

# AUDIT 2021



**bluesky**  
DIGITAL ASSETS

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR YEARS ENDED DECEMBER 31, 2021 AND 2020**

(EXPRESSED IN CANADIAN DOLLARS)

MAY 2, 2022

[www.blueskydigitalassets.com](http://www.blueskydigitalassets.com)



**BTCWF**  
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## Independent Auditor's Report

To the Shareholders of  
Bluesky Digital Assets Corp.

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**Raymond Chabot  
Grant Thornton LLP**  
Suite 2000  
National Bank Tower  
600 De La Gauchetière Street West  
Montréal, Quebec  
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### Opinion

We have audited the consolidated financial statements of Bluesky Digital Assets Corp. (hereafter "the Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and the consolidated statements of loss and comprehensive loss, the consolidated statements of cash flows and the consolidated statements of changes in equity for the years then ended, and notes to consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material uncertainty related to going concern

We draw attention to Note 1 to the consolidated financial statements, which indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**Other matter – Comparative information audited by a predecessor auditor**

The financial statements of the Company for the year ended December 31, 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on May 31, 2021.

**Information other than the consolidated financial statements and the auditor's report thereon**

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, included in Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

**Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Louis Roy.

*Raymond Chabot Grant Thornton LLP<sup>1</sup>*

Montréal  
May 2, 2022

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<sup>1</sup> CPA auditor, CA public accountancy permit no. A125741

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

	As at December 31, 2021	As at December 31, 2020
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 854,233	\$ 1,075,495
Accounts and other receivables (note 6)	126,913	14,777
Prepaid expenses	249,884	16,730
Investments (note 12)	149,834	506,720
Net investment in sublease (note 11)	-	32,751
Digital currencies (note 8)	2,407,442	-
<b>Total current assets</b>	<b>3,788,306</b>	<b>1,646,473</b>
Property, plant and equipment (note 9)	4,708,024	269,946
Right of use assets	223,859	101,871
<b>Total assets</b>	<b>\$ 8,720,189</b>	<b>\$ 2,018,290</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 13)	\$ 998,635	\$ 353,712
Lease liability (note 11)	37,071	102,142
Loans payable (note 16)	-	6,515
<b>Total current liabilities</b>	<b>1,035,706</b>	<b>462,369</b>
<b>Non-current liabilities</b>		
Lease liability (note 11)	189,903	37,535
Warrant liability (note 15)	2,541,235	-
Loans payable (note 16)	70,000	145,207
<b>Total liabilities</b>	<b>3,836,844</b>	<b>645,111</b>
<b>Shareholders' equity</b>		
Share capital (note 17)	20,611,230	15,853,530
Contributed surplus (note 19)	5,547,826	2,865,481
Warrants	3,355,097	1,160,869
Digital currency revaluation reserve	181,613	-
Deficit	(24,812,421)	(18,506,701)
<b>Total shareholders' equity</b>	<b>4,883,345</b>	<b>1,373,179</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 8,720,189</b>	<b>\$ 2,018,290</b>

Description of business (note 1)  
Subsequent event (note 29)

"Frank Kordy", Director

"Ben Gelfand", Director

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

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

	Year Ended December 31, 2021	Year Ended December 31, 2020
<b>Revenue</b>		
Digital currency mined (note 8)	\$ 3,726,203	\$ 665,533
Interest	-	20,655
Advisory services	-	8,451
<b>Cost of revenue</b>		
Site operating costs	(1,560,542)	(590,769)
Depreciation	(1,401,445)	(364,723)
<b>Gross profit (loss)</b>	<b>764,216</b>	<b>(260,853)</b>
<b>Operating expenses</b>		
General and administration	\$ 2,004,959	\$ 1,000,806
Gain on sale of digital currencies (note 8)	(153,388)	-
Share-based payments (notes 17 and 19)	4,949,157	194,845
<b>Total operating expenses</b>	<b>6,800,728</b>	<b>1,195,651</b>
<b>Loss before other items</b>	<b>(6,036,512)</b>	<b>(1,456,504)</b>
Unrealized (loss) on investments	(304,478)	(37,217)
Realized (loss) on investments	269,149	(41,954)
Impairment of financial instruments (note 7)	-	(57,081)
Foreign exchange (loss) gain	(2,634)	72,339
Other income	1,101	-
Accretion	-	8,665
Gain on recognition of sublease	-	2,788
(Loss) on settlement of payables (note 17)	(4,155)	4,378
Gain on accounts payable write down and debt forgiveness (notes 13 and 16)	89,674	-
Warrant expensed	(583,985)	-
Gain on revaluation of warrant liability	206,374	-
<b>Loss before income taxes</b>	<b>(6,365,466)</b>	<b>(1,504,586)</b>
Deferred income tax	65,480	-
<b>Net loss for the year from continued operations</b>	<b>\$ (6,299,986)</b>	<b>\$ (1,504,586)</b>
<b>Discontinued operations</b>		
Revenue	-	1,490
Expenses	(5,734)	(10,610)
Loss from sale of building	-	(117,832)
<b>Net loss for the year from discontinued operations</b>	<b>(5,734)</b>	<b>(126,952)</b>
<b>Total loss for the year</b>	<b>\$ (6,305,720)</b>	<b>\$ (1,631,538)</b>
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified subsequently to income</b>		
Revaluation of digital currencies, net of tax	181,613	-
<b>Other comprehensive income for the year</b>	<b>181,613</b>	<b>-</b>
<b>Total loss and comprehensive loss for the year</b>	<b>\$ (6,124,107)</b>	<b>\$ (1,631,538)</b>
<b>Basic and diluted net loss per share</b> (note 21)		
Basic and diluted net loss per share	\$ (0.16)	\$ (0.08)
Basic and diluted net loss per share - continued operations	\$ (0.16)	\$ (0.08)
<b>Weighted average number of common shares outstanding</b>	<b>38,772,639</b>	<b>18,861,730</b>

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

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

	Year Ended December 31, 2021	Year Ended December 31, 2020
<b>Operating activities</b>		
Net loss for the year	\$ (6,305,720)	\$ (1,631,538)
Adjustments in non-cash operating items:		
Depreciation	1,401,446	364,840
Digital currencies	(2,006,963)	-
Write down of assets with dissolve of discontinued operations	3,623	-
Common shares issued for services and compensation (note 17)	119,905	-
Share-based payments	4,949,157	194,845
Impairment on financial instrument	-	49,400
Gain on revaluation of warrant liability	(206,374)	-
Unrealised investment (gain) / loss	304,478	(1,997)
Realised investment (gain) / loss	(269,149)	11,176
Disposal of real estate assets loss	-	98,151
Gain on sale of digital currencies	(153,388)	-
Interest on sub lease	(1,101)	-
Accretion	6,030	18,400
Unrealised foreign exchange (gain)	2,634	78
Loss (gain) on settlement of payables	4,155	(4,378)
Accrued interest on notes receivable / inv in sublease	-	12,183
Gain on accounts payable write down and debt forgiveness (notes 13 and 16)	(89,674)	-
Deferred income tax	(65,480)	-
Gain on recognition of sublease	-	(2,788)
Changes in working capital items and digital currencies:		
Accounts and other receivables	(112,136)	216,061
Prepaid expenses	(233,155)	34,554
Accounts payable and accrued liabilities	710,442	52,653
<b>Net cash used in operating activities</b>	<b>(1,941,270)</b>	<b>(588,360)</b>
<b>Investing activities</b>		
Loans provided	-	(21,710)
Proceeds from sale equipment	119,210	-
Proceeds from sale of investments	321,557	10,925
Purchase of equipments	(5,890,820)	(95,448)
Proceeds on building disposal, net discharge of mortgage	-	69,699
Lease collected	-	38,250
<b>Net cash provided by (used in) investing activity</b>	<b>(5,450,053)</b>	<b>1,716</b>
<b>Financing activities</b>		
Proceeds from issuance of common shares (net of issuance cost paid of \$72,260 for 2021 and \$15,000 for 2020)	5,937,741	805,750
Repurchase of preferred shares	-	(24,000)
Lease payments paid	(75,071)	(75,883)
Stock options and warrants exercised	1,261,610	-
Proceeds / (repayments) of loans payable	(61,900)	111,245
Repayment of mortgages payable	-	(7,899)
<b>Net cash provided by financing activities</b>	<b>7,062,380</b>	<b>809,213</b>
<b>Net change in cash</b>	<b>(328,943)</b>	<b>222,569</b>
<b>Cash, beginning of year</b>	<b>1,075,495</b>	<b>852,926</b>
Exchange differences on cash	107,681	-
<b>Cash, end of year</b>	<b>\$ 854,233</b>	<b>\$ 1,075,495</b>

