

# **BLUE SKY URANIUM CORP.**

*(formerly Mulligan Capital Corp.)*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED JUNE 30, 2008**

### **Introduction**

The following management discussion and analysis of the financial position and results of operation is prepared as of August 28, 2008 and should be read in conjunction with the Company's unaudited interim consolidated financial statements for the six months ended June 30, 2008 and 2007 and audited annual consolidated financial statements and related notes for the years ended December 31, 2007 and 2006. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Except as otherwise disclosed, all dollar figures included therein and in the management discussion and analysis ("MD&A") are quoted in Canadian dollars. Additional information relevant to the Company's activities, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Forward Looking Statements**

Certain of the statements made and information contained herein is "forward- looking information" within the meaning of the Ontario Securities Act. Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation, risks and uncertainties relating to foreign currency fluctuations; risks inherent in mining including environmental hazards, industrial accidents, unusual or unexpected geological formations, risks associated with the estimation of mineral resources and reserves and the geology, grade and continuity of mineral deposits; the possibility that future exploration, development or mining results will not be consistent with the Company's expectations; the potential for and effects of labour disputes or other unanticipated difficulties with or shortages of labour; the inherent uncertainty of future production and cost estimates and the potential for unexpected costs and expenses, commodity price fluctuations; uncertain political and economic environments; changes in laws or policies, foreign taxation, delays or the inability to obtain necessary governmental permits; and other risks and uncertainties, including those described under Risk Factors Relating to the Company's Business in the Company's Annual Information Form that can be found on the SEDAR website and in each MD&A. Forward-looking information is, in addition, based on various assumptions including, without limitation, the expectations and beliefs of management, the assumed long term price of uranium; that the Company can access financing, appropriate equipment and sufficient labour and acquire all government permits and licenses to extract uranium. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements.

### **Future Outlook**

The Company has identified several potential Joint Venture Partners to invest in one or more of the Company's uranium properties in Argentina.

On February 27, 2008, the Company entered into a Letter of Agreement to acquire 100% of the shares of Argentina Uranium Corp., thereby gaining control of over a 500,000 plus hectare uranium land package in Argentina. With this acquisition, the Company will become one of the largest uranium explorers in Argentina. On July 8, 2008, the Company completed the acquisition of 100% of the shares of Argentina Uranium Corp by issuing 8.295 million shares at a deemed price of \$0.30 per share.

### **Company Overview**

The interim consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The going concern basis of presentation assumes the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Company has incurred significant losses and negative cash flow from operations since inception. The Company has funded operations through equity financings and without additional future financings there is substantial doubt concerning the Company's ability to continue as a going concern.

Management intends to raise further financing in the future. There can be no assurance that future financing can be successfully concluded. These consolidated financial statements do not reflect adjustments to the carrying value of assets and liabilities, the reported income and expenses and balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

The Company was incorporated under the Business Corporations Act (British Columbia) on November 30, 2005 as Mulligan Capital Corp. The Company's registered and head office is located at Suite 709, 837 West Hastings Street, Vancouver, British Columbia, V6C 3N6.

On May 18, 2006, the Company received final receipts for a prospectus and became a reporting issuer in the Provinces of British Columbia and Alberta. On June 27, 2006, the Company completed its initial public offering (the "Offering") to raise \$250,000 and on June 28, 2006, listed its common shares on the TSX Venture Exchange ("TSX-V") as a capital pool company.

On August 21, 2006 and December 14, 2006, the Company and Eagle Plains Resources Ltd. ("Eagle Plains") executed an option agreement (the "Eagle Lake Option Agreement") whereby Eagle Plains granted an option to the Company to earn a 60% interest in Eagle Plains' 100% owned Eagle Lake Property located 28 km southeast of Cameco's Key Lake mining operation in north-central Saskatchewan, Canada. The Eagle Lake Option Agreement qualified as the Company's qualifying transaction. On February 7, 2007, the Company's listing was upgraded to Tier II status on the TSX-V. The Company also changed its name to Blue Sky Uranium Corp. On February 14, 2007 the Company entered into an agreement with Eagle Plains to earn a 60% interest in the Karin Lake Property located adjacent to the Eagle Lake Property. On August 22, 2008, the Company terminated its option on the Eagle Lake Property and Karin Lake Property.

