause investors to lose their entire investment.

Bitcoin and Ethereum Network Risk

The open-source structure of the Bitcoin and Ethereum and any other cryptocurrency network protocol means that the core developers of the networks and other contributors are generally not directly compensated for their contributions in maintaining and developing the network protocol. A failure to properly monitor and upgrade the any of the network protocols could damage the network.

Digital Assets and Risk Management

Digital asset prices are affected by various forces including global supply and demand, interest rates, exchange rates, inflation or deflation, and the global political and economic conditions. The profitability of the Corporation is directly related to the current and future market price of Bitcoin and Ethereum; in addition, the Corporation may not be able liquidate its inventory of digital assets at its desired price if required. A decline in the market price for Bitcoin or Ethereum or any other cryptocurrency could negatively impact the Corporation's future operations. The Corporation has not hedged the conversion of any of its sales of Bitcoin. Bitcoin and Ethereum both have a limited history and the fair value historically has been volatile. Historical performance of Bitcoin and Ethereum is not indicative of their future price performance.

Bitcoin Halving Risk

The current global bitcoin network rewards miners 6.25 bitcoin per block, which is approximately 900 bitcoin per day. The next halving is expected to occur at some point in the year 2024. This halving may have a potential impact on the Corporation's profitability at the reward level of 3.125 coins. Based on the fundamentals of Bitcoin mining and historical data on bitcoin prices and the network difficulty rate after a halving event, it is unlikely that the network difficulty rate and price would remain at the current level when the Bitcoin rewards per block are halved. The Corporation believes that although the halving would reduce the block reward by 50%, other market factors such as the network difficulty rate and price of Bitcoin would change to offset the impact of the halving sufficiently for the Corporation to maintain profitability. Nevertheless, there is a risk that a halving will render the Corporation unprofitable and unable to continue as a going concern.

Pandemic and COVID-19

The Corporation cautions that current global uncertainty with respect to the spread of the COVID-19 virus ("COVID19") and its effect on the broader global economy may have a significant negative effect on the Corporation. While the precise impact of the COVID-19 virus on the Corporation remain unknown, rapid spread of the COVID-19 virus may have a material adverse effect on global economic activity, and can result in volatility and disruption to global supply chains, operations, mobility of people and the financial markets, which could affect interest rates, credit ratings, credit risk, inflation, business, financial conditions, ability to visit Bluesky's facilities, results of operations and other factors relevant to the Corporation. Cross border lending transactions in the U.S.A which presents tax risks among other obstacles Cross-border lending transactions carry a risk of changes in tax and/or duties related to the import and export of our services, which can result in pricing changes, which will affect revenues and earnings. Cross-border lending transactions carry other risks including, but not limited to, changing regulations, wait times and changes in foreign exchange rates.

Reliance on key personnel

The Corporation's success will also depend in large part on the continued service of its key operational and management personnel, including executive staff, research and development, engineering, marketing and sales staff. Most specifically, this includes its CEO, CFO and COO. The Corporation faces intense competition for these professionals from its competitors, customers and other companies throughout the industry. Any failure on the Corporation's part to hire, train and retain a sufficient number of qualified professionals could impair the business of the Corporation.

Need for financing in order to grow our business

From time to time, in order to expand operations the Corporation will need to incur additional capital expenditures. These capital expenditures are intended to be funded from third party sources, including the incurring of debt and/or the sale of additional equity securities. In addition to requiring additional financing to fund capital expenditures, the Corporation may require additional financing to fund working capital, sales and marketing, general and administrative expenditures and operating losses. The incurrence of debt creates additional financial leverage and therefore an increase in the financial risk of the Corporation's operations. The sale of additional equity securities will be dilutive to the interests of current equity holders. In addition, there can be no assurance that such additional financing, whether debt or equity, will be available to the Corporation or that it will be available on acceptable commercial terms. Any inability to secure such additional financing on appropriate terms could have a materially adverse impact on the business, financial condition and operating results of the Corporation.

Global economic conditions may adversely affect our industry, business and results of operations

The Corporation's overall performance depends, in part, on worldwide economic conditions which historically is cyclical in character. The United States and Canada have largely worked its way out of an economic recession while other key international economies continue to be impacted by a recession, characterized by falling demand for a variety of goods and services, restricted credit, going concern threats to financial institutions, major multinational companies and medium and small businesses, poor liquidity, declining asset values, reduced corporate profitability, extreme volatility in credit, equity and foreign exchange markets and bankruptcies. By way of example, the borrowers that the Corporation lends funds to, may or may not be as affected by economic slow-down or recession as other industries or market segments. Currently, these conditions can be expected to change. In markets where sales occur and go into recession, these conditions affect the rate of spending and could adversely affect the Companies we invest in, customers' ability or willingness to purchase our products, and delay prospective customers' purchasing decisions, all of which could adversely affect our operating results. In addition, in a weakened economy, companies that have competing products may reduce prices which could also reduce our average selling prices and could harm our operating results.

