

Q3 2021



bluesky
DIGITAL ASSETS

**UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020**

(EXPRESSED IN CANADIAN DOLLARS)

NOVEMBER 29, 2021

www.blueskydigitalassets.com



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Notice To Reader

The accompanying unaudited condensed consolidated interim financial statements of Bluesky Digital Assets Corp., have been prepared by and are the responsibility of management. The unaudited condensed consolidated interim financial statements have not been reviewed by the Company's auditors.

Bluesky Digital Assets Corp.
Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
Unaudited

	As at September 30, 2021	As at December 31, 2020
ASSETS		
Current assets		
Cash	\$ 3,304,851	\$ 1,075,495
Accounts and other receivables (note 4)	8,636	14,777
Prepaid expenses	58,867	16,730
Investments (note 9)	277,568	506,720
Net investment in sublease (note 7)	-	32,751
Digital currencies	1,534,201	-
Total current assets	5,184,123	1,646,473
Equipment (note 6)	2,447,609	371,817
Total assets	\$ 7,631,732	\$ 2,018,290
EQUITY AND LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 16)	\$ 359,293	\$ 353,712
Lease liability - current portion (note 7)	55,060	102,142
Loans payable - current portion (note 11)	-	6,515
Total current liabilities	414,353	462,369
Non-current liabilities		
Long-term lease liability (note 7)	-	37,535
Long-term loans payable (note 11)	80,000	145,207
Total liabilities	494,353	645,111
Equity		
Preferred shares (note 12)	2,054,685	2,889,855
Common shares (note 12)	17,204,809	13,316,732
Preferred shares to be registered (note 12)	(353,057)	(353,057)
Contributed surplus (note 14)	5,013,519	2,865,481
Warrants	6,359,538	1,160,869
Deficit	(23,142,115)	(18,506,701)
Total equity	7,137,379	1,373,179
Total equity and liabilities	\$ 7,631,732	\$ 2,018,290

Description of business (note 1)
Subsequent event (note 18)

"Frank Kordy", Director

"Ben Gelfand", Director

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

Bluesky Digital Assets Corp.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
Unaudited

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Revenue				
Digital assets mined	\$ 1,047,909	\$ 198,264	\$ 2,610,034	\$ 484,201
Interest	-	413	-	16,650
Advisory services	-	5,500	-	12,207
Rental	-	-	-	1,352
Cost of revenue				
Site operating costs	(221,551)	(50,146)	(582,139)	(317,253)
Depreciation	(327,556)	(60,562)	(864,116)	(181,222)
Exchange fees	-	(1,963)	-	(5,608)
	498,802	91,506	1,163,779	10,327
Revaluation of digital currencies	178,742	-	171,982	-
Gain on sale of digital currencies	445	-	117,511	-
Operating expenses				
Management fees	\$ 116,600	\$ 117,417	\$ 427,600	\$ 389,576
Share-based payments (notes 12 and 14)	694,000	25,000	4,952,659	25,000
Loan interest and fees	2,438	6,486	6,327	21,273
Consulting and other professional fees	29,016	53,550	91,369	53,551
General, office and miscellaneous	27,904	19,966	53,667	47,219
Marketing and investor relations	21,369	8,505	332,726	37,926
Travel and accommodations	5,683	-	9,453	2,761
Legal and audit	136,483	4,000	166,732	27,378
Transfer agent and filing fees	14,831	2,659	65,894	24,671
Non-recoverable input tax credits	16,487	-	79,392	19,233
Amortization (note 6)	-	2,100	-	24,112
Property taxes and maintenance	1,213	2,179	1,213	4,358
Total operating expenses	1,066,024	241,862	6,187,032	677,058
Loss before other items	(388,035)	(150,356)	(4,733,760)	(666,731)
Unrealized (loss) on investments	(285,093)	-	(178,052)	(54,905)
Realized (loss) on investments	-	42,379	269,149	54,814
Impairment of financial instruments (note 5)	-	-	-	(7,031)
Foreign exchange (loss) gain	15,362	-	(697)	20,068
Other income	2,101	-	2,101	(15,284)
(Loss) on settlement of payables (note 12)	(4,155)	-	(4,155)	-
Gain on debt forgiveness (note 11)	10,000	-	10,000	-
Net loss for the period on continued operations	\$ (649,820)	\$ (107,977)	\$ (4,635,414)	\$ (669,069)
Discontinued operations				
Loss from sale of building	-	(92,376)	-	(92,376)
Total loss and comprehensive loss for the period	\$ (649,820)	\$ (200,353)	\$ (4,635,414)	\$ (761,445)
Basic and diluted net loss per share (note 15)				
continued operations	\$ (0.02)	\$ (0.01)	\$ (0.13)	\$ (0.03)
Weighted average number of common shares outstanding	37,209,335	25,679,130	35,782,434	25,679,130

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

Bluesky Digital Assets Corp.
Condensed Interim Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
Unaudited