On February 27, 2008 the Company announced it had signed a Letter of Intent ("LOI") with Argentina Uranium to acquire all of the issued and outstanding shares of Argentina Uranium for 8.295 million shares. On July 8, 2008, the Company issued 8.295 million shares at a deemed price of \$0.30 per share in exchange for 100% of the issued shares of Argentina Uranium.

The Company has incorporated an Argentinean subsidiary Minera Cielo Azul S.A. and Blue Sky Uranium (BVI) in the British Virgin Islands.

## **Properties**

### ***Canada***

#### ***Eagle Lake and Karin Lake Projects, Saskatchewan***

The Eagle Lake and Karin Lake Projects are two adjacent properties located in north-central Saskatchewan, approximately 190km north of La Ronge and 45 kms southeast of Cameco's Key Lake uranium mine. The Company is earning a 60% interest in the projects which cover 69,000 hectares. The option agreements are detailed below.

In 2006, the Company optioned from Eagle Plains a 60% interest in the 8,165 hectare Eagle Lake uranium property. Under terms of the Eagle Lake Option Agreement, the Company paid \$35,000 cash and is required to incur \$5,000,000 in exploration expenditures by February 7, 2011 and issue a total of 1,000,000 common shares (400,000 shares issued) to Eagle Plains. A 1% royalty has been reserved for a third-party individual, and may be purchased at any time for \$1,000,000. In February 2007 the Company paid \$73,779 to Eagle Plains for its pro-rata shares of staking costs for an additional 26,000 hectares located contiguous to the Eagle Lake Property.

On February 14, 2007 the Company signed a letter of intent (the "Karin Lake LOI") with Eagle Plains under which the Company proposed, subject to final regulatory approval, to acquire an option to earn a 60% interest in three mineral tenures covering approximately 35,000 hectares located adjacent to the Eagle Lake Property in north-central Saskatchewan. Under the terms of the Karin Lake LOI the Company paid \$107,795 in cash, issue a total of 1,200,000 common shares (650,000 shares issued) and incur a total of \$2.5 million in expenditures by December 31, 2011. The May 29, 2007 option agreement received approval from the TSX-V on July 3, 2007.

The Eagle Lake property is located in a prospective uranium district containing uranium mineralization discovered by Great Plains Development Company of Canada Ltd. ("Great Plains") during the 1969 Athabasca basin uranium rush. Exploration by Great Plains between 1969 and 1971 reportedly identified a float boulder train 1.5 kilometres in length. The boulders reportedly consisted of white pegmatite with uranium stain as well as uranium/copper mineralization in

sheared graphitic material. The boulders were collected from an area adjacent to a prominent north-south-trending fault structure visible on government aeromagnetic surveys. Great Plains reported high radon gas values from both water and soil samples collected near the uraniumiferous boulder train. The bedrock source for these float boulders was not located. At the Karin Lake Property, uranium mineralization occurs both as a low-grade material in granitic pegmatites and associated granites, as well as higher-grade fracture-controlled mineralization in pegmatites and metasediments.

In the fall of 2006, the Company conducted a \$170,000 exploration program on the Eagle Lake Property that included prospecting and airborne geophysical surveying. In 2007, surface prospecting programs were carried out on the Eagle Lake and Karin Lake Properties. They included scintillometer prospecting, geological mapping and a radon soil gas survey. This exploration program identified numerous zones of interest and many potential drill targets including the Craig's Bay target which demonstrated anomalous scintillometer readings and a very large boulder train containing dozens of highly anomalous rock samples. The Craig's Bay mineral showing is located along the southeast margin of a 27 kilometre long conductive EM anomaly ring feature which lies entirely within the Karin Lake property claim area.

An 8-hole 757m drilling program was carried out during March 2008 on the Karin Lake Project. The drill program tested the Craig's Bay mineral showing along portions of a strong EM-conductor identified during the 2006 GEOTEM airborne survey. The EM conductor coincides with a >2 kilometre long pronounced topographic lineament that is associated with yellow and red stained mineralized boulders. Recent exploration along this lineament by Eagle Plains geologists has revealed an extensive anomalous outcrop area, with sample values of up to 0.18% U<sub>3</sub>O<sub>8</sub>. Analyses are awaited.