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



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

	Share Capital								
	Preferred shares \$	Preferred shares to be registered \$	Common shares \$	Total share capital \$	Contributed Surplus \$	Warrants \$	Digital currency revaluation reserve \$	Deficit \$	Total \$
<b>Balance, December 31, 2019</b>	<b>3,094,355</b>	<b>-</b>	<b>12,504,865</b>	<b>15,599,220</b>	<b>2,006,486</b>	<b>1,339,675</b>	<b>-</b>	<b>(16,875,163)</b>	<b>2,070,218</b>
Issuance of common shares (net of share issue costs of \$15,000)	-	-	401,550	401,550	-	389,199	-	-	790,749
Shares issued for debt	-	-	71,962	71,962	-	-	-	-	71,962
Units issued for preferred shares	(204,500)	-	103,980	(100,520)	-	100,520	-	-	-
Shares issued for equipment	-	-	230,000	230,000	-	-	-	-	230,000
Preferred shares to be received	-	(353,057)	-	(353,057)	-	-	-	-	(353,057)
Expiry of warrants	-	-	-	-	668,525	(668,525)	-	-	-
Share-based compensation	-	-	4,375	4,375	190,470	-	-	-	194,845
Net loss for the year	-	-	-	-	-	-	-	(1,631,538)	(1,631,538)
<b>Balance, December 31, 2020</b>	<b>2,889,855</b>	<b>(353,057)</b>	<b>13,316,732</b>	<b>15,853,530</b>	<b>2,865,481</b>	<b>1,160,869</b>	<b>-</b>	<b>(18,506,701)</b>	<b>1,373,179</b>
Issuance of Units (net of share issue costs of \$263,908)	-	-	2,998,484	2,998,484	-	298,426	-	-	3,296,910
Shares issued for services	-	-	119,905	119,905	-	-	-	-	119,905
Units issued for preferred shares	(835,170)	-	626,119	(209,051)	-	215,732	-	-	6,681
Stock options exercised	-	-	718,447	718,447	(411,697)	-	-	-	306,750
Warrants exercised	-	-	1,129,915	1,129,915	-	(175,045)	-	-	954,870
Warrants expired	-	-	-	-	560,635	(560,635)	-	-	-
Share-based compensation	-	-	-	-	2,533,407	2,415,750	-	-	4,949,157
<b>Transactions with owners</b>	<b>2,054,685</b>	<b>(353,057)</b>	<b>18,909,602</b>	<b>20,611,230</b>	<b>5,547,826</b>	<b>3,355,097</b>	<b>-</b>	<b>(18,506,701)</b>	<b>11,007,452</b>
Revaluation of digital currency net of tax	-	-	-	-	-	-	181,613	-	181,613
Net loss for the year	-	-	-	-	-	-	-	(6,305,720)	(6,305,720)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>181,613</b>	<b>(6,305,720)</b>	<b>(6,124,107)</b>
<b>Balance, December 31, 2021</b>	<b>2,054,685</b>	<b>(353,057)</b>	<b>18,909,602</b>	<b>20,611,230</b>	<b>5,547,826</b>	<b>3,355,097</b>	<b>181,613</b>	<b>(24,812,421)</b>	<b>4,883,345</b>

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

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**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

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**1. Description of business, going concern and COVID-19**

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

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.

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 consolidated financial statements of the Company for the years ended December 31, 2021 and 2020 were approved and authorized for issuance in accordance with a resolution of the board of directors on May 2, 2022.

**Going concern**

The Company incurred a net loss during the year ended December 31, 2021 of \$6,124,107 (2020 - \$1,631,538) and had an accumulated deficit of \$24,812,421 (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 December 31, 2021, the Company had a working capital balance of \$2,752,600 (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.

These consolidated 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 consolidated 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.

**COVID-19**

In March 2020, the World Health Organization declared COVID-19 a pandemic. The global response to the pandemic is constantly evolving, including various measures implemented at the global, national, provincial and local levers. The major impacts that COVID-19 are expected to have on Bluesky Digital Assets Corp. include potential increases in digital currency price volatility and delays in receiving future orders of mining hardware and electrical components for future expansion.

Bluesky Digital Assets Corp. has been operating, and is expected to continue operating, throughout the pandemic.

**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

**2. Basis of presentation**

**Statement of compliance to international financial reporting standards**

The consolidated 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").

**Basis of consolidation**

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

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. <sup>(1)</sup>	Canada	Holding Company
MethodeVerte Inc. <sup>(1)</sup>	Canada	Holding Company
GP Self Storage Inc. <sup>(1)</sup>	Canada	Commercial Rental Company
GP Realty Inc. <sup>(1)</sup>	Canada	Holding Company
57 Wellington St. Inc. <sup>(2)</sup>	Canada	Inactive
Bluesky Defi Inc.(formerly 63 Wellington Street Inc.) <sup>(2)</sup>	Canada	Inactive
1209 Hickory Road Inc. <sup>(2)</sup>	Canada	Dormant
559 Assumption Road Inc. <sup>(2)</sup>	Canada	Dormant
934 Maisonneville Road Inc. <sup>(2)</sup>	Canada	Dormant
1571 Hickory Road Inc. <sup>(2)</sup>	Canada	Dormant
663 Marentette Ave. Inc. <sup>(2)</sup>	Canada	Inactive
491 Louis Ave. Inc. <sup>(2)</sup>	Canada	Inactive
Bluesky Intelligence Inc. (formerly 1Balfour Place Inc.) <sup>(2)</sup>	Canada	Inactive
1021 Henry Ford Centre Inc. <sup>(2)</sup>	Canada	Dormant

<sup>(1)</sup> 100% owned by the Parent Company

<sup>(2)</sup> 100% owned by GP Realty Inc

**Basis of measurement**

These consolidated 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 consolidated financial statements. These consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

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**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

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**3. Significant accounting policies**

**Revenue recognition**

Digital currency mining income

The Company recognizes revenue from the transaction verification services within digital currency networks, commonly termed "cryptocurrency mining". As consideration for these services, the Company receives digital currency from each specific cryptocurrency mining pool in which it participates. Revenue is measured based on the fair value of the digital currency received. The fair value is determined using the spot price of the digital currency on the date of receipt. Digital currency are considered earned on the completion and addition of a block to the blockchain, at which time the economic benefit is received and can be reliably measured.

**Foreign currencies**

These consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Company and its subsidiaries. Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the period end exchange rates are recognized in the consolidated statement of loss and comprehensive loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

**Cash**

Cash is comprised of bank balances and are primarily held in Canadian dollars and U.S. dollars.

**Digital currencies**

Digital currencies consist of Bitcoin and other digital currencies. Digital currencies meet the definition of intangible currencies in IAS 38 Intangible currencies as they are identifiable non-monetary currencies without physical substance. They are initially recorded at cost and the revaluation method is used to measure the digital currencies subsequently. Where digital currencies are recognized as revenue, the fair value of the digital asset received is considered to be the cost of the digital currencies. Under the revaluation method, increases in fair value are recorded in other comprehensive income, while decreases are recorded in profit or loss. The Company revalues its digital currencies at the end of each quarter. There is no recycling of gains from other comprehensive income to profit or loss. However, to the extent that an increase in fair value reverses a previous decrease in fair value that has been recorded in profit or loss, that increase is recorded in profit or loss. Decreases in fair value that reverse gains previously recorded in other comprehensive income are recorded in other comprehensive income. Gains and losses on digital currencies sold between revaluation dates are included in profit or loss.

