
BLUE LAGOON RESOURCES INC.

Condensed Consolidated Interim Financial Statements

For the Three Months Ended June 30, 2020 and 2019

(Expressed in Canadian dollars)

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements for Blue Lagoon Resources Inc. (the “Company”) have been prepared by management in accordance with International Financing Reporting Standards (“IFRS”). These condensed consolidated interim financial statements, which are the responsibility of management, are unaudited and have not been reviewed by the Company’s auditors. The Company’s Audit Committee and Board of Directors have reviewed and approved these condensed consolidated interim financial statements. In accordance with the disclosure requirements of National Instrument 51-102 released by the Canadian Securities Administrators, the Company’s independent auditors have not performed a review of these condensed consolidated interim financial statements.

BLUE LAGOON RESOURCES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)
(Unaudited)

| | Note | June 30, 2020 | March 31, 2020 |
|--|------|----------------------|----------------------|
| <u>ASSETS</u> | | | |
| Current assets | | | |
| Cash and cash equivalents | | \$ 660,154 | \$ 1,248,567 |
| Receivables | | 46,203 | 55,585 |
| Prepaid expenses | | 84,598 | 37,621 |
| Total current assets | | 790,955 | 1,341,773 |
| Non-current assets | | | |
| Reclamation deposits | 6 | 635,000 | 635,000 |
| Security deposits | | 10,000 | 10,000 |
| Exploration and evaluation assets | 6 | 28,188,864 | 27,581,864 |
| Total Assets | | \$ 29,624,819 | \$ 29,568,637 |
| <u>LIABILITIES AND EQUITY</u> | | | |
| Current liabilities | | | |
| Accounts payables and accrued liabilities | | \$ 141,416 | \$ 239,014 |
| Due to related parties | 9 | 132,280 | 371,294 |
| Total Current Liabilities | | \$ 273,696 | 239,014 |
| Long-term accounts payable | 5 | 1,729,933 | 5,548,030 |
| Long-term debt | | 80,000 | - |
| Asset retirement obligation | 7 | 585,977 | 585,977 |
| | | \$ 2,669,606 | 6,505,301 |
| Equity | | | |
| Share capital | 10 | \$ 20,175,523 | \$ 19,606,023 |
| Obligation to issue shares | 5 | 3,818,097 | - |
| Reserves | 10 | 2,239,149 | 2,096,081 |
| Deficit | | (1,708,716) | (1,103,572) |
| Equity attributable to owners of parent | | 24,524,053 | 20,598,532 |
| Equity attributable to non-controlling interests | 8 | 2,431,160 | 2,464,804 |
| | | 26,955,213 | 23,063,336 |
| Total Liabilities and Equity | | \$ 29,624,819 | \$ 29,568,637 |

Nature of operations and going concern (Note 1)

Subsequent event (Note 11)

Approved for issuance on behalf of the Board of Directors on August 31, 2020:

(Signed) "Rana Vig" Director

(Signed) "Gurdeep Bains" Director

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

BLUE LAGOON RESOURCES INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

For the three months ended June 30, 2020 and 2019

(Expressed in Canadian dollars)

(Unaudited)

| | Note | June 30, 2020 | June 30, 2019 |
|---|------|---------------------|--------------------|
| Expenses | | | |
| General and administrative expenses | | \$ 97,534 | \$ 4,631 |
| Consulting fees | | 178,316 | - |
| Exploration expenses | | 137,877 | 2,625 |
| Professional fees | | 86,438 | 45,735 |
| Stock-based compensation | 10 | 143,068 | - |
| Total Operating Expenses | | 643,233 | 52,991 |
| Other Items | | | |
| Interest income | | 4,445 | - |
| Net loss and comprehensive loss | | \$ (638,788) | \$ (52,991) |
| Net loss attributable to: | | | |
| Owners of the Company | | (605,144) | (52,991) |
| Non-controlling interests | 8 | (33,644) | - |
| | | (638,788) | (52,991) |
| Basic and diluted loss per share | | \$ (0.01) | \$ (0.01) |
| Weighted average number of common shares outstanding | | | |
| | | 47,697,810 | 4,000,800 |

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

BLUE LAGOON RESOURCES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

For the three months ended June 30, 2020 and 2019

(Expressed in Canadian dollars)