Risks related to our shareholders and purchasing common and preferred shares

Our shares may continue to be subject to illiquidity because our common shares and "Class – A" preferred shares may continue to be thinly traded. There are also continuing eligibility requirements for companies listed on public trading markets. If we are unable to satisfy the continuing eligibility requirements of any such market, then our common shares and "Class – A" preferred shares may be delisted. This could result in a lower trading price for both our "Class – A" preferred shares and common shares and may limit your ability to sell them, any of which could result in you losing some or all of your investments. Our "Class – B" preferred shares are currently not listed on any stock exchange and therefore have very limited market. It is possible that our "Class – B" preferred shares may never qualify for listing onto a stock exchange.

No dividends have been paid on our common shares

We have never paid cash dividends on our common shares and do not presently intend to pay any cash dividends on our common shares in the foreseeable future. Investors should not look to dividends as a source of income. In the interest of reinvesting initial profits back into our business, we do not intend to pay cash dividends in the foreseeable future on our common shares. Consequently, any economic return will initially be derived, if at all, from appreciation in the fair market value of our common shares, and not as a result of dividend payments. We have the right to accrue the dividends on our "Class – A" & "Class – B" preferred shares and do not have to make payments.

Expectations to issue more shares in an equity financing, which may result in substantial dilution

Our articles of incorporation authorize the Corporation to issue an unlimited amount of Common Shares and up to 10% of our common share total as preferred shares. Any equity financing effected by the Corporation may result in the issuance of additional securities without stockholder approval and may result in substantial dilution in the percentage of both our common shares or our preferred Shares held by our then existing stockholders. Moreover, preferred shares and common shares issued in any equity financing transaction may be valued on an arbitrary or non-arm's length basis by our management, resulting in an additional reduction in the percentage of common shares and preferred shares held by our then existing stockholders. Our board of directors has the power to issue any or all of such authorized but unissued shares without stockholder approval. To the extent that additional common shares or preferred shares are issued in connection with a business combination or otherwise, dilution to the interests of our stockholders will occur and the rights of the holders of common shares might be materially adversely affected.

Regulatory and compliance issues with third party entities

The Ontario Securities Commission (OSC) has been notifying crypto asset trading platforms that currently offer trading in derivatives or securities to persons or companies located in the Province of Ontario, that they must bring their operations into compliance with Ontario securities law or face potential regulatory action. Because of this, the OSC has the authority to halt or block the operations of platforms operating inside the jurisdiction of Ontario at anytime the OSC deems fit. Although unlikely, it is possible that a trading platform account the Corporation holds its digital assets in with the purposes of converting into fiat currencies, could be subject to being frozen, should a regulatory body from any State or Provincial jurisdiction enforce legal action and halt the platform the Corporation is using. Furthermore, due to the ever-evolving sentiment of this industry space from risk to acceptance, it is possible that Canadian financial institutions which include banks, credit unions, trust companies and merchant banks may elect not to allow entities that are involved in this industry space to transact with them. Any such action could result in any of the Corporation's banking accounts to be frozen for an unspecified amount of time which could have a negative effect on the Corporation's operating capabilities.

Banning of the industry by the Provincial or Federal Governments of Canada or the United States of America

The Government of China recently banned financial institutions and payment companies from providing services related to cryptocurrency transactions, and warned investors against speculative crypto trading. Under the ban, such institutions, including banks and online payments channels, must not offer clients any service involving cryptocurrency, such as registration, trading, clearing and settlement. China has also banned crypto exchanges and initial coin offerings but has not barred individuals from holding cryptocurrencies. The institutions in China must not provide saving, trust or pledging services of cryptocurrency, nor issue financial product related to cryptocurrency. The Canadian and US Governments could invoke such moves and / or actions, which would adversely affect the value of cryptocurrencies and possibly, such actions could force the Corporation to halt all business operations that involve the mining for crypto currencies, which possibly could severely impair the Corporation's ability to continue.

Banning of power consumption to entities in the blockchain / cryptocurrency space

It is possible that Hydro utility providers could elect to ban providing electricity to the Corporation's active operations and it is possible for a Hydro utility provider to renege on its contractual obligations between itself and the Corporation. Should this occur, it could severely impact the Corporation's ability to operate and possibly the Corporation's ability to continue in this industry space. A Hydro ban could be initiated by the Hydro provider themselves or either a Provincial, State or Federal Government could mandate that Hydro utility providers cannot service entities in this industry space.

Additional Information

Additional information relating to the Corporation is available on SEDAR at www.sedar.com.

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