	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Operating activities		
Net loss for the period	\$ (4,635,414)	\$ (761,445)
Adjustments for:		
Depreciation	864,116	144,733
Non cash consulting income	-	(21,189)
Non cash expenses	115,750	9,458
Share-based payments	4,952,659	25,000
Impairment on financial instrument	-	7,031
Unrealised investment (gain) / loss	228,052	54,946
Realised investment (gain) / loss	(269,149)	29,094
Digital asset revaluation	(289,493)	-
Accretion	5,225	-
Unrealised foreign exchange (gain)	(48,653)	(11,982)
Loss on settlement of payables	4,155	-
Gain on debt forgiveness	(10,000)	-
Loss from sale of building	-	92,376
Changes in non-cash working capital items:		
Accounts and other receivables	11	330,193
Prepaid expenses	(42,136)	44,083
Accounts payable and accrued liabilities	126,463	(203,154)
Inventory	(1,244,708)	-
Net cash used in operating activities	(243,122)	(260,856)
Investing activities		
Proceeds from sale of investments	319,149	10,925
Repayments received for notes receivable	-	9,009
Purchase of equipment	(2,939,908)	(95,447)
Proceeds on building disposal, net discharge of mortgage	-	42,653
Net cash used in investing activity	(2,620,759)	(32,860)
Financing activities		
Proceeds from issuance of common shares	4,065,430	-
Share issue costs	-	(2,842)
Stock options exercised	306,750	-
Lease payments paid, net receipts	(56,913)	(97,684)
Warrants exercised	954,870	-
Repayment of loan payable	(61,900)	(1,352)
Repayment of mortgages payable	-	(131,336)
Net cash provided by (used in) financing activities	5,208,237	(233,214)
Net change in cash	2,344,356	(526,930)
Cash, beginning of period	1,075,495	852,926
Cash, end of period	\$ 3,419,851	\$ 325,996

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

Bluesky Digital Assets Corp.
Condensed Interim Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)
Unaudited

	Preferred shares	Preferred shares to be registered	Common shares	Units to be issued	Contributed Surplus	Warrants	Deficit	Total
Balance, December 31, 2019	\$ 3,094,355	\$ -	\$ 12,504,865	\$ -	\$ 2,006,486	\$ 1,339,675	\$(16,875,163)	\$ 2,070,218
Shares issued for debt	-	-	76,340	-	-	-	-	76,340
Units issued for preferred shares	(204,500)	-	103,980	-	-	100,520	-	-
Shares issued for equipment	-	-	234,600	-	-	-	-	234,600
Expiry of warrants	-	-	-	-	383,407	(383,407)	-	-
Net loss for the period	-	-	-	-	-	-	(761,445)	(761,445)
Balance, September 30, 2020	\$ 2,889,855	\$ -	\$ 12,919,785	\$ -	\$ 2,389,893	\$ 1,056,788	\$(17,636,608)	\$ 1,619,713
Balance, December 31, 2020	\$ 2,889,855	\$ (353,057)	\$ 13,316,732	\$ -	\$ 2,865,481	\$ 1,160,869	\$(18,506,701)	\$ 1,373,179
Issuance of Units (net of share issue costs)	-	-	1,489,508	-	-	2,575,922	-	4,065,430
Shares issued for debt	-	-	119,905	-	-	-	-	119,905
Units issued for preferred shares	(835,170)	-	430,302	-	-	404,868	-	-
Stock options exercised	-	-	718,447	-	(411,697)	-	-	306,750
Warrants exercised	-	-	1,129,915	-	-	(175,045)	-	954,870
Warrants expired	-	-	-	-	119,735	(119,735)	-	-
Share-based compensation	-	-	-	-	2,440,000	2,512,659	-	4,952,659
Net loss for the period	-	-	-	-	-	-	(4,635,414)	(4,635,414)
Balance, September 30, 2021	\$ 2,054,685	\$ (353,057)	\$ 17,204,809	\$ -	\$ 5,013,519	\$ 6,359,538	\$(23,142,115)	\$ 7,137,379

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

Bluesky Digital Assets Corp.
Notes to the Condensed Interim Consolidated Financial Statements
Three and Nine Months Ended September 30, 2021
(Expressed in Canadian Dollars)
Unaudited

1. Description of business

Bluesky Digital Assets Corp. (or the "Company") is a reporting issuer in Ontario, Alberta and British Columbia. In Canada, the Company's common shares trade under the symbol "BTC" on the Canadian Securities Exchange and under the trading symbol "BTCWF" in the United States on the OTC Markets QB. The Company's "Class – A" preferred shares trades under the symbol "BTC.PR.A" on the Canadian Securities Exchange.

Prior to September of 2019 and while operating under its old business name Gunpowder Capital Corp., ("GPC") and under its old business model of merchant banking and as an advisory services firm, GPC provided financial capital and capital markets advisory services. The Company offered a variety of financing options including mezzanine debt, bridge loans, convertible debentures and straight loans as well as equity financing. GPC's main focus with advisory services was to assist companies that are interested in going public, however, GPC was also involved with capital markets advisory services and advising on mergers and acquisitions.

Since September 2019 the company has been focused on pivoting from being a merchant bank to becoming a digital assets and AI software focused virtual mining company. The Company is in the business of utilizing specialized equipment to solve complex computational problems to validate transactions on the bitcoin blockchain. The Company receives bitcoin in return for successful service.

The Company's corporate office and principal place of business is 100 King West, Suite 5700, Toronto, Ontario, Canada, M5X 1C9.

The unaudited condensed consolidated interim financial statements of the Company for the nine months ended September 30, 2021 and 2020 were authorized for issuance in accordance with a resolution of the board of directors on November 29, 2021.

On May 12, 2020, the Company completed a 12:1 shares consolidation. All share quantities and share prices in these financial statements are stated based on their post-consolidation values, unless otherwise specified.