(Unaudited)

| | Number of shares | Amount | Obligation to issue shares | Special Warrants | Reserves | Accumulated Deficit | Total shareholders' equity (deficit) | Non- controlling interest | Total equity (deficit) |
|----------------------------------|---------------------|-------------------|----------------------------------|---------------------|------------------|------------------------|---|---------------------------------|---------------------------|
| | | \$ | | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance, March 31, 2019 | 4,000,800 | 20,020 | | 358,050 | - | (88,543) | 289,527 | - | 289,527 |
| Special warrants issued for cash | - | - | | 45,000 | - | - | 45,000 | - | 45,000 |
| Net loss | - | - | | - | - | (52,991) | (52,991) | - | (52,991) |
| Balance, June 30, 2019 | 4,000,800 | 20,020 | | 403,050 | - | (141,534) | 281,536 | - | 281,536 |
| Balance, March 31, 2020 | 47,315,118 | 19,606,023 | - | - | 2,096,081 | (1,103,572) | 20,598,532 | 2,464,804 | 23,063,336 |
| Option payment | 600,000 | 552,000 | - | - | - | - | 552,000 | - | 552,000 |
| Shares issued for consulting | 17,500 | 17,500 | - | - | - | - | 17,500 | - | 17,500 |
| Obligation to issue shares | - | - | 3,818,097 | - | - | - | 3,818,097 | - | 3,818,097 |
| Share based compensation | - | - | - | - | 143,068 | - | 143,068 | - | 143,068 |
| Net loss | - | - | - | - | - | (605,144) | (605,144) | (33,644) | (638,788) |
| Balance, June 30, 2020 | 47,932,618 | 20,175,523 | 3,818,097 | - | 2,239,149 | (1,708,716) | 24,524,053 | 2,431,160 | 26,955,213 |

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

BLUE LAGOON RESOURCES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

For the three months ended June 30, 2020 and 2019

(Expressed in Canadian dollars)

(Unaudited)

| | June 30, 2020 | June 30, 2019 |
|--|----------------------|----------------------|
| Cash flows used in operating activities | | |
| Net loss | \$ (638,788) | \$ (52,991) |
| Items not involving cash: | | |
| Stock-based compensation | 160,568 | - |
| Changes in non-cash working capital: | | |
| Receivables | 9,382 | - |
| Prepaid Expenses | (46,977) | - |
| Accounts payable and accrued liabilities | (97,598) | 4,794 |
| Net cash used in operating activities | (613,413) | (48,197) |
| Cash flows used in investing activity | | |
| Exploration and evaluation assets | (55,000) | (15,000) |
| Net cash used in investing activities | (55,000) | (15,000) |
| Cash flows used in financing activity | | |
| Proceeds from long-term debt | 80,000 | - |
| Net cash provided by financing activities | 80,000 | - |
| Change in cash | (588,413) | (63,197) |
| Cash and cash equivalents, beginning | 1,248,567 | 332,013 |
| Cash and cash equivalents, ending | \$ 660,154 | \$ 268,816 |

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

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED JUNE 30, 2020 AND 2019

(Expressed in Canadian dollars)

(Unaudited)

1. NATURE OF OPERATIONS AND GOING CONCERN

Blue Lagoon Resources Inc. (the “Company”) was incorporated under the British Columbia Business Corporations Act on March 17, 2017. The Company is in the business of acquiring, exploring, and evaluating mineral resource interests in Canada. The address of the Company’s corporate office and principal place of business is Suite 610, 700 West Pender Street, Vancouver, British Columbia. The Company’s common shares trade on the Canadian Stock Exchange under the stock symbol “BLLG”.

These condensed consolidated interim financial statements are prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of the business for the foreseeable future. These conditions indicate the existence of material uncertainty, which casts significant doubt about the Company’s ability to continue as a going concern. The continuing operations of the Company are dependent upon obtaining, in the short term, the necessary financing to meet the Company’s operating and mineral property commitments as they come due and to finance future exploration and development of potential business acquisitions, economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, and upon future profitable production. Failure to continue as a going concern would require that assets and liabilities be recorded at their liquidation values, which might differ significantly from their carrying values. Such adjustments have not been included in these condensed consolidated interim financial statements and could be material.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or ability to raise funds.