Digital currencies are measured at fair value using the quoted price on Cryptocompare. Cryptocompare is a pricing aggregator, as the principal market or most advantageous market is not always known. The Company believes any price difference amongst the principal market and an aggregated price to be immaterial. Management considers this fair value to be a Level 2 input under IFRS 13 Fair Value Measurement fair value hierarchy as the price on this source represents an average of quoted prices on multiple digital asset exchanges

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**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

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**3. Significant accounting policies (continued)**

**Property, plant and equipment**

On initial recognition, property, plant and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items.

Property, plant and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized based on the cost of an item, less its estimated residual value, over its estimated useful life at the following rates:

	<b>Percentage/Period</b>	<b>Method</b>
Buildings and improvements	2.5%	Straight-line
Equipment	20%	Declining balance
Computers	55%	Declining balance
Data miners	33% to 50%	Straight-line

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Residual values, method of depreciation and useful lives of the assets are reviewed at least at each financial year end and adjusted prospectively, if appropriate. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount and are recognized net within other items in profit or loss.

**Leases**

All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:

- ◆ Leases of low value assets; and
- ◆ Leases with a duration of twelve months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by the incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

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**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

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**3. Significant accounting policies (continued)**

**Leases (continued)**

On initial recognition, the carrying value of the lease liability also includes:

- ◆ Amounts expected to be payable under any residual value guarantee;
- ◆ The exercise price of any purchase option granted if it is reasonable certain to assess that option;
- ◆ Any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at cost, which includes the initial amount of the lease liability, reduced for any lease incentives received, and increased for:

- ◆ Lease payments made at or before commencement of the lease;
- ◆ initial direct costs incurred; and
- ◆ The amount of any provision recognized where the Company is contractually required to dismantle, remove or restore the leased asset.

Lease liabilities, on initial measurement, increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.

Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if this is judged to be shorter than the lease term.

When the Company revises its estimate of the term of any lease, it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term or recorded in profit or loss if the right-of-use asset is reduced to zero

**Impairment of non-financial assets**

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. In assessing value in use, the estimated future cash flows to be derived from continuing use of the asset or cash generating unit are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is the amount obtainable from the sale of an asset or cash generating unit in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized.

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**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

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**3. Significant accounting policies (continued)**

**Financial instruments**

Financial assets and liabilities are classified into one of the following categories based on the purpose for which the asset was acquired or for which the liability was incurred:

<b>Financial assets:</b>	<b>Classification:</b>
Cash	Amortized cost
Accounts and other receivables	Amortized cost
Notes receivable	Amortized cost
Investments	FVTPL

  

<b>Financial liabilities:</b>	<b>Classification:</b>
Accounts payable and accrued liabilities	Amortized cost
Loans payable	Amortized cost
Mortgages payable	Amortized cost

Financial assets

Under IFRS 9, financial assets are classified into one of the following categories:

- ♦ those to be measured subsequently at fair value (either through other comprehensive income ("OCI"), or through the consolidated statement of loss), and
- ♦ those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

The Company initially measures financial assets (except for those classified as fair value through profit or loss) at their fair value plus transaction costs. Transaction costs of financial assets carried at fair value through profit or loss ("FVTPL") are expensed in the consolidated statement of loss.

Subsequent measurement of financial assets depends on the Company's business model for managing the financial asset and the cash flow characteristics of the financial asset. There are three measurement categories into which the Company classifies its financial assets:

- ♦ Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is recognized using the effective interest method. Foreign exchange gains and losses as well as any gain or loss arising on derecognition are recognized in the consolidated statement of loss.
- ♦ FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income ("FVOCI"). Movements in the carrying amount are recorded through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in the consolidated statement of loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to the consolidated statement of loss.
- ♦ FVTPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a financial assets that is subsequently measured at FVTPL is recognized in the consolidated statement of loss.

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**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

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**3. Significant accounting policies (continued)**

**Financial instruments (continued)**

Financial assets (continued)

*Impairment*

Under IFRS 9, the Company assesses on a forward-looking basis, the expected credit losses associated with its financial assets carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk since the initial recognition of the respective financial instruments. The Company considers a range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

At each financial position date, on a forward-looking basis, the Company assesses the expected credit losses associated with its financial assets carried at amortized cost and, if any, FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The expected credit losses are required to be measured through a loss allowance at an amount equal to the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date) or full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument). A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has deteriorated significantly since initial recognition and whose credit risk is low.

Derecognition

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the risk and rewards of the financial asset are substantially transferred.

Financial liabilities

Under IFRS 9, the Company's financial liabilities are classified into one of the two categories: at FVTPL or at amortized cost.

- ◆ FVTPL: Financial liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statement of loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial liabilities held at FVTPL are recognized in the consolidated statement of loss in the period in which they arise, except for changes in fair value resulting from an entity's own credit risk which are recognized in other comprehensive loss.
- ◆ Financial liabilities at amortized cost: Financial's liabilities carried at amortized cost are initially recognized at fair value and subsequently carried at amortized cost by using the effective interest method.



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**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

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**3. Significant accounting policies (continued)**

**Income taxes**

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in net loss except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognised deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

**Share capital**

Share capital represents the amount received on the issue of shares. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. If shares are issued when options and warrants and conversion options are exercised, the share capital account also comprises the costs previously recorded as contributed surplus or warrants. In addition, if shares were issued as consideration for the acquisition of some non-monetary assets, they were measured at their fair value according to the quoted price on the day of the issuance of the shares.

Preferred shares are classified as equity if it is non-renewable or redeemable only at the Company's option and dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval of the Company's shareholders.

Unit placements

Proceeds received on the issuance of units, consisting of common shares and share purchase warrants, are allocated to common shares and warrants using the residual method with the fair value attributed to the common shares based on the quoted market and the residual being allocated to the warrants.

Other elements of equity

Warrants included charges related to warrants. When warrants were exercised the related compensation was transferred to share capital. When the warrants expired the corresponding charges were transferred to contributed surplus. Contributed surplus includes charges related to stock options until such equity instruments are exercised. When stock options are exercised corresponding compensation costs are transferred to share capital.

Deficit includes all current and prior year retained profits or losses.

Digital currency revaluation reserve includes gains and losses from the revaluation of digital currencies, net of tax.

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**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

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**3. Significant accounting policies (continued)**

**Share capital (continued)**

Loss per share

Basic loss per share is computed by dividing the net loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period.

Diluted loss per common share is computed by dividing the net loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted. The calculation of diluted earnings per share assumes that outstanding stock options and warrants with an average exercise price below market price of the underlying shares are exercised and the assumed proceeds are used to repurchase common shares of the Company at the average market price for the period.

Diluted loss per share equals basic loss per share given the anti-dilutive options and warrants for 2021 and 2020.

**Share-based transactions**

The fair values of share options granted to employees are recognized as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. At each reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

**Provisions**

Provisions are recognized when the Company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result, and that outflow can be reliably measured. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

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**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

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**3. Significant accounting policies (continued)**

**Segment reporting**

The Company has one reportable segment; digital asset mining and all revenues and non-current assets are in Canada.

**Discontinued operations**

A discontinued operation is a component of the Company's business, the operations and cash flows of which can be clearly distinguished and which:

- ◆ represents a separate major line of business or geographical area of operations;
- ◆ is part of single co-ordinated plan to dispose of a separate major line of business;
- ◆ is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale. When an operation is classified as discontinued operation, the comparative statement of loss and comprehensive loss is re-presented as if the operation had been discontinued from the start of the comparative year.

**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.

**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 consolidated financial statements.

**4. Critical accounting estimates and judgments**

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

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

**Assets' carrying values and impairment charges**

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

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**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

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**4. Critical accounting estimates and judgments (continued)**

**Income, value added, withholding and other taxes**

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

**Fair value/impairment of notes receivable, accounts and other receivables**

The recoverability of notes receivable, accounts and other receivables is assessed when events occur indicating impairment. Recoverability is based on factors that may include failure to pay interest on time, failure to pay the principal, termination of advisory agreements and other factors. The Company assesses expected credit losses at each reporting date. An impairment loss is recognized in the period when it is determined that the carrying amount of the assets will not be recoverable. Refer to Note 7 for further details.