The Eagle Lake Option Agreement and the Karin Lake agreement were amended to cover the costs of the drilling program. The parties have agreed to a \$477,000 budget for the program. The Company will issue an additional 500,000 shares to cover 50% of the cost and will pay no more than \$239,000 for the remaining 50% of the drill program. The additional shares to be issued will be released at a rate of 100,000 per month beginning July 1, 2008 and ending on November 30, 2008. Expenditures by the Company on work commitments in excess of the minimum required in earlier agreements on either the Eagle Lake or Karin Lake projects can be applied against outstanding work commitments on the other project. As of June 30, 2008 the Company has paid \$351,000 in cash expenditures for the drilling program.

On August 22, 2008 the Company gave notice that it was terminating its option on the Eagle Lake Property and the Karin Lake Property. As a result, mineral property and deferred costs of \$1,991,088 were written off during the period.

The work on the property has been overseen and reviewed by C.C. (Chuck) Downie, P.Geo., a "Qualified Person" under National Instrument 43-101. Analytical results of core samples collected in the winter 2008 drilling program are expected in early summer.

## ***Colombia***

In May 2008 the Company decided to terminate its uranium exploration activities in Colombia. Options on both the Santander de Norte and Santander properties were terminated and Company operations are in the process of being liquidated. As a result, mineral property and deferred costs of \$157,303 were written off during the period.

## ***Argentina***

### ***Argentinean Properties***

On Feb, 27, 2008, the Company entered into an agreement to acquire 100% of the shares of Argentina Uranium Corp. ("Argentina Uranium"), thereby gaining control of over its 500,000 hectare uranium land package in Argentina. Argentina Uranium's land package has been assembled under the direction of Dr. Jorge Berizzo whose 22 years of experience in uranium exploration and production was obtained as a senior exploration geologist and later on as mine manager for the Argentinean National Atomic Energy Commission ("CNEA").

In April 2007 the Company announced it had signed an exclusive agreement with Argentina Uranium to review over 4,000 square kilometres of its prospective uranium properties in Argentina. The agreement granted the Company an exclusive right for 90 days to conduct due diligence and to acquire four of Argentina Uranium's projects. The Company paid US \$65,000 to Argentina Uranium for the exclusive right to acquire properties and subsequently an additional US\$25,000 to extend the time period for this review.

In September 2007 the Company contracted with New Sense Geophysics Ltd. to perform a fixed wing airborne magnetic/spectrometer survey of 3,000 km<sup>2</sup> of the Argentina Uranium claims in northern Rio Negro province. This

survey identified two highly anomalous zones of uranium mineralization which are referred to as the Santa Barbara and Anit areas. A detailed surface exploration program was developed to investigate these anomalous zones through surface sampling, spectrometer surveys, auguring and radon soil analysis. This program was flown in early 2008.

### *Santa Barbara Property*

In May 2007 the Company announced it has signed a letter of intent to earn a 75% interest in the 60,000 hectare Santa Barbara uranium property in the Province of Rio Negro, located in the northern portion of the Patagonia region of Argentina. The Santa Barbara uranium project is a new discovery made by Dr. Jorge Berizzo.

The Santa Barbara uranium property hosts Triassic-Jurassic igneous and volcanoclastic units that are overlain by sub-horizontal, Cretaceous continental sedimentary rocks. Tertiary basaltic flows partially cover the Mesozoic rocks. In general, the topography is flat with scarce and small hills interrupted by basalt plateaus. The region is semi-desert and it is characterized by sparse scrub vegetation. The uranium mineralization identified to date on the Santa Barbara property is hosted by flat lying continental fluvial Upper Cretaceous calcite-cemented conglomerate and sandstone interlayered between limonitic mudstones with high gypsum contents.

In 2007, the Company completed a phase I reconnaissance sampling and scintillometer surveying program on the Santa Barbara property. The program was designed to substantiate the information provided by Argentina Uranium and to delineate the continuity and extent of radiometric anomalies and mineralization in the area. Results from the program confirm Argentina Uranium's information. In the initial discovery area grab samples returned grades up to 13,400 ppm U. Also, preliminary prospecting traverses completed around the initial radiometric anomaly outlined a 1km long, continuous anomaly with readings >100 counts per second. Additional traverses identified 4 clusters of significant radiometric anomalies to the southwest up to 11km away from the initial discovery. The new anomalies are located along a linear northeast-southwest trending belt (or structure) that has only been partially surveyed. Although the continuity between the four anomaly clusters has not been verified, they represent an 11km long trend open in both directions.

The airborne survey identified three northeast trending zones of uranium mineralization, each approximately 11 km, 6.5km and 5km in length and varying up to 1 km in width.