2. Basis of presentation

Statement of compliance to international financial reporting standards

The unaudited condensed consolidated interim financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Boards ("IASB"). IFRS represents standards and interpretations approved by the IASB, and are comprised of IFRSs, International Accounting Standards ("IASs"), and interpretations issued by the IFRS Interpretations Committee ("IFRICs") and the former Standing Interpretation Committee ("SICs").

Basis of consolidation

These unaudited condensed consolidated interim financial statements include the accounts of the Company and its controlled subsidiaries. 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 unaudited condensed consolidated interim financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating internality balances and transactions.

Bluesky Digital Assets Corp.
Notes to the Condensed Interim Consolidated Financial Statements
Three and Nine Months Ended September 30, 2021
(Expressed in Canadian Dollars)
Unaudited

2. Basis of presentation (continued)

Basis of consolidation (continued)

The following companies have been consolidated within the consolidated financial statements:

Company	Registered	Principle activity
Bluesky Digital Assets Corp..	Canada	Parent Company
Bluesky Digital Assets Inc. ⁽¹⁾	Canada	Holding Company
MethodeVerte Inc. ⁽¹⁾	Canada	Holding Company
GP Self Storage Inc. ⁽¹⁾	Canada	Commercial Rental Company
GP Realty Inc. ⁽¹⁾	Canada	Holding Company
57 Wellington St. Inc. ⁽²⁾	Canada	Inactive
Bluesky Defi Inc.(formerly 63 Wellington Street Inc.) ⁽²⁾	Canada	Inactive
1209 Hickory Road Inc. ⁽²⁾	Canada	Dormant
559 Assumption Road Inc. ⁽²⁾	Canada	Dormant
934 Maisonville Road Inc. ⁽²⁾	Canada	Dormant
1571 Hickory Road Inc. ⁽²⁾	Canada	Dormant
663 Marentette Ave. Inc. ⁽²⁾	Canada	Inactive
491 Louis Ave. Inc. ⁽²⁾	Canada	Inactive
Bluesky Intelligence Inc. (formerly 1Balfour Place Inc.) ⁽²⁾	Canada	Inactive
1021 Henry Ford Centre Inc. ⁽²⁾	Canada	Dormant

⁽¹⁾ 100% owned by the Parent Company

⁽²⁾ 100% owned by GP Realty Inc

Basis of measurement

These unaudited condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial instruments, which are measured at fair value as explained in these unaudited condensed consolidated interim financial statements. These unaudited condensed consolidated interim financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Going concern

The Company incurred a net loss during the nine months ended September 30, 2021 of \$4,635,414 (2020 - \$761,445) and had an accumulated deficit of \$23,142,115 (December 31, 2020 - \$18,506,701). These conditions indicate material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. As at September 30, 2021, the Company had a working capital balance of \$4,769,770 (December 31, 2020 - \$1,184,104).

The Company's ability to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business is dependent upon maintaining sustained profitability. There are various risks and uncertainties affecting the Company's operations including, but not limited to, the viability of the economics of bitcoin mining, the liquidity of bitcoin, the Company's ability to maintain its security of its digital assets and execute its business plan. Given the volatility in the financial markets, it may be difficult to raise financing when needed. Because of continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operations. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. Material uncertainties as mentioned above cast significant doubt upon the Company's ability to continue as a going concern.

Bluesky Digital Assets Corp.
Notes to the Condensed Interim Consolidated Financial Statements
Three and Nine Months Ended September 30, 2021
(Expressed in Canadian Dollars)
Unaudited

2. Basis of presentation (continued)

Going concern (continued)

These unaudited condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying unaudited condensed consolidated interim financial statements. Such adjustments could be material. The Company 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

During the first quarter of 2020, there was a global outbreak of a novel coronavirus identified as "COVID-19". On March 2020, the World Health Organization declared a global pandemic. In order to combat the spread of COVID-19, governments worldwide have enacted emergency measures including travel bans, legally enforced or self-imposed quarantine periods, social distancing and business and organization closures. These measures have caused material disruptions to businesses, governments and other organizations resulting in an economic slowdown and increased volatility in national and global equity and commodity markets.

Central banks and governments, including Canadian federal and provincial governments, have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of any interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operations in future periods. However, currently COVID-19 did not have a significant impact on the Company's operations and access to financial markets.

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC.

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRS's issued and outstanding as of November 29, 2021, the date the Board of Directors approved the statements. Except as disclosed in note 3, the same accounting policies and methods of computation are followed in these unaudited condensed consolidated interim financial statements as compared with the most recent annual financial statements as at and for the year ended December 31, 2020. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the period ending December 31, 2021 could result in restatement of these unaudited condensed consolidated interim financial statements.

3. Significant accounting policies

Changes in accounting policies

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2021 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded.

Bluesky Digital Assets Corp.
Notes to the Condensed Interim Consolidated Financial Statements
Three and Nine Months Ended September 30, 2021
(Expressed in Canadian Dollars)
Unaudited

3. Significant accounting policies (continued)

New standards not yet adopted and interpretations issued but not yet effective

There are no relevant IFRS's or IFRS interpretations that are not yet effective that would be expected to have a material impact on the unaudited condensed consolidated interim financial statements.