2. BASIS OF PREPARATION

Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including International Accounting Standards (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 31, 2020.

Basis of Measurement and Consolidation

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial instruments measured at fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The financial statements are presented in Canadian dollars unless otherwise indicated. The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates.

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED JUNE 30, 2020 AND 2019

(Expressed in Canadian dollars)

(Unaudited)

2. BASIS OF PREPARATION (Continued)

It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

These condensed consolidated interim financial statements incorporate the accounts of the Company and its controlled subsidiaries, from the date of acquisition. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Company's wholly owned subsidiaries include, ASIC Mining Inc. ("ASIC") (a Canadian corporation), and Metal Mountain Resources Inc. (a Canadian corporation), which holds 100% interest in Lloyd Minerals Inc. (a Canadian corporation) and 78.28% interest in Gavin Mines Inc, a Canadian corporation whose principal place of business is British Columbia. The functional currency of the Company and its wholly owned subsidiaries is the Canadian dollar.

Non-controlling interests are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of the acquisition. Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the Company are set out in Note 2 to the audited annual consolidated financial statements for the four month period ended March 31, 2020 and have been consistently followed in the preparation of these condensed consolidated interim financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

In preparing these condensed consolidated interim financial statements, the significant estimates and critical judgments were the same as those applied to the financial statements as at and for the four-month period ended March 31, 2020.

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED JUNE 30, 2020 AND 2019

(Expressed in Canadian dollars)

(Unaudited)

5. LONG-TERM ACCOUNTS PAYABLE

On March 27, 2020, The Company completed the acquisition of all the issued and outstanding shares of Metal Mountain Resources Inc. (“Metal Mountain”) in exchange for a total of 12,153,651 common shares of the Company. This transaction was accounted for as an asset acquisition, as a result, the Company assumed \$5,548,030 in long-term accounts payable.

On May 13, 2020, the Company entered into an agreement to amend a debt assignment agreement with AG Partner Holdings Ltd., initially entered into on March 27, 2020. The Company negotiated an agreement to pay \$3,818,097, of the total long-term accounts payable, by way of issuance of 1,909,048 common shares of the Company, on the date of the commencement of commercial production from the Dome Mountain Mine.

The shares will be subject to a hold period which will expire in accordance with the following schedule:

- 10% on each of 12 and 15 months of the date of issuance
- 15% on each of 18 and 24 months from the date of issuance; and
- 25% on each of 30 and 36 months from the date of issuance

Long-term accounts payable is unsecured, non-interest bearing, and payment is due within 30 months from the commencement date of commercial production at the Dome Mountain Mine. The payments will be made in quarterly payments from the available proceeds from the eventual sale of any gold and other metals or minerals mined and processed from the Dome Mountain mine.

6. EXPLORATION AND EVALUATION ASSETS

| | <i>Golden Wonder Project</i> | <i>Pellaire Gold Property</i> | <i>Gordon Lake Project</i> | <i>Dome Mountain Mine</i> | <i>Big Onion Project</i> | <i>Total</i> |
|---|------------------------------|-------------------------------|----------------------------|---------------------------|--------------------------|-------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance, November 30, 2019 | 45,000 | 4,912,354 | - | - | - | 4,957,354 |
| Acquisition cost – cash | - | - | 25,000 | 75,000 | - | 100,000 |
| Acquisition - shares | - | 85,000 | - | 16,405,396 | 6,059,114 | 22,549,510 |
| Write off of exploration and evaluation asset | - | - | (25,000) | - | - | (25,000) |
| Balance, March 31, 2020 | 45,000 | 4,997,354 | - | 16,480,396 | 6,059,114 | 27,581,864 |
| Acquisition cost – cash | - | 35,000 | - | 20,000 | - | 55,000 |
| Acquisition - shares | - | 552,000 | - | - | - | 552,000 |
| Balance, June 30, 2020 | - | 5,584,354 | - | 16,500,396 | - | 28,188,864 |

Golden Wonder Project

The Company has a 100% interest in the Golden Wonder Property located in British Columbia, Canada.