The Company completed a radon soil gas survey over the three anomalous zones of uranium identified in the airborne survey. Radon ( $Rn^{222}$ ) is a radioactive decay product of naturally occurring uranium ( $U^{238}$ ) and can be used as an exploration tool to identify uranium mineralization that might not be detectable in an airborne survey. It is also highly useful in identifying geologic structures (faults) that might be responsible for localizing the uranium mineralization. Radon gas concentrations were determined at 1,672 stations along 400m-spaced survey lines over a total area of 3,200 hectares of the Santa Barbara property. High  $Rn^{222}$  concentrations closely correlate with the limits of the three airborne anomalies. Values as high as 8,900 pCi/l [330 Bq/l] were measured and 245 (or 15%) of the stations had values exceeding 2,000 pCi/l/d. Radon survey data do correspond well to those of the airborne survey. Some southern, lateral offset of zones of high  $Rn^{222}$  values of 500 - 1,000m is apparent in the northern and southern anomalies. The cause(s) of these offsets is unclear, but groundwater transport displacement or structural channelling may be possible causes.

A surface survey of the three zones of anomalous radioactivity was conducted along the 400m spaced grid with a Radiation Solutions Inc. RS-125 spectrometer to measure surface radioactivity and the abundances of uranium potassium and thorium. The uranium data closely track the airborne anomalies and define new zones along the northern edge of the airborne survey limit.

Geological mapping, auger sampling and the radon gas survey defined a new zone of uranium mineralization that is offset approximately 2 km to the north of the existing three known anomalous zones. This new zone does not display a strong radiometric footprint – either in the airborne or ground spectrometer surveys. Uranium mineralization is visible in augered holes at a depth of approximately 30cm and can increase to a measured (maximum) thickness of 2 m. Augering of saltbed (salar) deposits to a depth of 3m revealed many carbonaceous horizons, but chemical analyses of these strata identified no uranium concentrations.

Chemical analysis of rock and soil samples were been performed by SGS Del Peru S.A.C. and Alex Stewart Laboratories, both internationally recognized analytical service providers. The information above has been reviewed by Dr. Ron McMillan, P.Geo., a consultant to and director of the Company, and a Qualified Person.

With respect to regulatory matters, the Company has obtained the written consent of all landowners in the Santa Barbara project area to permit Company geologists to access the land so as to be able to undertake geological investigations.

These letters were submitted to the Rio Negro Mining authority as part of the process of granting legal title to the Company's mining claims. Environmental Assessments have also been prepared and submitted for each of the eleven mining claims.

#### *Anit Property*

As a result of the ongoing review of Argentina Uranium's properties, the Company announced in January 2008 it signed a letter of intent to earn a 75% interest in the 128,689 hectare "Anit" uranium property in the Province of Rio Negro, Argentina.

In order to earn a 75% undivided interest in the Anit property the Company must complete \$2.0 million in exploration expenditures over 4 years. As a result of the acquisition of Argentina Uranium on July 8, 2008, the Company owns 100% of the property and the terms of the Anit letter of intent are no longer applicable. Official title for the Anit exploration permits has not yet been granted. The permit applications are shown on the tenure maps for the Province of Rio Negro and are expected to be officially granted upon completion of consultation with the owners of the relevant surface rights.

The airborne radiometric survey over the Anit project identified a 15 kilometre long and up to 1.5 kilometre wide uranium anomaly. The Company's and Argentina Uranium's technical teams followed up to ground truth the anomaly and immediately located several rock samples with visible uranium mineralization along a freshly graded gravel road that intersects a portion of the anomaly. The Anit project has had no prior exploration history and represents a brand new grassroots uranium discovery.

The eastern part of the Anit anomaly was detected while flying East-West, 1-kilometre spaced flight lines and the western part was defined by North-South lines flown a few days later. Airborne uranium gamma ray spectrometry results higher than 30 counts per second (CPS) delimit the Anit anomaly. A west-northwest trending anomaly with readings over 50 CPS and up to 138 CPS represents the core of the Anit anomaly. Thorium readings are homogeneous and low (23 CPS average) throughout the Anit anomaly. Regional geologic maps (1:250,000 scale) show that early Cretaceous sandstone and conglomerate underlie the Anit anomaly. Late Tertiary and Quaternary gravel and sand deposits cover the early Cretaceous rocks. Gamma ray spectrometry results and available geologic information are consistent with a "sandstone-hosted" environment.