4. Accounts receivable and other assets

	September 30, 2021	December 31, 2020
HST receivables	-	6,130
Other receivables	8,636	8,647
	\$ 8,636	\$ 14,777
Total accounts and other receivable	\$ 8,636	\$ 14,777

5. Notes receivable

	September 30, 2021	December 31, 2020
Balance, beginning of year	\$ 228,526	\$ 536,294
Amounts loaned	-	21,710
Interest	-	16,590
Repayments and settlements	-	(263,411)
Impairment	-	(49,400)
Foreign exchange difference	-	(33,257)
	\$ 228,526	\$ 228,526
Less: provision for other receivables	(228,526)	(228,526)
Balance, end of year	\$ -	\$ -
Short-term notes receivable	\$ -	\$ -
Total notes receivable	\$ -	\$ -

(i) On July 23, 2016, the Company was engaged by Workspport Ltd (formerly Franchise Holdings International Inc. ("FHI")) to assist with the listing of its shares on the Canadian Securities Exchange. The Company has agreed to loan up to \$300,000 to FHI at an interest rate of 18% per annum. On July 26, 2016, the Company issued a secured promissory note to Truxmart Inc., a subsidiary of FHI for an amount up to \$59,000 with a maturity date of July 13, 2018. On October 1, 2016, the Company issued a secured promissory note to FHI for USD \$22,500 (\$33,383) with a maturity date of October 1, 2018. Both of these notes bear interest at a rate of 18% per annum. These loans are secured by a general security agreement over FHI as well as a charge on the assets of the business. For the year ended December 31, 2018, an impairment loss of \$228,525 was recorded on this loan and as at September 30, 2021 and December 31, 2020, this loan is carried at \$Nil net of the provision.

(ii) On September 30, 2020, the Company entered into a transfer agreement with the holder of Class – A preferred shares. Via the transfer agreement, the Company agreed to transfer ownership of a Loan Receivable held by the Company to the holder, and as consideration to the Company, the Company would receive ownership of the Class – A preferred shares, valued at \$276,501. At the time of the entering the transfer agreement the Company's loan portfolio had a value of \$225,161 (US\$167,934). In order to complete the transfer, the Company issued 513,400 Common Shares of the Company at a price of \$0.10 per Common Share to settle the outstanding balance of \$51,340 between the value of the loan portfolio and the value of the Class – A preferred shares. (see note 12).

Bluesky Digital Assets Corp.
Notes to the Condensed Interim Consolidated Financial Statements
Three and Nine Months Ended September 30, 2021
(Expressed in Canadian Dollars)
Unaudited

6. Equipment

Cost	Digital asset mining rigs	Equipment	Office computers	Right-of-use assets	Total
Balance, December 31, 2019,	\$ 263,646	\$ 54,564	\$ 10,908	\$ 297,852	\$ 626,970
Additions	325,449	-	-	-	325,449
Disposals	-	-	-	(111,088)	(111,088)
Balance, December 31, 2020	589,095	54,564	10,908	186,764	841,331
Additions	2,544,902	395,006	-	-	2,939,908
Balance, September 30, 2021	\$ 3,133,997	\$ 449,570	\$ 10,908	\$ 186,764	\$ 3,781,239

Accumulated depreciation	Digital asset mining rigs	Equipment	Office computers	Right-of-use assets	Total
Balance, December 31, 2019	\$ (22,340)	\$ (54,564)	\$ (10,790)	\$ (57,374)	\$ (145,068)
Depreciation for the year	(296,809)	-	(118)	(67,914)	(364,841)
Disposals	-	-	-	40,395	40,395
Balance, December 31, 2020	(319,149)	(54,564)	(10,908)	(84,893)	(469,514)
Depreciation for the period	(807,020)	(6,161)	-	(50,935)	(864,116)
Balance, September 30, 2021	\$(1,126,169)	\$(60,725)	\$(10,908)	\$(135,828)	\$(1,333,630)

Carrying amount	Digital asset mining rigs	Equipment	Office computers	Right-of-use assets	Total
Balance, December 31, 2020	\$ 269,946	\$ -	\$ -	\$ 101,871	\$ 371,817
Balance, September 30, 2021	\$ 2,007,828	\$ 388,845	\$ -	\$ 50,936	\$ 2,447,609

Right-of-use assets

The Company's right-of-use asset includes a digital mining facility in Quebec, Canada.

7. Lease liabilities

A reconciliation of the carrying amount of the lease liabilities is as follows:

	Buildings
Balance, December 31, 2019	\$ -
Additions	244,906
Interest expense	15,791
Lease payments	(121,020)
Balance, December 31, 2020	139,677
Interest expense	6,149
Lease payments	(90,766)
Balance, September 30, 2021	\$ 55,060

Bluesky Digital Assets Corp.
Notes to the Condensed Interim Consolidated Financial Statements
Three and Nine Months Ended September 30, 2021
(Expressed in Canadian Dollars)
Unaudited

7. Lease liabilities (continued)

	As at September 30, 2021	As at December 31, 2020
Short-term lease expense	\$ 55,060	\$ 102,142
Long-term leases liabilities	-	37,535
	\$ 55,060	\$ 139,677

	Under 1 year	Between 1 - 2 years	Between 3 - 5 years	Over 5 years	Total
Buildings	\$ 55,060	\$ -	\$ -	\$ -	\$ 55,060
Total	\$ 55,060	\$ -	\$ -	\$ -	\$ 55,060

As at September 30, 2021, the total undiscounted amount of the estimated future cash flows to settle the Company's lease liabilities over the remaining lease terms is \$56,913.