**Share-based payments**

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

**Fair value of investment in securities not quoted in an active market or private company investments**

Where the fair values of financial assets recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. Refer to Note 24 for further details.

**Estimated useful life of property, plant and equipment**

Management estimates the useful lives of property, plant and equipment based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for amortization of property, plant and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at each reporting date and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's property, plant and equipment in the future.

**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

**4. Critical accounting estimates and judgments (continued)**

**Warrant liability**

The Company uses Black-Scholes method to determine the fair value of the warrant liability. The Black-Scholes method requires significant judgement in determining the fair value such as volatility and risk-free rate. A change in these inputs could lead to significant change in the fair value of the warrant liability.

**Income from digital currency mining and digital currency valuation**

The Company recognizes income from digital currency mining from the provision of transaction verification services within digital currency networks, commonly termed "cryptocurrency mining". As consideration for these services, the Company receives digital currency from each specific network in which it participates ("coins"). Income from digital currency mining is measured based on the fair value of the coins received. The fair value is determined using the spot price of the coin on the date of receipt. The coins are recorded on the statement of financial position, as digital currencies, at their fair value less costs to sell and remeasured at each reporting date. In fiscal 2020, all coins received were promptly sold for Canadian Dollars and as at December 31, 2020 the Company held no coins as all coins were converted into cash. Revaluation gains or losses, as well as gains or losses on the sale of coins for traditional (fiat) currencies are included in profit or loss. There is currently no specific definitive guidance in IFRS or alternative accounting frameworks for the accounting for the mining and strategic selling of digital currencies and management has exercised significant judgement in determining appropriate accounting treatment for the recognition of income from digital currency mining for mining of digital currencies. Management has examined various factors surrounding the substance of the Company's operations, including the stage of completion being the completion and addition of a block to a blockchain and the reliability of the measurement of the digital currency received.

**Contingencies**

Please refer to Note 27.

**5. Discontinued operation**

Since September 2019 the company has been focused on pivoting from being a merchant bank to becoming a digital currency mining company and discontinued its old business model of merchant banking and as an advisory services firm. 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 consolidated statement of loss and comprehensive loss.

Consideration - Cash	\$	42,653
Total consideration	\$	42,653
<b>Net carrying amount</b>		
Property and equipment		279,300
Rent deposit and deferred revenue		(242)
Mortgage payable		(118,573)
Net assets on disposal	\$	160,485
<b>Loss on disposal of Madoc Self Storage</b>	<b>\$</b>	<b>(117,832)</b>

**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

**5. Discontinued operation**

The Company had discontinued operations as follows:

	<b>Year Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Revenues</b>		
Residential rental income	\$ -	\$ 1,490
	-	1,490
<b>Expenses</b>		
Office and general	-	(1,178)
Property taxes and maintenance	(582)	3,204
Loan interest	-	(3,272)
Bank service charges	(1,529)	(5,513)
Amortization	-	(3,851)
Write down of asset and liabilities	(3,623)	-
Loss on sale of properties	-	(117,832)
Loss from discontinued operations	\$ (5,734)	\$ (126,952)
<b>Basic and diluted net loss per share</b> (note 21)		
basic and diluted	\$ (0.00)	\$ (0.01)
<b>Weighted average number of common shares outstanding</b>	<b>38,772,639</b>	<b>18,861,730</b>

**Cash flows from discontinued operations**

	<b>Year Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Operating cash flows from discontinued operations	\$ (884)	\$ (14,336)
Investing cash flows from discontinued operations	-	-
Financing activities cash flows from discontinued operations	-	(238,092)

**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

**6. Accounts receivable and other assets**

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
HST receivables	-	6,130
Subscription receipts and other receivables	<b>126,913</b>	8,647
<b>Total accounts and other receivable</b>	<b>\$ 126,913</b>	<b>\$ 14,777</b>

**7. Notes receivable**

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Balance, beginning of year	<b>\$ 228,526</b>	\$ 536,294
Amounts loaned	-	21,710
Interest	-	16,590
Repayments and settlements (ii)	-	(263,411)
Impairment	-	(49,400)
Foreign exchange difference	-	(33,257)
	<b>\$ 228,526</b>	<b>\$ 228,526</b>
Less: provision for notes receivables	<b>(228,526)</b>	(228,526)
<b>Balance, end of year</b>	<b>\$ -</b>	<b>\$ -</b>

- (i) For the year ended December 31, 2018, an impairment loss of \$228,525 was recorded on this loan and as at December 31, 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 Note 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 17).

**8. Digital currencies**

The Company's holdings of digital currencies consist of the following:

	<b>As at December 31, 2021</b>	<b>As at December 31, 2020</b>
Bitcoin	<b>\$ 967,166</b>	\$ -
Ethereum	<b>1,440,276</b>	-
	<b>\$ 2,407,442</b>	<b>\$ -</b>

**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

**8. Digital currencies (continued)**

The continuity of digital currencies was as follows:

	Number of Bitcoin	Amount	Number of Ethereum	Amount	Total
<b>Balance, December 31, 2020</b>	-	-	-	-	-
Currency mined	30	1,732,678	588	1,993,525	3,726,203
Received from exercise of options	-	3,000	-	-	3,000
Currency traded for cash	(13)	(827,590)	(278)	(894,650)	(1,722,240)
Gain on sale of digital currencies	-	48,027	-	105,360	153,387
Revaluation adjustment <sup>(1)</sup>	-	11,051	-	236,041	247,092
<b>Balance, December 31, 2021</b>	<b>17</b>	<b>\$ 967,166</b>	<b>310</b>	<b>\$ 1,440,276</b>	<b>\$ 2,407,442</b>

(1) Digital assets held are revalued each reporting period based on the fair market value of the price of Bitcoin and Ethereum on the reporting date. As at December 31, 2021, the prices of Bitcoin and Ethereum were \$58,533 and \$3,718, resulting in total revaluation gain of \$247,092, recorded to other comprehensive income net of taxes of \$65,240.

**9. Property, plant and equipment**

Cost	Buildings and improvements	Data miners	Equipment	Computers	Total
<b>Balance, December 31, 2019,</b>	<b>\$ 308,071</b>	<b>\$ 263,646</b>	<b>\$ 54,564</b>	<b>\$ 10,908</b>	<b>\$ 637,189</b>
Additions	-	325,449	-	-	325,449
Disposals	(308,071)	-	-	-	(308,071)
<b>Balance, December 31, 2020</b>	<b>-</b>	<b>589,095</b>	<b>54,564</b>	<b>10,908</b>	<b>654,567</b>
Additions	-	5,079,456	811,364	-	5,890,820
Disposals	-	(119,210)	-	-	(119,210)
<b>Balance, December 31, 2021</b>	<b>\$ -</b>	<b>\$ 5,549,341</b>	<b>\$ 865,928</b>	<b>\$ 10,908</b>	<b>\$ 6,426,177</b>

Accumulated depreciation	Buildings and improvements	Data miners	Equipment	Computers	Total
<b>Balance, December 31, 2019</b>	<b>\$ (24,920)</b>	<b>\$ (22,340)</b>	<b>\$ (54,564)</b>	<b>\$ (10,790)</b>	<b>\$ (112,614)</b>
Depreciation for the year	-	(296,809)	-	(118)	(296,927)
Disposals	24,920	-	-	-	24,920
<b>Balance, December 31, 2020</b>	<b>-</b>	<b>(319,149)</b>	<b>(54,564)</b>	<b>(10,908)</b>	<b>(384,621)</b>
Depreciation for the year	-	(1,301,987)	(31,545)	-	(1,333,532)
<b>Balance, December 31, 2021</b>	<b>\$ -</b>	<b>\$(1,621,136)</b>	<b>\$ (86,109)</b>	<b>\$ (10,908)</b>	<b>\$(1,718,153)</b>

Carrying amount	Buildings and improvements	Data miners	Equipment	Computers	Total
<b>Balance, December 31, 2020</b>	<b>\$ -</b>	<b>\$ 269,946</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 269,946</b>
<b>Balance, December 31, 2021</b>	<b>\$ -</b>	<b>\$ 3,928,205</b>	<b>\$ 779,819</b>	<b>\$ -</b>	<b>\$ 4,708,024</b>

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 consolidated statement of loss and comprehensive loss.