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED JUNE 30, 2020 AND 2019

(Expressed in Canadian dollars)

(Unaudited)

6. EXPLORATION AND EVALUATION ASSETS (Continued)

Pellaire Gold Property

On August 27, 2019, the Company acquired all of the issued and outstanding shares of ASIC Mining Inc. (“ASIC”) in exchange for a total of 11,600,000 common shares of the Company. The primary assets of ASIC consist of an option to acquire 100% interest in the Pellaire Gold Property located in the Clinton Mining Division of British Columbia.

On March 28, 2019, as amended on July 5, 2019 and July 31, 2019, ASIC entered into an option agreement to acquire a 100% interest in the Pellaire Gold Property by the following:

- Cash payment of \$25,000 USD on March 28, 2019 (paid);
- Cash payment of \$100,000 USD on July 5, 2019 (paid) and issue 200,000 shares in four equal instalments of 50,000 shares 3, 6, 9 and 12 months from July 5, 2019 (50,000 shares issued during the year ended November 30, 2019, 50,000 shares issued during the period ended March 31, 2020);
- Cash payment of \$50,000 USD, incur \$200,000 in Expenditures and issue 200,000 shares in four equal instalments of 50,000 shares 3, 6, 9 and 12 months from July 5, 2020;
- Cash payment of \$50,000 USD, incur \$100,000 in Expenditures and issue 200,000 shares in four equal instalments of 50,000 shares 3, 6, 9 and 12 months from July 5, 2021;
- Cash payment of \$50,000 USD, incur \$100,000 in Expenditures and issue 200,000 shares in four equal instalments of 50,000 shares 3, 6, 9 and 12 months from July 5, 2022;
- Cash payment of \$50,000 USD, incur \$100,000 in Expenditures and issue 200,000 shares in four equal instalments of 50,000 shares 3, 6, 9 and 12 months from July 5, 2023;

The seller retains a 2% net smelter royalty interest (“NSR”). The Company has the right to purchase one-half of the NSR asset acquisition for \$1,000,000 at any time prior to commencement of commercial production.

On November 27, 2019, the Company issued 50,000 common shares towards earning a 100% interest in the Pellaire Gold Property. The shares were determined to have a fair value of \$69,500.

On February 27, 2020, the Company issued 50,000 shares in connection with the Pellaire Gold Property option agreement. The shares were determined to have a fair value of \$85,000.

During the three months ended June 30, 2020, the Company exercised its option to acquire 100% interest in the Pellaire gold project after having re-negotiated improved terms with the vendor. The improved terms included a reduction in the remaining cash payments from US\$200,000 to CAD \$35,000 (paid on May 27, 2020), and a reduction in the remaining consideration shares from 700,000 shares to 600,000 shares, which the Company issued on May 26, 2020 (note 10).

The consideration shares are subject to a release schedule that allows for the shares to be released in equal installments of 50,000 shares every 3 months over a 36-month period. In addition, the right to repurchase a 2% NSR royalty from the vendor was reduced from US\$2 million to US\$1 million, which if exercised would leave the vendor with a 0.5% NSR royalty.

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED JUNE 30, 2020 AND 2019

(Expressed in Canadian dollars)

(Unaudited)

6. EXPLORATION AND EVALUATION ASSETS (Continued)

Dome Mountain Mine Group and Big Onion Project

On March 27, 2020, the Company acquired Dome Mountain Mine group of properties and Big Onion Project, both located near the town of Smithers in northwest British Columbia. from the acquisition of Metal Mountain Resources Inc.

- Issuance of 12,153,651 common shares (issued).

In addition, the Company acquired a 0.25% NSR in the Dome Mountain project in consideration for \$75,000 (paid).

The Company holds reclamation deposits of \$600,000 and \$35,000 related to the Dome Mountain Mine and Big Onion Project, respectively.