Short-term leases are leases with a lease term of twelve months or less. As at September 30, 2021, the Company did not have any short-term leases. As at September 30, 2020, the Company had one short-term lease which has been accounted for as an operating lease. As at September 30, 2021, there were no extension options that were reasonably certain to be exercised included in the measurement of the lease liabilities, and there were no leases with residual value guarantees.

Net investment in sublease

On November 28, 2019, the Company entered into a sublease whereby its lease at 8 King Street East is assigned to an external unrelated party. The term of the sublease is for one year and nine months, commencing on January 1, 2020 and expired on September 29, 2021.

The Company has classified this sublease as a finance lease, because the sublease covers the remaining term of the head lease.

The continuity of the net investment in sublease is presented in the table below:

	As at September 30, 2021	As at December 31, 2020
Balance, beginning of year	\$ 32,751	\$ -
Additions	-	73,480
Interest income on investment in sublease	1,101	4,407
Lease payments	(33,852)	(45,136)
	-	32,751

Bluesky Digital Assets Corp.
Notes to the Condensed Interim Consolidated Financial Statements
Three and Nine Months Ended September 30, 2021
(Expressed in Canadian Dollars)
Unaudited

8. Buildings and improvements

Cost	As at December 31, 2019	Additions / (disposals)	As at December 31, 2020	Additions / (disposals)	As at September 30, 2021
Madoc Self Storage	308,071	(308,071)	-	-	-
Total	\$ 308,071	\$ (308,071)	\$ -	\$ -	\$ -

Accumulated depreciation	As at December 31, 2019	Additions / (disposals)	As at December 31, 2020	Additions / (disposals)	As at September 30, 2021
Madoc Self Storage	24,920	(24,920)	-	-	-
Total	\$ 24,920	\$ (24,920)	\$ -	\$ -	\$ -

Net book value	As at December 31, 2019		As at December 31, 2020		As at September 30, 2021
Madoc Self Storage	332,991	(332,991)	-	-	-
Total	\$ 332,991	\$ (332,991)	\$ -	\$ -	\$ -

During the year ended December 31, 2020, the Company disposed of Madoc Self Storage for a loss of \$117,832 recorded in the discontinued operations of the unaudited condensed consolidated interim statement of loss and comprehensive loss.

9. Investments

	September 30, 2021		December 31, 2020	
	Number of shares	Estimated fair market value	Number of shares	Estimated fair market value
Workspoint Ltd.	271,215	108,161	271,215	51,106
Payfare Inc. (ii)	-	-	333,334	183,334
Advantagewon Oil Corp. (ii)	-	-	-	1,293
Cheetah Canyon Resources Corp.	1,698,850	-	1,698,850	-
Chess Supersite Corp	300,000	6,154	300,000	5,347
Eastwest Bioscience Inc.	658,182	13,164	658,182	13,164
Astro Airspace Ltd	500,000	52,238	500,000	124,137
Hemp Inc.	24,000,000	97,851	24,000,000	128,339
Total investments		\$ 277,568		\$ 506,720

Classification

Short-term investments	277,568	506,720
Total investments	\$ 277,568	\$ 506,720

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9. Investments (continued)

- (i) On August 30, 2016, the Company acquired 333,334 common shares of Payfare Inc. for \$50,000, a private company in the business of payment processing. On March 18, 2021 Payfare undertook a share consolidation of approx 6.25 to 1 which reduced the shareholdings from 53,103. On March 19, 2021 Payfare listed its Common Shares onto the TSX under the trading symbol "PAY" and the Company sold its holding for \$319,149 and an unrealized gain of \$183,334 previously recognized was reversed and a realized gain of \$269,149 was recorded in the consolidated statements of loss.
- (ii) Advantagewon Oil Corporation ("AOC") has one director in common with the Company. During the year ended December 31, 2019, the Company subscribed for 103,571 units of AOC for \$72,500. Each unit consists of one common share and one share purchase warrant which entitles the holder to purchase one common share of AOC for \$1.20 for two years after closing. These warrants were valued with the Black-Scholes method and had a fair value of \$20,997 on the date of receipt. As at September 30, 2021, these warrants have expired.

10. Mortgages payable

	September 30, 2021	December 31, 2020
Balance, beginning of year	\$ -	\$ 123,200
Repayments	-	(7,899)
Discharge	-	(118,573)
Transaction costs	-	3,272
Balance, end of year	\$ -	\$ -

On July 31, 2020, the Company sold the Madoc Self Storage for \$185,000 as disclosed in Note 8.

11. Loans payable

	September 30, 2021	December 31, 2020
Balance, beginning of year	\$ 151,722	\$ 37,867
Interest	178	2,610
Repayments	(32,955)	(7,700)
(Repayment) / Proceeds for CEBA loans	(28,945)	118,945
Forgiveness as per CEBA loan agreement	(10,000)	-
Balance, end of year	\$ 80,000	\$ 151,722

Classification:

Short-term loans payable	\$ -	\$ 6,515
Long-term loans payable	80,000	145,207
Total notes receivable	\$ 80,000	\$ 151,722

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11. Loans payable (continued)

Canada Emergency Business Account (CEBA) loan

During the year ended December 31, 2020, the Company received \$118,945 in Canada Emergency Business Account (CEBA) loan, funded by the Federal Government. The terms of the loans is: Interest rate is 0% per year, but subject to the interest rate disclosed below in the loan extension section; loan repayment in whole or in part on or after July 1, 2020; \$30,000 (25%) of the \$118,945 loan is eligible for complete forgiveness if \$90,000 (75%) is fully repaid on or before December 31, 2022. Loan extension terms are: If the loan cannot be repaid by December 31, 2022, it will be converted into a 3 year term loan, charging an interest rate of 5%; Interest payments are due monthly and the outstanding principal balance must be fully repaid no later than December 31, 2025. However, the Company may repay some or all of the loan at any time. During the nine months ended September 30, 2021, the Company repaid \$30,000 and recorded \$10,000 as gain on debt forgiveness in the unaudited condensed consolidated interim statements of loss.