The 2008 exploration program on Santa Barbara and Anit properties has now started. The program includes overburden auger sampling to a depth of 3 to 5 metres, radon soil gas analyses, ground geophysics, geologic mapping, surface chip sampling from trenches and chemical analyses of augured and trench samples.

The information above has been reviewed by Dr. Ron McMillan, P.Ge., a consultant to and director of the Company, and a Qualified Person.

#### **Selected Financial Data and Second Quarter Discussion**

The following selected financial information is derived from the unaudited interim financial statements of the Company prepared in accordance with Canadian GAAP.

	2008		2007				2006	
	Jun. 30 \$	Mar. 31 \$	Dec. 31 \$	Sept. 30 \$	Jun. 30 \$	Mar. 31 \$	Dec. 31 \$	Sept. 30 \$
Revenues	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net Loss	(2,738,701)	(596,386)	(402,262)	(640,596)	(457,942)	(367,903)	(59,687)	(43,193)
Net Loss per Common Share Basic and Diluted	(0.15)	(0.03)	(0.02)	(0.04)	(0.03)	(0.03)	(0.00)	(0.01)

For the three months ended June 30, 2008, the Company recorded a net loss of \$2,738,701, an increase in loss of \$2,280,759 from the net loss of \$457,942 in the three months ended June 30, 2007. The increase in loss is primarily a result of:

- (i) General exploration increased by \$91,763 to \$180,633 in the 2008 period compared to \$88,870 in the 2007 period as the Company continues to expense costs associated with exploration that are not related to

specific projects or properties. The costs primarily relate to the Company's exploration activities in Argentina and Colombia.

- (ii) Office expense increased by \$15,482 to \$36,944 in the 2008 period compared to \$21,462 in the 2007 period as a result of increased activities.
- (iii) Professional fees increased by \$51,755 to \$63,431 in the 2008 period compared to \$11,676 in the 2007 period due to costs associated with the acquisition of Argentina Uranium.
- (iv) Salaries and benefits increased by to \$66,977 to \$130,390 in the 2008 period compared to \$63,413 in the 2007 period as a result of hiring additional staff. Salaries include an allocation of fees from Grosso Group Management Ltd. ("Grosso Group").
- (v) Stock-based compensation was \$Nil in the 2008 period compared to \$158,665 in the 2007 period as there were no options granted in the 2008 period compared to 320,000 options being granted in the 2007 period.
- (vi) Mineral properties of \$2,148,392 were written off during the 2008 period compared to \$Nil in the 2007 period. The 2008 write-off is a result of the Company terminating its option on the Eagle Lake Property and Karin Lake Property.

### **Summary of Financial Results**

For the six months ended June 30, 2008, the Company reported a consolidated loss of \$3,335,087 (\$0.19 per share), an increase of \$2,509,242 from the loss of \$825,845 (\$0.05 per share) for the six months ended June 30, 2007. The increase in the loss in 2008 period, compared to the 2007 amount, was due to a number of factors of which \$320,504 can be attributed to increases in operating expenses and by a \$2,188,738 decrease in other income items.

During the six months ending June 30, 2008 the Company capitalized \$128,508 of expenditures on the Santa Barbara property and \$64,033 on the Anit property in Argentina. See the "Exploration Projects" section above for further discussion.

### **Liquidity and Capital Resources**

The Company's cash position at June 30, 2008 was \$132,089, a decrease of \$38,967 from the December 31, 2007 balance of \$171,056. Short-term investments balance decreased to \$Nil at June 30, 2008 from \$1,541,655 at December 31, 2007. Total assets decreased to \$752,466 at June 30, 2008 from \$3,483,800 at December 31, 2007. This decrease is mainly due to the decrease in the short-term investment balance as a result of increased operating expenses and 2008 exploration expenditures and the write-off of the Eagle Lake and Karin Lake properties in Canada and the Santander and Norte de Santander properties in Colombia.

As of August 28, 2008 the Company had working capital of approximately \$388,000. The Company presently does not have adequate resources to maintain its core activities for the next fiscal year and does not have sufficient working capital to fund all its planned exploration activities. The Company will continue to rely on successfully completing additional equity financing to maintain its core activities and further exploration of its properties in the Argentina. There can be no assurance that the Company will be successful in obtaining the required financing. The failure to obtain such financing could result in the loss of the Company's interest in one or more of its mineral claims.