The Company owns 100% interest in the following mineral properties of the Dome Mountain Mine Group:

- Dome Mountain Project
 - Upon the property commencing production, the Company will pay an NSR of 2%, or not less than \$40,000 per annum. In the event that the property is not in production by January 28, 2011, an advance royalty payment in the amount of \$40,000 per annum must be paid. An agreement was reached by both parties to defer 2016, 2017, 2018 and 2019 annual royalty payments to the one-year anniversary date of the arrival of the 1st truckload of Dome ore at the Nicola Mining Inc mill. The Company agreed to pay 7% interest on those deferred payments. The Company has further agreed that, upon the commencement of production, royalty payments will be paid within 5 business days of the Company and Nicola Mining Inc. receiving payment from the sale of the concentrates.
- Freegold Property
 - The interest in the property will be subject to a 2% NSR and the Company is required to make annual royalty payments for \$20,00. The Company has the right to purchase 1% of the NSR for the aggregate sum of \$1,000,000.
 - During the period ended June 30, 2020, the Company paid \$20,000 for the 2020 royalty advance.
- McKendrick Property
 - The interest in the property will be subject to an NSR of 2.5% and the Company is required to make advance annual royalty payment of \$25,000 per annum commencing on the anniversary of exercise of this option. An agreement was reached by both parties to extend 2016, 2017, and 2018 annual royalty payments. The annual royalty payment for 2020 has been agreed by both parties to be deferred to December 2020.
- Hilo Property; and
- Federal Creek Property
 - The interest in the property will be subject to a 3% NSR.

7. ASSET RETRIMENT OBLIGATION

The Company's asset retirement obligation consists of costs associated with the mine reclamation and closure activities on the Dome Mountain Mine (note 6). These activities, which are site specific, include costs for earthworks, re-contouring, re-vegetation, water treatment and demolition. In calculating the fair value of the Company's asset retirement obligations, the Company used a risk-adjusted rate of 10%. The expenditures are expected to occur in 2032 and go on for a five-year period.

BLUE LAGOON RESOURCES INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

FOR THE THREE MONTHS ENDED JUNE 30, 2020 AND 2019

(Expressed in Canadian dollars)

*(Unaudited)***8. NON-CONTROLLING INTEREST (“NCI”)**

The following table presents the summarized financial information for Gavin Mines Inc. the Company’s subsidiary that have NCI’s. This information represents amounts before intercompany eliminations.

| | June 30, 2020 | March 31, 2020 |
|-------------------------|----------------------|-----------------------|
| Current assets | 84,691 \$ | 70,818 |
| Non-current assets | 24,098,436 | 24,078,436 |
| Current liabilities | 543,464 | 553,856 |
| Non-current liabilities | 2,285,358 | 5,904,292 |
| Revenues | 3,302 | - |
| Net loss | (154,897) \$ | (531) |

The net change in non-controlling interest is as follows

| | Total |
|--|---------------------|
| Balance, November 30, 2019 | \$ - |
| Acquisition of Metal Mountain Resources Inc. | 5,819,196 |
| Change in ownership interest | (3,248,143) |
| Share of loss | (106,249) |
| Balance, March 31, 2020 | \$ 2,464,804 |
| Share of loss | (33,644) |
| Balance, June 30, 2020 | \$ 2,431,160 |

As the Company previously controlled Gavin Mines, the transaction resulted in a change to the Company’s ownership interest and was accounted for an equity transaction. The difference of \$1,488,617 between the non-controlling interest acquired of \$3,248,143, and the fair value of consideration paid of \$1,759,526, was recognized in reserves.

As at June 30, 2020, the Company holds 78.28% ownership interest in Gavin Mines with \$2,431,160 (March 31, 2020 - \$2,464,804) NCI balance.

9. RELATED PARTY TRANSACTION**Summary of key management personnel compensation:**

Key management personnel include those persons having authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of members of the Company’s Board of Directors and corporate officers.

| For the three-month period ended | June 30, 2020 | June 30, 2019 |
|----------------------------------|----------------------|-------------------|
| Management and consulting fees | \$ 37,450 | \$ - |
| Share-based compensation | 5,344 | - |
| | \$ 53,593 | \$ 212,665 |

As at June 30, 2020, there was \$145,400 (March 31, 2020 - \$132,280) owing to the officers or directors of the Company.

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED JUNE 30, 2020 AND 2019

(Expressed in Canadian dollars)

(Unaudited)

10. SHARE CAPITAL AND RESERVES

Authorized: Unlimited number of common shares without par value.

COMMON SHARES

For the three-month period ended June 30, 2020

On May 26, 2020, the Company issued 600,000 shares in connection with the Pellaire Gold Property option agreement. The shares have a fair value of \$552,000 (note 6).