Other loan

On June 1, 2017, the Company borrowed \$50,000 from an unrelated party. The secured promissory note bears interest of 8% per annum and has a maturity of May 31, 2022. The note was secured by a mortgage charge on the 1209 Hickory Road property and upon the sale of the property the note was secured on the assets of the Company totaling the outstanding amount of the note. As at September 30, 2021, the loan has been fully repaid and the carrying value of loan is \$nil (December 31, 2020 - \$32,777).

12. Share capital

As at September 30, 2021, the Company's authorized share capital consists of unlimited number of voting common shares, 6,591,157 non-voting, cumulative, "Class – A" preferred shares and "Class – B" preferred shares that are redeemable at the option of the Company at fair value.

a) Preferred shares

Class A	Number of preferred shares	Amount
Balance, December 31, 2019 and September 30, 2020	493,020	\$ 3,081,855
Conversion to common shares units (i)	-	(204,500)
Balance, September 30, 2020	493,020	\$ 2,877,355
Balance, December 31, 2020	493,020	\$ 2,877,355
Conversion to common shares units (ii)	-	(835,170)
Balance, September 30, 2021	493,020	\$ 2,042,185

(i) During the nine months ended September 30, 2020, a total of 340,833 Units were issued to reacquire 20,450 Class – A preferred shares with a value of \$204,500 into treasury.

(ii) During the nine months ended September 30, 2021, a total of 782,779 Units were issued to reacquire 83,517 Class – A preferred shares with a value of \$835,170 into treasury.

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12. Share capital (continued)

a) Preferred shares (continued)

Preferred shares to be registered

During the year ended December 31, 2020, the Company repurchased its own Class – A preferred shares from a related party through a series of multiple transactions. As at December 31, 2018 the Company had paid \$52,567 to be applied to preferred shares, which was included in other receivables. During fiscal 2020, an additional \$24,000 in cash was paid, along with issuance of 513,400 common shares with a value of \$51,330, and forgave the balance of a note receivable from an entity controlled by the related party in the amount of \$225,160 (Note 11). In exchange for all of these amount, the Company received 26,500 preferred shares, with a value of \$353,057. The preferred shares certificates have been physically received but had not yet been registered back into the Company's name and are therefore held in a separate account within equity at September 30, 2021.

Class B	Number of common shares	Amount
Balance, December 31, 2019, September 30, 2020, December 31, 2020 and September 30, 2021	1,250	\$ 12,500

b) Common shares

On May 12, 2020, the Company consolidated its common shares on the basis of 1 new common share for every 12 common shares outstanding. All references to common shares, per share amounts, warrants and options for all periods presented have been retroactively restated to reflect this consolidation.

	Number of common shares	Amount
Balance, December 31, 2019	16,553,831	\$ 12,504,865
Common shares issued (i)	340,833	103,980
Common shares issued for debt (iii)	1,997,289	310,940
Balance, September 30, 2020	18,891,953	\$ 12,919,785
Balance, December 31, 2020	27,844,731	\$ 13,316,732
Common shares issued (ii)	12,635,953	5,432,784
Value of warrants granted (ii)	-	(2,735,167)
Cost of issue (ii)	-	(777,807)
Common shares issued for debt (iv)	138,492	119,905
Warrants exercised	2,394,289	1,129,915
Options exercised	2,045,001	718,447
Balance, September 30, 2021	45,058,466	\$ 17,204,809

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12. Share capital (continued)

b) Common shares (continued)

(i) Common shares issued - 2020

The Company issued 340,833 Units to acquire 20,450 Class – A Preferred Shares at an implied value of \$204,500. Due to COVID-19 the Company is still in the process of acquiring the Class – A shares. Each unit is comprised of one common share of the Company plus one common share warrant. Each warrant entitles the holder to acquire one common share of the Corporation for \$0.90 for a period of 24 months from the closing date. The fair value of the 340,833 warrants was estimated as \$100,520 using the Black-Scholes option pricing model with the following assumptions: 255% expected volatility; a risk-free interest rate of 0.33%; an expected dividend yield of Nil%; and 24 months expected term.

(ii) Common shares issued - 2021

On January 15, 2021, the Company closed a non-brokered private placement offering of 4,366,000 Units for gross proceeds of \$2,183,000. Each Unit consisted of one Common Share in the capital of the Company and one Common Share Purchase Warrant, with each Warrant entitling the holder thereof the ability to purchase one additional Common Share of the Company at an exercise price of \$1.00 per Common Share for a period of 36 months from the closing of the financing. The fair value of the 4,366,000 warrants was estimated as \$980,922 using the Black-Scholes option pricing model with the following assumptions: 241% expected volatility; a risk-free interest rate of 0.20%; an expected dividend yield of Nil%; and 36 months expected term.