**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

**10. Right-of-use assets**

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

	As at December 31, 2021	As at December 31, 2020
<b>Balance, beginning of year</b>	\$ 101,871	\$ 240,478
Depreciation	(67,914)	(67,914)
Disposal of lease	-	(70,693)
Addition	189,902	-
<b>Balance, end of year</b>	\$ 223,859	\$ 101,871

**11. Lease liabilities**

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

	<b>Buildings</b>
<b>Balance, December 31, 2019</b>	\$ -
Additions	244,906
Interest expense	15,791
Lease payments	(121,020)
<b>Balance, December 31, 2020</b>	<b>139,677</b>
Interest expense	7,131
Lease payments	(109,736)
Addition	189,902
<b>Balance, December 31, 2021</b>	<b>\$ 226,974</b>

	As at December 31, 2021	As at December 31, 2020
Short-term lease expense	\$ 37,071	\$ 102,142
Long-term leases liabilities	189,903	37,535
	\$ 226,974	\$ 139,677

	Under 1 year	Between 1 - 2 years	Between 3 - 5 years	Over 5 years	Total
Buildings	\$ 37,071	\$ 189,903	\$ -	\$ -	\$ 226,974
<b>Total</b>	<b>\$ 37,071</b>	<b>\$ 189,903</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 226,974</b>

As at December 31, 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 December 31, 2021, the Company did not have any short-term leases. As at December 31, 2020, the Company had one short-term lease which has been accounted for as an operating lease. As at December 31, 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.

**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

**11. Lease liabilities (continued)**

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

**12. Investments**

	December 31, 2021		December 31, 2020	
	Number of shares	Estimated fair market value	Number of shares	Estimated fair market value
Workspport Ltd. (i)	271,215	41,606	271,215	51,106
Payfare Inc. (ii)	-	-	333,334	183,334
Advantagewon Oil Corp. (iii)	-	-	-	1,293
Cheetah Canyon Resources Corp.	1,698,850	-	1,698,850	-
Chess Supersite Corp	300,000	2,853	300,000	5,347
Eastwest Bioscience Inc.	658,182	13,164	658,182	13,164
Astro Airspace Ltd	500,000	37,442	500,000	124,137
Hemp Inc.	24,000,000	54,769	24,000,000	128,339
<b>Total investments</b>		<b>\$ 149,834</b>		<b>\$ 506,720</b>

**Classification**

Short-term investments	149,834	506,720
<b>Total investments</b>	<b>\$ 149,834</b>	<b>\$ 506,720</b>

**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

**12. Investments (continued)**

- (i) During the year ended December 31, 2019, Workspoint Ltd. completed a reverse 6:1 stock split. As such, the Company owned 271,215 shares of Workspoint Ltd.

As at December 31, 2021, Workspoint Ltd's quoted share price was USD\$2.420 (\$3.068). As a result, an unrealized loss \$9,500 was recorded for the year ended December 31, 2021 (year ended December 31, 2020 – unrealized loss of \$36,034).

- (ii) 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.
- (iii) 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 December 31, 2021, these warrants have expired.

**13. Accounts payable and accrued liabilities**

	As at December 31, 2021	As at December 31, 2020
Trade and other payables	\$ 7,495	\$ 122,880
Accrued liabilities	978,810	230,388
Other payables	12,330	444
<b>Total</b>	<b>\$ 998,635</b>	<b>\$ 353,712</b>

During the year ended December 31, 2021, the Company wrote down stale dated accounts payable in the amount of \$69,674 (year ended December 31, 2020 - \$nil)

**14. Mortgages payable**

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

On July 31, 2020, the Company sold the Madoc Self Storage for \$42,653 in cash, as disclosed in Note 9.

**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

**15. Warrant liability**

For the year ended December 31, 2021, the Company has completed the following issuances of warrants:

Closing date	October 13, 2021
Warrants issued	10,077,522
Warrants exercised	\$ 0.430
Fair value of warrants issued	\$ 0.270
Warrant term	60 months
Warrant valuation assumptions	
Valuation model	Black-Scholes
Weighted average risk free interest rate	1.11 %
Estimated common share weighted average price volatility	174.80 %
Expected dividend yield	nil %
Estimated weighted average life in years	5.00

Details related to the warrant liability are summarized below.

	Number of warrants	Amount
<b>Balance, December 31, 2020</b>	-	\$ -
Issued	10,077,552	2,747,609
Fair value adjustment	-	(206,374)
<b>Closing balance</b>	<b>10,077,552</b>	<b>\$ 2,541,235</b>

The Company recorded a non-cash gain on the revaluation of warrant liability of \$206,374 during the year ended December 31, 2021.

The Black-Scholes model and the inputs used in determining the values of the warrants prior to the derecognition of financial liability warrants are as follows:

	As at December 31, 2021
Common share market price	\$ 0.270
Weighted average risk free interest rate	1.11 %
Estimated common share weighted average price volatility	176.85 %
Expected dividend yield	nil %
Estimated weighted average life in years	4.75

**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

**16. Loans payable**

	December 31, 2021	December 31, 2020
<b>Balance, beginning of year</b>	<b>\$ 151,722</b>	<b>\$ 37,867</b>
Interest	178	2,610
Repayments	(32,955)	(7,700)
(Repayment) / Proceeds for CEBA loans	(28,945)	118,945
Forgiveness as per CEBA loan agreement	(20,000)	-
<b>Balance, end of year</b>	<b>\$ 70,000</b>	<b>\$ 151,722</b>
<b>Classification:</b>		
	December 31, 2021	December 31, 2020
Short-term loans payable	\$ -	\$ 6,515
Long-term loans payable	70,000	145,207
<b>Total loans payable</b>	<b>\$ 70,000</b>	<b>\$ 151,722</b>

**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 year ended December 31, 2021, the Company repaid \$28,945 and recorded \$20,000 as gain on debt forgiveness in the consolidated statements of loss.

Subsequent to year-end, the Government of Canada announced that the deadline to repay loans under the Canada Emergency Business Account program would be extended by one year (that is from December 31, 2022 to December 31, 2023). As of January 1, 2024, the loan balance will bear interest at 5% and will be repayable on maturity on December 31, 2025.

**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 December 31, 2021, the loan has been fully repaid and the carrying value of loan is \$nil (December 31, 2020 - \$32,777).

**17. Share capital**

As at December 31, 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.

**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

**17. Share capital (continued)**

a) Preferred shares

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

- (i) During the year ended December 31, 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 year ended December 31, 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.

**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 7). 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 December 31, 2021.

<b>Class B</b>	<b>Number of common shares</b>	<b>Amount</b>
<b>Balance, December 31, 2019, December 31, 2020 and December 31, 2021</b>	<b>1,250</b>	<b>\$ 12,500</b>

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.

**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

**17. Share capital (continued)**

Common shares (continued)

	Number of common shares	Amount
<b>Balance, December 31, 2019</b>	<b>16,553,831</b>	<b>\$ 12,504,865</b>
Common shares issued (i)	9,293,611	1,010,250
Value of warrants granted (i)	-	(489,720)
Cost of issue (i)	-	(15,000)
Common shares issued for debt (iii)	1,955,622	301,962
Share-based compensation (v)	41,667	4,375
<b>Balance, December 31, 2020</b>	<b>27,844,731</b>	<b>\$ 13,316,732</b>
Common shares issued (ii)	17,534,301	6,851,851
Value of warrants granted (ii)	-	(2,963,340)
Cost of issue (ii)	-	(263,908)
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
<b>Balance, December 31, 2021</b>	<b>49,956,814</b>	<b>\$ 18,909,602</b>

(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.