On June 9, 2020, the Company entered into an agreement with Fundamental Research Corp. ("Fundamental") whereby Fundamental agreed to prepare research reports to the Company in consideration for \$19,500 plus GST, of which \$17,500 was paid by the issuance of 17,500 common shares of the Company.

STOCK OPTIONS

Stock Option Plan

The Stock Option Plan was adopted by the Company's board of directors on December 14, 2018. The aggregate number of securities reserved for issuance, set aside and made available for issuance under the Stock Option Plan may not exceed 10% of the issued and outstanding shares of the Company at the time of granting of options (including all options granted by the Company to date). The exercise price of any stock options granted under the Option Plan shall be determined by the Board, but may not be less than the greater of the closing market price of the Common Shares on (a) the trading day prior to the date of grant of the stock options; and (b) the date of grant of the stock options.

The term and vesting conditions of any stock options granted under the Stock Option Plan shall be determined by the Board at the time of grant but, subject to earlier termination in the event of termination or in the event of death, the term of any stock options granted under the Stock Option Plan may not exceed five years.

Stock Option Activity

For the three-month period ended June 30, 2020

On June 2, 2020, the Company issued 200,000 stock options with an exercise price of \$1.20, vesting immediately on grant, expiring on June 2, 2025. The fair value of the stock options were determined to have a fair value of \$137,724 using the Black-Scholes option pricing model determined using the following assumptions: estimated volatility of 109%, risk free interest rate of 0.34%, expected life of 5 years, exercise price of \$1.20 and a share price of \$0.92.

Share based compensation expense for the stock options expiring on September 20, 2021 that vested during the three-month period ended June 30, 2020 was \$5,344 (2019 - \$nil).

BLUE LAGOON RESOURCES INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

FOR THE THREE MONTHS ENDED JUNE 30, 2020 AND 2019

(Expressed in Canadian dollars)

*(Unaudited)***10. SHARE CAPITAL AND RESERVES (Continued)**

| | Number | Weighted Average Exercise Price |
|--------------------------------|-----------|------------------------------------|
| Balance, March 31, 2020 | 2,150,000 | 0.65 |
| Granted | 200,000 | 1.20 |
| Balance, June 30, 2020 | 2,350,000 | 0.74 |

Details of the share options outstanding and exercisable as at June 30, 2020 are as follows:

| Expiry date | Number of Options Outstanding | Number of Options Vested | Exercise Price |
|-------------------------------|----------------------------------|-----------------------------|----------------|
| July 19, 2021 | 1,210,000 | 1,210,000 | 0.11 |
| September 20, 2021 | 100,000 | 75,000 | 1.20 |
| March 27, 2025 | 840,000 | 840,000 | 1.50 |
| June 2, 2025 | 200,000 | 200,000 | 1.20 |
| Balance, June 30, 2020 | 2,350,000 | 2,325,000 | |

As of June 30, 2020, the weighted average remaining life for outstanding options was 2.71 years.

11. SUBSEQUENT EVENTS

- On July 13, 2020, the Company granted 237,500 stock options with an exercise price of \$0.50, vesting immediately on grant date, exercisable for 5 years.
- On August 12, 2020, the Company completed a private placement of 21,496,301 units at a price of \$0.35 per unit for aggregate gross proceeds of \$7,523,706. Each unit is comprised of one common share and one-half warrant. Each whole warrant is exercisable into one common share at an exercise price of \$0.50 per share for a period of 24 months from the closing date. The Company has agreed to pay a finder's fee in cash equal to 7% of the gross proceeds from the sale of units to third parties sourced by the finders as well as warrants to purchase that number of common shares equal to 7% of the number of units sold to third parties sourced by the finder. The finder's warrants may be exercised to acquire common shares at \$0.50 for 2 years and the rest of the terms are the same terms as the private placement warrants.
- On August 20, 2020, the Company granted 850,000 stock options under the Company's incentive stock options plan. Of the 850,000 stock options granted, 350,000 options have an exercise price of \$0.60, vesting immediately on grant date, expiring on August 20, 2025 and 500,000 options have an exercise price of \$0.70, vesting three months from the grant date, expiring on August 20, 2021.