The Company incurred total of \$82,578 of share issue costs in relation to the common shares issued above. The Company issued 93,120 warrants to brokers. Each Warrant entitling the holder thereof the ability to purchase one additional Common Share of the Company at an exercise price of \$1.00 per Common Share for a period of 36 months. The fair value of the 93,120 warrants was estimated as \$20,922 using the Black-Scholes option pricing model with the following assumptions: 241% expected volatility; a risk-free interest rate of 0.20%; an expected dividend yield of Nil%; and 36 months expected term.

On September 30, 2021, the Company closed tranche 1 of a non-brokered private placement offering of 7,487,174 Units for gross proceeds of \$2,414,614. Each Unit consisted of one Common Share in the capital of the Company and one Common Share Purchase Warrant, with each Warrant entitling the holder thereof the ability to purchase one additional Common Share of the Company at an exercise price of \$0.43 per Common Share for a period of 60 months from the closing of the financing. The fair value of 10,077,522 warrants was estimated as \$1,349,556 using the Black-Scholes option pricing model with the following assumptions: 190% expected volatility; a risk-free interest rate of 1.11%; an expected dividend yield of Nil%; and 36 months expected term.

The Company incurred total of \$695,229 of share issue costs in relation to the common shares issued above. The Company issued 806,202 warrants to brokers. Each Warrant entitling the holder thereof the ability to purchase one additional Common Share of the Company at an exercise price of \$0.43031 per Common Share for a period of 36 months. The fair value of the 806,202 warrants was estimated as \$224,705 using the Black-Scholes option pricing model with the following assumptions: 190% expected volatility; a risk-free interest rate of 1.11%; an expected dividend yield of Nil%; and 60 months expected term.

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12. Share capital (continued)

b) Common shares (continued)

(ii) Common shares issued - 2021 (continued)

During the nine months ended September 30, 2021, the Company acquired 83,517 of its Class – A Preferred Shares by issuing 782,779 Units of the Company to the former holders of the Class – A Preferred Shares. The Units were issued at a price between \$0.60 and \$1.50 per Unit. Each Unit consisted of one Common Share in the capital of the Company and one Common Share Purchase Warrant, with each Warrant entitling the holder thereof the ability to purchase one additional Common Share of the Company at an exercise price between \$0.90 and \$2.00 per Common Share for a period of 36 months. The fair value of the 782,779 warrants was estimated as \$404,868 using the Black-Scholes option pricing model with the following assumptions: 241% expected volatility; a risk-free interest rate of 0.46%; an expected dividend yield of Nil%; and 36 months expected term.

(ii) Common shares issued for debt - 2020

The Company issued 1,345,001 common shares to acquire ASIC equipment from Bitbox.

The Company issued an aggregate of 138,888 common shares, as per agreement for the total debt to be repaid was \$25,000.

See Note 5 with regards to an additional 513,400 common shares issued in the nine months ended September 30, 2021 in connection to the transfer ownership of its loan portfolio to the holder of the financial instrument.

(iii) Common shares issued for debt - 2021

The Company issued 119,048 and 19,444 common shares, as per agreements for the total debt to be repaid of \$15,750. The shares closing price on the date of issuance was \$0.87 and \$0.84 per share, respectively. Therefore, the fair value of the transaction recorded in equity is \$119,905 and a loss on shares of \$4,155 was recorded in the unaudited condensed consolidated interim statements of loss.

13. Warrant reserve

	Number of warrants	Fair value of warrants	Weighted average exercise price
Balance, December 31, 2019	7,071,402	\$ 1,339,675	\$ 0.62
Issued (note 12)	340,833	100,520	0.90
Expired	(1,291,749)	(383,407)	(1.56)
Balance, September 30, 2020	6,120,486	\$ 1,056,788	\$ 0.62
Balance, December 31, 2020	13,532,860	\$ 1,160,869	\$ 0.40
Issued (notes 12 and 13)	19,375,623	5,493,449	0.66
Expired	(907,960)	(120,099)	0.90
Exercised	(2,394,289)	(174,681)	0.40
Balance, September 30, 2021	29,606,234	\$ 6,359,538	\$ 0.55

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13. Warrants reserve (continued)

The following table reflects the warrants issued and outstanding as of September 30, 2021:

Expiry date	Number of warrants	Grant date fair value	Exercise price
October 21, 2021	1,957,000	\$ 347,216	\$ 0.90
November 25, 2021	580,000	98,710	0.90
April 15, 2022	340,833	100,520	0.08
February 1, 2023	7,352,778	319,643	0.15
January 15, 2024	4,459,120	1,001,661	1.00
March 11, 2024	376,667	109,451	0.90
March 11, 2024	128,000	93,145	2.00
April 6, 2024	3,250,000	2,512,659	0.81
April 8, 2024	278,112	202,272	1.50
September 29, 2026	10,077,522	1,349,556	0.43
September 29, 2026	806,202	224,705	0.40
	29,606,234	\$ 6,359,538	\$ 0.55

14. Contributed surplus

a) Shared-based compensation

Employee share option plan

The shareholders of the Company approved the Company's existing stock option plan, the "Plan", to be administered by the directors of the Company. Under the Plan, the Company may grant to directors, officers, employees and consultants options to purchase shares of the Company. The Plan provides for the issuance of stock options to acquire up to 10% of the Company's issued and outstanding capital. The plan is a rolling plan as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Company's issued and outstanding share capital increases.