On December 4, 2020, the Company closed a non-brokered private placement raising gross proceeds of \$805,750 through the issuance of 8,952,778 units at \$0.09 per unit. 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 \$0.15 for a period of 36 months from the closing date. The fair value of the 8,952,778 warrants was estimated as \$389,199 using the Black-Scholes option pricing model with the following assumptions: 240% expected volatility; a risk-free interest rate of 0.32%; an expected dividend yield of Nil%; and 36 months expected term.

A total of \$15,000 of share issue costs were incurred in relation to the common shares issued above.

(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 \$nil.

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**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

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**17. Share capital (continued)**

b) Common shares (continued)

(ii) Common shares issued - 2021 (continued)

The Company incurred total of \$139,848 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 \$78,188 using the Black-Scholes option pricing model with the following assumptions: 200% expected volatility; a risk-free interest rate of 0.20%; an expected dividend yield of Nil%; and 36 months expected term.

In September and October 2021, the Company closed tranche 1 and 2 of a non-brokered private placement offering of 10,077,522 Units for gross proceeds of \$3,250,000. Proceeds received on the issuance of units, consisted of common shares and share purchase warrants. 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 \$2,747,609 using the Black-Scholes option pricing model with the following assumptions: 175% expected volatility; a risk-free interest rate of 1.11%; an expected dividend yield of Nil%; and 60 months expected term (Note 15). The residual amount was allocated to the common shares, net of issuances costs.

The Company incurred total of \$690,764 of share issue costs in relation to the common shares issued above. Of this amount, \$502,391 was recorded to the income statement. The Company issued 806,202 warrants to brokers. Common Share of the Company at an exercise price of \$0.43031 per Common Share for a period of 60 months. The fair value of the 806,202 warrants was estimated as \$220,238 using the Black-Scholes option pricing model with the following assumptions: 175% expected volatility; a risk-free interest rate of 1.11%; an expected dividend yield of Nil%; and 60 months expected term.

On December 30, 2021, the Company closed tranche 1 of a non-brokered private placement offering for 2,308,000 Units for gross proceeds of \$577,000. 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 \$0.40 per Common Share for a period of 60 months from the closing of the financing. The fair value of 2,308,000 warrants was estimated as \$nil.

A total of \$10,600 of share issue costs were incurred in relation to the common shares issued above

During the year ended December 31, 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 \$203,594.



**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

**17. Share capital (continued)**

b) Common shares (continued)

(iii) Common shares issued for debt - 2020

The Company issued 1,303,334 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. The shares closing price on the date of issuance was \$0.13 per share. Therefore, the fair value of the transaction recorded in equity is \$18,055 and a gain on shares of \$6,945 was recorded in the consolidated statements of loss.

See Note 7 with regards to an additional 513,400 common shares issued in the year ended December 31, 2021 in connection to the transfer ownership of its loan portfolio to the holder of the financial instrument.

(iv) Common shares issued for debt - 2021

The Company issued 119,048 and 19,444 common shares, as per agreements for the total accounts payable for services and compensation of \$115,750. 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 consolidated statements of loss.

- (v) During the year ended December 31, 2020, the Company issued 41,667 common shares with an estimated fair value of \$4,375 as a payment due to a former shareholder of BitBlox. The payment completed an outstanding portion due to the shareholder in regard to the transaction to purchase assets owned by Bitblox for the Company's cryptocurrency mining services. The shares closing price on the date of issuance was \$0.105 per share. Therefore, the fair value of the transaction recorded as share based compensation is \$4,375.

**18. Warrant reserve**

	Number of warrants	Fair value of warrants	Weighted average exercise price
<b>Balance, December 31, 2019</b>	<b>7,071,402</b>	<b>\$ 1,339,675</b>	<b>\$ 0.62</b>
Issued (note 17)	9,293,611	489,719	0.18
Expired	(2,832,153)	(668,525)	(1.21)
<b>Balance, December 31, 2020</b>	<b>13,532,860</b>	<b>\$ 1,160,869</b>	<b>\$ 0.40</b>
Issued (notes 17 and 18(i))	11,606,101	2,929,910	0.63
Expired	(3,444,960)	(560,635)	0.90
Exercised	(2,394,289)	(175,047)	0.40
<b>Balance, December 31, 2021</b>	<b>19,299,712</b>	<b>\$ 3,355,097</b>	<b>\$ 0.50</b>

- (i) On April 6, 2021, the Company granted 3,250,000 bonus warrants to officers and consultants at an exercise price of \$0.81 for a period of 3 years from the date of issuance. The estimated fair value of the warrants at the grant date was \$2,415,750 using the Black-Scholes option pricing model. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model were as follows: dividend yield 0%, expected annual volatility of 200%, risk free rate of return of 0.50% and an expected life of 3 years.

**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

**18. Warrants reserve (continued)**

The following table reflects the warrants issued and outstanding as of December 31, 2021:

<b>Expiry date</b>	<b>Number of warrants</b>	<b>Grant date fair value</b>	<b>Exercise price</b>
April 15, 2022	340,833	\$ 105,547	\$ 0.08
February 1, 2023	7,352,778	319,642	0.15
January 15, 2024	4,459,120	78,188	1.00
March 11, 2024	376,667	-	0.90
March 11, 2024	128,000	37,738	2.00
April 6, 2024	3,250,000	2,415,750	0.81
April 8, 2024	278,112	177,994	1.50
September 29, 2026	806,202	220,238	0.40
December 30, 2024	2,308,000	-	0.40
	<b>19,299,712</b>	<b>\$ 3,355,097</b>	<b>\$ 0.50</b>

**19. 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.

During the year ended December 31, 2021, \$2,451,000 (year ended December 31, 2020 - \$174,000) of stock-based compensation was recorded in the consolidated statement of loss for 4,625,000 stock options (year ended December 31, 2020 - 1,400,000 ) 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.

**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

**19. Contributed surplus (continued)**

a) Shared-based compensation (continued)

Employee share option plan (continued)

	Number of stock options	Fair value of stock options	Weighted average exercise price
<b>Balance, December 31, 2019</b>	<b>1,062,500</b>	<b>\$ 424,600</b>	<b>\$ 0.78</b>
Granted	1,400,000	174,000	0.15
Price amendment (i)	-	16,470	-
<b>Balance, December 31, 2020</b>	<b>2,462,500</b>	<b>\$ 615,070</b>	<b>\$ 0.28</b>
Granted	4,625,000	2,451,000	0.57
Expired	(183,333)	(38,970)	0.66
Exercised	(2,045,001)	(411,697)	0.15
<b>Balance, December 31, 2021</b>	<b>4,859,166</b>	<b>\$ 2,615,403</b>	<b>\$ 0.33</b>

The fair value of share price at the time of exercise ranged between \$0.12 and \$1.38

The following table reflects the actual stock options issued and outstanding as of December 31, 2021:

Expiry date	Exercise price (\$)	Estimated fair value at grant date	Number of options outstanding and exercisable	Fair value price (\$)	Expected volatility	Expected life (years)	Expected dividend yield	Risk-free interest rate
November 20, 2023	0.25	37,000	300,000	0.12	197%	3	0%	0.30%
January 4, 2024	0.60	365,000	600,000	0.63	201%	3	0%	0.33%
January 18, 2024	0.60	1,355,000	1,625,000	0.86	200%	3	0%	0.20%
July 6, 2024	0.50	694,000	2,100,000	0.45	199%	3	0%	0.66%
September 4, 2024	0.15	38,000	83,333	0.46	188%	5	0%	1.85%
October 18, 2024	0.15	12,743	63,333	0.20	228%	3.9	0%	0.38%
May 5, 2026	1.44	98,160	70,833	1.39	143%	10	0%	0.98%
June 19, 2027	1.20	15,500	16,667	0.93	131%	10	0%	1.54%
		<b>\$ 2,615,403</b>	<b>4,859,166</b>					

Expected volatility is an average of the Company's share price volatility, which is a measure of the amount by which price has fluctuated during an observed period. The observed period should be the same as the expected life of an option.