As the Company is an exploration stage company, revenues are limited to interest earned on cash held with the Company's financial institutions. During the six months ended June 30, 2008, the Company earned \$15,588 in interest income (2007 – \$45,285).

The Company has financed its operations through the sale of its equity securities. The Company completed a non-brokered private placement in which it issued a total of 330,000 units at \$0.30 per unit for aggregate gross proceeds of \$99,000. Each unit consisted of one common share of the Company and one half of one transferable common share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at an exercise price of \$0.40 per common share for a period of eighteen months.

On July 3, 2008, the Company closed its financing by way of short form offering document (the "Offering") as announced on June 3, 2008 and June 24, 2008, on July 3, 2008. The financing consisted of 2,247,000 units (each a

“Unit”) at a price of \$0.30 per Unit for gross proceeds of \$674,100. Each Unit consists of one common share of the Company (a “Share”) and one-half of one transferable common share purchase warrant (each whole warrant, a “Warrant”). Each Warrant entitles the holder to acquire one additional share at an exercise price of \$0.40 per share until February 5, 2010 and are transferable in accordance with the rules of the TSX Venture Exchange (the “Exchange”) and will be listed and posted for trading on the Exchange.

The Company received \$14,278 from the exercise of warrants from January 1, 2008 to June 30, 2008 (2007 - \$4,272). No options were exercised in the 2008 or 2007 periods.

The Company does not know of any trends, demand, commitments, events or uncertainties that will result in, or that are reasonably likely to result in, its liquidity either materially increasing or decreasing at present or in the foreseeable future. Material increases or decreases in liquidity are substantially determined by the success or failure of the exploration programs. The Company does not have any loans or bank debt and there are no restrictions on the use of its cash resources.

### **Operating Cash Flow**

Cash outflow from operating activities was \$1,091,719 for the six months ended June 30, 2008 compared to cash inflow of \$39,993 for the 2007 period as a result of the increase in operating activities.

### **Financing Activities**

For the six months ended June 30, 2008 the Company received \$99,000 from a private placement less share issue costs of \$2,496 and \$14,278 from the exercise of agent’s warrants. Share issue costs of \$43,110 were incurred which relate to the private placement that completed on July 3, 2008. Accordingly the share issue costs have been deferred. For the period ended June 30, 2007, the Company received \$3,304,072 from private placements less share issue costs of \$400,939.

### **Investing Activities**

Investing activities provided cash of \$988,450 during the six months ended June 30, 2008, compared to \$3,692,548 spent in the 2007 period, primarily a result of a reduction to short-term investments offset by expenditures on mineral properties.

### **Related Parties Transactions.**

Effective March 1, 2007 the Company engaged Grosso Group to provide services and facilities to the Company. The Grosso Group is a private company owned by the Company, IMA Exploration Inc. (“IMA”), Golden Arrow Resources Corporation (“Golden Arrow”) and Amera Resources Corporation, each of which owns one share. The Grosso Group provides its shareholder companies with geological, corporate development, administrative and management services. The shareholder companies pay monthly fees based upon a pro-rating of the Grosso Group’s costs including its staff and overhead costs among each shareholder company with regard to the mutually agreed average annual level of services provided to each shareholder company. During the six months ended June 30, 2008, the Company incurred fees of \$350,907 (2007 - \$104,978) from the Grosso Group: \$291,395 (2007 - \$66,273) was paid in monthly installments and \$59,512 (2007 – \$38,705) is included in accounts payable and accrued liabilities as a result of a review of the allocation of the Grosso Group costs to the member companies for the period. Prior to becoming a shareholder, the Company retained the Grosso Group’s services from October 1, 2006 to February 28, 2007, for a monthly fee of \$4,000. Accordingly, during the six months ended June 30, 2007, the Company incurred additional fees of \$8,000 from the Grosso Group.

As at June 30, 2008, a \$50,000 (2007 - \$10,000) deposit to the Grosso Group is included in prepaid expenses.

Effective May 31, 2008 Astral withdrew as a shareholder of Grosso Group and discontinued the use of the services and facilities provided.

The Company, Golden Arrow and IMA share office space and costs in Buenos Aires, Argentina and Bogota, Colombia. Effective August 1, 2008 the Company closed its operations in Colombia.