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14. Contributed surplus (continued)

a) Shared-based compensation (continued)

Employee share option plan (continued)

During the three and nine months ended September 30, 2021, \$649,820 and \$2,440,000, respectively (three and nine months ended September 30, 2020 - \$nil) of stock-based compensation was recorded in the unaudited condensed consolidated interim statement of loss for 4,625,000 stock options (nine months ended September 30, 2020 – nil) granted to directors, officers, former officers and consultants of the Company.

The fair value at grant date is determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The Company grants all employee stock options with an exercise price equal to or greater than the market value of the underlying common shares on the date of grant.

	Number of stock options	Fair value of stock options	Weighted average exercise price
Balance, December 31, 2019 and September 30, 2020	1,062,500	\$ 424,600	\$ 0.78
Balance, December 31, 2020	2,462,500	\$ 615,070	0.28
Granted	4,625,000	2,440,000	0.57
Expired	(175,000)	(35,470)	0.63
Exercised	(2,045,001)	(411,697)	0.15
Balance, September 30, 2021	4,867,499	\$ 2,607,903	\$ 0.58

The following table reflects the actual stock options issued and outstanding as of September 30, 2021:

Expiry date	Exercise price (\$)	Estimated fair value at grant date	Number of options outstanding and exercisable	Expected volatility	Expected life (years)	Expected dividend yield	Risk-free interest rate
December 1, 2021	1.20	3,500	8,333	156%	5	0%	1.07%
November 20, 2023	0.25	37,000	300,000	241%	3	0%	0.30%
January 4, 2024	0.60	354,000	600,000	243%	3	0%	0.25%
January 11, 2024	0.60	1,355,000	1,625,000	241%	3	0%	0.20%
June 7, 2024	0.50	694,000	2,100,000	239%	3	0%	0.66%
September 4, 2024	0.15	38,000	83,333	188%	5	0%	1.85%
October 18, 2024	0.15	12,743	63,333	228%	3.9	0%	0.38%
May 5, 2026	1.44	98,160	70,833	143%	10	0%	0.98%
June 19, 2027	1.20	15,500	16,667	131%	10	0%	1.54%
		\$ 2,607,903	4,867,499				

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15. Basic and diluted loss per share

The calculation of basic and diluted loss per share for the three and nine months ended September 30, 2021, was based on the loss attributable to common shareholders of \$649,820 and \$4,635,414, respectively (three and nine months ended September 30, 2020 - \$107,977 and \$669,069, respectively) and the weighted average number of common shares outstanding of 37,209,335 and 35,782,434, respectively (three and nine months ended September 30, 2020 - 25,679,130 and 25,679,130, respectively). Diluted loss per share did not include the effect of 29,606,234 warrants or 4,867,499 stock options for the three and nine months ended September 30, 2021 (three and nine months ended September 30, 2020 - 6,120,486 warrants or 1,062,500 stock options) as their effect is anti-dilutive.

16. Related party transactions

Key management personnel includes the Board of Directors of the Company, officers, and close family members and enterprises which are controlled by these individuals, as well as certain persons performing similar functions.

(a) The Company entered into the following transactions with related parties in the ordinary course of business:

	Three Months September 30, 2021		Nine Months Ended September 30, 2021	
Bitblox Technologies Inc.	-	-	-	32,000

(b) Remuneration of directors and key management personnel, other than consulting fees, of the Company was as follows:

	Three Months September 30, 2021		Nine Months Ended September 30, 2021	
Management fees	\$ 116,600	\$ -	\$ 427,600	\$ 143,000
Share-based payments	694,000	-	1,944,769	-
	\$ 810,600	\$ -	\$ 2,372,369	\$ 143,000

17. Segmented information

As at September 30, 2021, the Company has two reportable segments; corporate, and digital asset mining. The merchant banking segment provides loans to third parties and earns interest income. The corporate segment is responsible for the overall investments operations of the Company excluding investments in rental properties. The corporate segment also includes all overhead costs. The digital asset mining segment earns revenue from the provision of transaction verification services within digital currency networks, commonly termed "cryptocurrency mining". All of the Company's revenues are recognised at a point in time. During 2020, the Company discontinued its real estate segment.

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17. Segmented information (continued)

	Corporate	Merchant banking	Digital assets mining	Total
September 30, 2021				
Assets				
Canada	\$ -	\$ -	\$ 2,447,609	\$ 2,447,609
Non-current assets	\$ -	\$ -	\$ 2,447,609	\$ 2,447,609
December 31, 2020				
Assets				
Canada	\$ -	\$ -	\$ 371,817	\$ 371,817
Non-current assets	\$ -	\$ -	\$ 371,817	\$ 371,817

Revenues	Three Months September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Merchant banking	\$ -	\$ -	\$ -	\$ 16,237
Real estate	-	-	-	1,352
Consulting and advisory	-	-	-	6,707
Digital assets mining	1,047,909	-	2,610,034	284,111
	\$ 1,047,909	\$ -	\$ 2,610,034	\$ 308,407

18. Subsequent event

Subsequent to the nine months ended September 30, 2021 the Company closed tranche 2 of a non-brokered private placement offering of 2,590,348 Units for gross proceeds of \$835,387.

Bluesky Digital Assets Corp.
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