**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

**20. General and administrative**

	Year Ended December 31, 2021	Year Ended December 31, 2020
Management fees (note 22)	\$ 747,668	\$ 380,834
Loan interest and fees	7,309	45,379
Consulting and other professional fees (note 22)	78,352	147,601
General and administration	127,308	24,540
Marketing and investor relations	404,468	69,347
Travel and accommodations	13,615	8,517
Legal and audit	430,325	98,995
Transfer agent and filing fees	94,706	51,887
Non-recoverable input tax credits	101,208	173,589
Depreciation and amortization (note 9)	-	117
<b>Total operating expenses</b>	<b>2,004,959</b>	<b>1,000,806</b>

**21. Basic and diluted loss per share**

The calculation of basic and diluted loss per share for the year ended December 31, 2021, was based on the loss attributable to common shareholders of \$6,299,986 (year ended December 31, 2020 - \$1,504,586) and the weighted average number of common shares outstanding of 38,772,639 (year ended December 31, 2020 - 18,861,730). Diluted loss per share did not include the effect of 19,299,712 warrants or 4,859,166 stock options for the year ended December 31, 2021 (year ended December 31, 2020 - 13,532,860 warrants or 2,462,500 stock options) as their effect is anti-dilutive.

**22. 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:

	Year Ended December 31, 2021	2020
Bitblox Technologies Inc.	-	230,000

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

	Year Ended December 31, 2021	2020
Management fees	\$ 667,121	\$ 838,600
Consulting and other professional fees	69,124	
Share-based payments	1,944,769	-
	<b>\$ 2,681,014</b>	<b>\$ 838,600</b>

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**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

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**23. Capital management**

The Company considers its capital to be shareholders' equity, which is comprised of preferred shares, common shares, units to be issued, contributed surplus, warrants and deficit. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company's objective when managing capital are:

- a) to allow the Company to respond to changes in economic and/or marketplace conditions by maintaining growth of the Company's business through organic growth and new acquisitions;
- b) to give shareholders sustained growth in value by increasing shareholders' equity; while
- c) taking a conservative approach towards financial leverage and management of financial risks.

The Company's management reviews its capital structure on an on-going basis and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying investments. The Company's current capital is composed of its shareholders' equity and, to-date, has adjusted or maintained its level of capital by:

- a) raising capital through equity financing's; and
- b) realizing proceeds from the disposition of its investments

The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through equity capital raised by way of private placements. There can be no assurance that the Company will be able to continue raising equity capital in this manner.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company invests all capital that is surplus to its immediate operational needs in short term, liquid and highly rated financial instruments, such as cash, and short term guarantee deposits, all held with major Canadian financial institutions. The Company and its subsidiaries is not subject to externally imposed capital requirements. There were no significant changes in the Company's approach to capital management during the years ended December 31, 2021 and 2020

**24. Financial instruments and fair value risk management**

Financial assets and financial liabilities as at December 31, 2021 and 2020 are as follows:

The Company has notes receivable outstanding and a significant portion of the Company's assets are currently comprised of financial instruments which can expose it to several risks, including market, liquidity, and credit risks. There have been no changes in the risks, objectives, policies and procedures during the years ended December 31, 2021 and 2020.

The Company is exposed through its operations to the following financial risks:

- ◆ Market risk, which include currency risk, other price risk and digital currency risk
- ◆ Liquidity risk
- ◆ Credit risk

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**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

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**24. Financial instruments and risk management (continued)**

Other price risk

The Company is exposed to other price risk in trading its investments and unfavourable market conditions could result in dispositions of investments at less than favourable prices. The Company mitigates this risk by attempting to have a portfolio which is not singularly exposed to any one issuer, with exception to the Company having two positions as at December 31, 2021 which made up of approximately 37% and 28% (December 31, 2020 – 38% and 23%) of the total equity portfolio. (See Note 12).

For the year ended December 31, 2021, the effect on earnings before tax of a 10% increase or decrease in the closing price of this investments at the financial position date is \$51,000 (December 31, 2020 - \$53,000), with all other variables held constant.

Digital currency risk

The Company is exposed to risk with respect to cryptocurrency prices and valuations which are largely based on the supply and demand of these digital currencies and their acceptance in the financial market.

Digital currency 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 Company is directly related to the current and future market price of digital currencies; in addition, the Company may not be able liquidate its holdings of digital currencies at its desired price if required. A decline in the market prices for digital currencies could negatively impact the Company's future operations. The Company has not hedged the conversion of any of its sales of digital currencies.

Digital currencies have a limited history and the fair value historically has been very volatile. Historical performance of digital currencies is not indicative of their future price performance. The Company's digital currencies currently consist of bitcoin and ethereum

At December 31, 2021, had the market price of the Company's holdings of bitcoin and ethereum increased or decreased by 5%, with all other variables held constant, the corresponding asset value increase or decrease respectively would amount to \$120,000

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage. As at December 31, 2021, the Company's current liabilities totaled \$1,035,706 (2020 - \$462,369) and cash totaled \$854,233 (2020 - \$1,075,495). The Company generates cash flow from digital mining services.

The Company 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 Company will be able to continue to meet its current obligations. See Note 1.

**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

**24. Financial instruments and risk management (continued)**

Liquidity risk (continued)

The following is a summary of the Company's material contractual obligations (representing undiscounted contractual cash flows):

	<b>Carrying amount</b>	<b>Contractual cash flow</b>	<b>Year 1</b>	<b>Year 2 - 3</b>	<b>Year 4 - 5</b>	<b>Greater than 5 years</b>
Accounts payable and accrued liabilities	\$ 998,635	\$ 998,635	\$ 998,635	\$ -	\$ -	\$ -
Leases liabilities	226,974	37,942	37,942	-	-	-
Loans payable	70,000	60,000	60,000	-	-	-
<b>Total</b>	<b>\$ 1,295,609</b>	<b>\$ 1,096,577</b>	<b>\$ 1,096,577</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts and other receivables due from subscription receipts and notes receivable.

Security was obtained against specific assets of the counterparty, in case of non-performance on the notes receivable. The total carrying value of these financial instruments at December 31, 2021 was \$nil (December 31, 2020 - \$nil). One lender make up 100% of the Company's notes receivable balance at December 31, 2021 (December 31, 2020 - one lender makes up 79%). Management considered the potential impairment of loans and receivables and recorded an impairment for the years ended December 31, 2021 and 2020.

Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and a portion of its cash, investments and accounts payable 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 Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

The effect on earnings before tax of a 10% strengthening or weakening of the CAD exchange rate at the balance sheet date for financial instruments denominated in USD, with all other variables held constant, is approximately \$14,000 (\$95,000 - December 31, 2020).

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Cash value in USD	\$ 4,389	8,088
Cash held in CAD	5,564	10,298
Investments in USD	107,801	242,640
Investments in USD	136,670	308,929
Accounts payable and accruals in USD	-	(13,697)
Accounts payable and accruals in CAD	-	(17,437)

**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

**24. Financial instruments and risk management (continued)**

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 and other receivables, and accounts payable and accrued liabilities and mortgages payable approximate their fair values due to the short-term nature of these instruments.
- ii. The fair value of notes receivable and loans payable approximate their carrying amounts based on actualized cash flows (level 2)

IFRS 13 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value as follows:

- ♦ Level 1 – Value based on unadjusted quoted prices in active markets for identical assets or liabilities;
- ♦ Level 2 – Valuation techniques based on inputs other than quoted prices that are observable for assets or liabilities, either directly (ie. as prices) or indirectly (i.e. derived from prices); and
- ♦ Level 3 – Valuation techniques using inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

The following table illustrates the classification and hierarchy of the Company's financial instruments, measured at fair value in the consolidated statements of financial position as at December 31, 2021 and 2020:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Publicly traded investments	\$ 149,834	\$ -	\$ -	\$ 149,834
Loans payable	-	70,000	-	70,000
<b>December 31, 2021</b>	<b>149,834</b>	<b>-</b>	<b>-</b>	<b>149,834</b>

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Publicly traded investments	\$ 15,663	\$ 307,723	\$ -	\$ 323,386
Private investments	-	-	183,334	183,334
<b>December 31, 2020</b>	<b>15,663</b>	<b>307,723</b>	<b>183,334</b>	<b>506,720</b>

*Level 2 Hierarchy*

Warrants or options of publicly-traded securities which do not have a quoted price are carried at an estimated fair value calculated using the Black-Scholes option pricing model if sufficient and reliable observable market inputs are available. If no such market inputs are available or reliable, the warrants and options are valued at intrinsic value.