During the six months ended June 30, 2008, the Company incurred \$9,600 (2007 - \$32,258) for geological consulting services, including travel expenses, provided by a private corporation owned by a director of the Company. Of these costs \$8,000 were recorded in mineral properties and deferred costs and \$1,600 were expensed during the year.

During the six months ended June 30, 2008, the Company incurred fees and expenses of \$17,375 for consulting and management services provided by a director of the Company.

Effective May 1, 2007, the Company entered into an agreement with IMA to pay a monthly fee for the services provided IMA's Chief Executive Officer. The agreement may be terminated at any time by the Company upon 30 days written notice. For the six months ended June 30, 2008, the Company paid \$10,000 to IMA for the services. The Company terminated this agreement effective June 30, 2008.

All of the related party transactions and balances in these consolidated financial statements arose in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### **Contractual Commitments**

As of June 30, 2008, the Company did not have any option payment or expenditure commitments in relation to its mineral property projects. As a result of the acquisition of Argentina Uranium by the Company on July 3, 2008, the Company has a commitment to issue 8,295,000 million shares (issued July 8, 2008). The commitments related to the Santa Barbara and Anit options with Argentina Uranium are no longer applicable. On August 22, 2008 the Company gave notice that it was terminating its option on the Eagle Lake and Karin Lake properties. As a result, the commitments related to these agreements have not been included.

### **Critical Accounting Policies**

Reference should be made to the Company's significant accounting policies contained in Note 2 of the Company's consolidated financial statements for the period ended June 30, 2008. These accounting policies can have a significant impact on the financial performance and financial position of the Company.

### **Recent Accounting Pronouncements**

Effective January 1, 2008, new accounting standards were issued by the CICA which may impact the Company in the future as follows:

#### ***General Standards on Financial Statement Presentation***

CICA Handbook Section 1400, *General Standards on Financial Statement Presentation*, has been amended to include requirements to assess and disclose a company's ability to continue as a going concern. The changes are effective for interim and annual financial statements beginning January 1, 2008. The adoption of this standard did not have an effect on the Company for the six months ended June 30, 2008.

#### ***Capital Disclosures***

CICA Handbook Section 1535, *Capital Disclosures*, establishes standards for disclosing information about the Company's capital and how it is managed. Under this standard the Company will be required to disclose the following, based on the information provided internally to the Company's key management personnel:

- (i) qualitative information about its objectives, policies and processes for managing capital.
- (ii) summary quantitative data about what it manages as capital.
- (iii) whether during the period it complied with any externally imposed capital requirements to which it is subject.
- (iv) when the Company has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

This standard is effective for interim and annual financial statements beginning on January 1, 2008. The adoption of this change on the disclosure in the financial statements did not have an effect on the Company for the six months ended June 30, 2008.

### ***Goodwill and Intangible Assets***

CICA Handbook Section 3064, *Goodwill and Intangible Assets*, establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA withdrew EIC 27, Revenues and Expenses, during the pre-operating period. As a result of the withdrawal of EIC 27, companies will no longer be able to defer costs and revenues incurred prior to commercial production at new mine operations. The changes are effective for interim and annual financial statements beginning January 1, 2009. The Company has not yet determined the impact of the adoption of this change on the disclosure in its consolidated financial statements.

### ***Financial Instruments Disclosures***

In March 2007, the CICA issued Section 3862 *Financial Instruments – Disclosures*, and Section 3863 *Financial Instruments – Presentation*, which together comprise a complete set of disclosure and presentation requirements that revise and enhance current disclosure requirements. Section 3862, requires disclosure of additional detail by financial asset and liability categories. Section 3863, establishes standards for presentation of financial instruments and non-financial derivatives. The standard deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The adoption of this change on the disclosure in the financial statements did not have an effect on the Company for the six months ended June 30, 2008.

### ***International Financial Reporting Standards ("IFRS")***

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that the date for publicly-listed companies to use IFRS, replacing Canadian GAAP, is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

### **Use of Estimates**

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Significant areas requiring the use of management estimates relate to the determination of environmental obligations and assessment of carrying values of mineral properties and deferred costs. Actual results may differ from these estimates.

### **Mineral Properties and Deferred Costs**

Consistent with the Company's accounting policies disclosed in Note 2 of the annual consolidated financial statements, direct costs related to the acquisition and exploration of mineral properties held or controlled by the Company have been capitalized on an individual property basis. It is the Company's policy to expense any exploration associated costs not related to specific projects or properties. Management of the Company periodically reviews the recoverability of the capitalized mineral properties. Management takes into consideration various information including, but not limited to, results of exploration activities conducted to date, estimated future metal prices, and reports and opinions of outside geologists, mine engineers and consultants. When it is determined that a project or property will be abandoned or its carrying value has been impaired, a provision is made for any expected loss on the project or property. During the period ended June 30, 2008, mineral properties in the amount of \$2,148,392 were written off.

### **Financial Instruments**

The Corporation's financial instruments consist of cash, short-term investments, amounts receivable, prepaids, and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying values due to the short-term nature of these instruments.

## **Risk Factors**

The Company competes with other mining companies, some of which have greater financial resources and technical facilities, for the acquisition of mineral concessions, claims and other interests, as well as for the recruitment and retention of qualified employees.

The Company is in compliance with all material regulations applicable to its exploration activities. Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted. Before production can commence on any properties, the Company must obtain regulatory and environmental approvals. There is no assurance that such approvals can be obtained on a timely basis or at all. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations.

Some of the Company's mineral properties are located in Argentina and consequently the Company is subject to certain risks, including currency fluctuations and possible political or economic instability which may result in the impairment or loss of mining title or other mineral rights, and mineral exploration and mining activities may be affected in varying degrees by political stability and governmental regulations relating to the mining industry. For a more complete discussion of these risks and others, reference should be made to the December 31, 2007 Management Discussion and Analysis and Annual Information Form.

## **Disclosure Controls and Procedures and Internal Control over Financial Reporting**

Disclosure controls and procedures are defined under Multilateral Instrument 52-109 - Certification of Disclosure Controls in Issuers' Annual and Interim Filings ("MI 52-109") as "... controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under provincial and territorial securities legislation is recorded, processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation and include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under provincial and territorial securities legislation is accumulated and communicated to the issuer's management, including its chief executive officers and chief financial officers (or persons who perform similar functions to a chief executive officer or a chief financial officer), as appropriate to allow timely decisions regarding required disclosure". The Company has conducted a review and evaluation of its disclosure controls and procedures, with the conclusion that it has an effective system of disclosure controls, and procedures as defined under MI 52-109. In reaching this conclusion, the Company recognizes that two key factors must be, and are, present:

- a) the Company is very dependant upon its advisors and consultants (principally its legal counsel) to assist in recognizing, interpreting, understanding and complying with the various securities regulations disclosure requirements; and
- b) an active Board and management with open lines of communication.

The Company has a small staff with varying degrees of knowledge concerning the various regulatory disclosure requirements. The Company is not of a sufficient size to justify a separate department or one or more staff member specialists in this area. Therefore, the Company must rely upon its advisors and consultants to assist it and as such they form part of the disclosure controls and procedures.

Proper disclosure necessitates that one not only be aware of the pertinent disclosure requirements, but one is also sufficiently involved in the affairs of the Company and/or receives the communication of information to assess any necessary disclosure requirements. Accordingly, it is essential that there be proper communication among those people who manage and govern the affairs of the Company, this being the Board of Directors and senior management. The Company believes this communication exists.

While the Company believes it has adequate disclosure controls and procedures in place, lapses in the disclosure controls and procedures could occur and/or mistakes could happen. Should such occur, the Company would take whatever steps necessary to minimize the consequences thereof.

Management is responsible for the design of internal controls over financial reporting within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements

for external purposes in accordance with Canadian GAAP. Management has evaluated the design of the Company's internal controls and procedures over financial reporting as of the end of the period covered by the annual filings, and believes the design to be sufficient to provide reasonable assurance.

During the period ended June 30, 2008, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Investor Relations Activities**

The Company provides information packages to investors. These packages include materials filed with regulatory authorities. Additionally the Company attends investment/trade conferences and updates its website ([www.blueskyuranium.com](http://www.blueskyuranium.com)) on a continuous basis.

### **Outstanding Share Data**

The Company's authorized share capital is an unlimited number of common and preferred shares without par value. As of June 30, 2008, there were 18,403,000 outstanding common shares and 1,685,000 stock options, which were outstanding and exercisable, with exercising prices ranging between \$0.10 and \$1.00. In addition, there were 1,977,000 warrants outstanding, with exercise prices ranging between \$1.00 and \$1.30.

As of August 28, 2008, there were 29,186,667 outstanding common shares, 1,685,000 stock options and 3,287,832 warrants or Agent's Options.