*Level 3 Hierarchy*

The following table presents the changes in fair value measurements of financial instruments classified as Level 3 for the years ended December 31, 2021 and 2020. These financial instruments are measured at fair value utilizing non-observable market inputs. The net realized losses and net unrealized gains are recognized in the consolidated statements of loss.



**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

**24. Financial instruments and risk management (continued)**

Fair value of financial instruments (continued)

*Level 3 Hierarchy (continued)*

<b>Investments classified as Level 3, fair value</b>	<b>Year Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Balance, beginning of period	\$ 183,334	\$ 50,000
Purchase at cost - shares	-	200,000
Impairment	-	(200,000)
Disposal of shares	(319,149)	-
Gain on disposal of shares	269,149	-
Adjustment to fair value	(133,334)	133,334
	-	183,334

Within Level 3, the Company includes private company investments which are not quoted on an exchange. The key assumptions used in the valuation of these instruments include (but are not limited to) the value at which a recent financing was done by the investee, company-specific information, trends in general market conditions and the share performance of comparable publicly-traded companies. The fair values of all of the private company investments held by the Company were determined by recent financing's done by the investee.

**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

**25. Income taxes**

The income tax expense attributable to income differs from the amounts computed by applying the combined federal and provincial income tax rate of 26.5% (26.6% as at December 31, 2020) to loss before income taxes as a result of the follows:

	<b>Year Ended</b>	
	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Net loss before income taxes	\$ (6,305,720)	\$ (1,631,538)
Expected income tax recovery based on statutory rate	(1,671,016)	(432,000)
Adjustment to expected income tax benefit:		
Share-based payments	1,311,527	52,000
Non-deductible expense (non-taxable income)	(75,523)	18,000
Change in benefit of tax assets not recognized	378,052	214,000
True-up and other	(8,520)	148,000
Deferred income tax provision (recovery)	\$ (65,480)	\$ -

**Composition of deferred income taxes in the income statement**

	<b>2021</b>	<b>2020</b>
Origination and reversal of temporary differences	\$ (213,033)	\$ -
Benefit arising from previously unrecognized temporary differences and tax losses.	278,513	-
	\$ 65,480	\$ -

**Movement of deferred income tax in 2021**

	<b>December 31, 2020</b>	<b>Profit and loss</b>	<b>Other comprehensive loss</b>	<b>December 31, 2021</b>
Property plant and equipment	\$ -	\$ (153,710)	\$ -	\$ (153,710)
Right-of-use assets	-	(59,323)	-	(59,323)
Digital assets	-	-	(65,480)	(65,480)
Non capital losses	-	278,513	-	278,513
	-	65,480	(65,480)	-

**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

**25. Income taxes (continued)**

As at December 31, 2021, deductible timing differences for which the company has not recognized deferred tax asset are as follows:

	<b>2021</b>	<b>2020</b>
Property plant and equipment	\$ 9,528,000	\$ 7,565,000
Share issue costs	663,000	214,000
Right-of-use assets	-	9,000
Mineral property costs	-	783,000
Capital losses	117,000	117,000
Investments	2,418,000	2,231,000
Lease liability	173,000	155,000
	<b>\$ 12,899,000</b>	<b>\$ 11,074,000</b>

The ability to realize the tax benefits is dependent upon a number of factors, including the future profitability of operations. Deferred tax assets are recognized only to the extent that it is probable that sufficient taxable profits will be available to allow the asset to be recovered. Accordingly, some deferred tax assets have not been recognized, these deferred tax assets not recognized equal an amount of \$12,899,000(\$11,074,000 as at December 31, 2020).

**26. Supplement cashflow information**

	<b>Year Ended December 31, 2021</b>	<b>Year Ended December 31, 2020</b>
Common shares issued for debt settlement		15,001
Units for preferred shares	835,170	204,500
Common for pref shares to be received	-	329,057
Shares for equipment	-	230,000
Reclass FV of warrants on private placement	-	389,199
Reclass FV of expired warrants	560,635	688,525

**27. Commitments and contingent liabilities**

The Company is party to certain management contracts. These contracts contain aggregate minimum commitments of approximately \$360,000 (December 31, 2020 - \$360,000). As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements.

The Company 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 Company 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 Company be unsuccessful in its defence or settlement of one or more of legal actions or other claims, there could be a materially adverse effect on the Company's financial position, future expectations, and cash flows.

**Bluesky Digital Assets Corp.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended December 31, 2021 and 2020**  
**(Expressed in Canadian Dollars)**

**27. Commitments and contingent liabilities (continued)**

Subsequent to the year ended December 31, 2021, the Company received an reassessed of GST returns filed for the period from January 1, 2017 to March 31, 2019 in the amount of \$121,374 from Canada Revenue Agency. The Company is in the process of appealing the reassessment.

**28. Reclassification of prior year property, plant and equipment**

Certain Company's comparative figures have been reclassified to conform to the presentation adopted in 2021. The Company reclassified the right of use assets that had previously been included in property, plant and equipment for 2020 to a separate line item in the statement financial position for 2021.

<b>Period ended December 31, 2020</b>	<b>Previously reported</b>	<b>Reclass</b>	<b>Reclassified</b>
Property, plant and equipment	\$ 371,817	\$ (101,871)	\$ 269,946
Right of use assets	-	101,871	101,871

**29. Subsequent event**

Subsequent to the year ended December 31, 2021, the Company closed tranche 2 and final tranche of its non-brokered private placement financing. The Company raised \$1,231,250.00 via the sale of 4,925,000 Units in the second tranche. All Units were offered at a price of \$0.25 CAD per Unit. Each Unit consisted of one Common Share (a "Share") in the capital of the Corporation and one Common Share Purchase Warrant ("Warrant"), with each Warrant entitling the holder thereof to purchase one additional Common Share of the Corporation at an exercise price of \$0.40 per Common Share for a period of 36 months from the closing of the financing. The Warrants in this offering will be subjected to an accelerated expiry date if certain market conditions occur which are outlined in the Corporation's subscription document.

In connection with the closing, the Company paid a combined total of \$115,900.00 in finders fees and issued 463,600 Broker Warrants. The Broker Warrants were issued on the same terms as the Warrants contained in the Units of this offering.

Subsequent to the year ended December 31, 2021, the Company entered into a hosting agreement to commence additional mining operations in the State of Texas. The Corporation paid US\$223,992 to secure the first, eleventh and twelfth months of the hosting agreement.

Subsequent to the year ended December 31, 2021, the Company issued 1,500,000 Performance Warrants to Directors and Management of the Corporation. Each Warrant entitles the holder the ability to purchase 1 additional Common Share for \$0.24 for 36 months after the date of issuance. These warrants was repriced in February 2022 to \$0.17 per Performance Warrants that entitles the holder the ability to purchase 1 additional Common Share for \$0.17 for 36 months after the date of issuance.

Subsequent to the year ended December 31, 2021, the Company, re-priced 3,250,000 Performance Warrants that were previously issued in fiscal 2021 to Consultants, Management and Directors of the Corporation. The Corporation re-priced the warrants from \$0.81 per Performance Warrants to \$0.17 per Performance Warrants.

Subsequent to the year ended December 31, 2021, the Company acquired \$1,000,000 worth of ASIC and GPU mining rigs from Monbanc Corporation ("Monbanc") in exchange for 6,060,606 Common Shares of the Company at a price of \$0.165 per Common Share. The Company also entered into a Joint Venture Agreement with Monbanc and acquired a 50% working interest in a 1MW Bitmain Antbox Liquid Cooling System which houses a combined 195 S19 Pro+ Hyd ASIC Miners. The Company paid \$899,605 (US\$714,880) for its portion of the equipment / 50% working interest.

Bluesky Digital Assets Corp.  
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