

# **BLUE LAGOON RESOURCES INC.**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the three and nine months ended December 31, 2020 and 2019

## **BLUE LAGOON RESOURCES INC.**

Management's Discussion and Analysis

For the three and nine months ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

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### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following Management Discussion and Analysis ("MD&A") has been prepared by management, in accordance with the requirements of National Instrument 51-102 as of February 26, 2021, and should be read in conjunction with the condensed consolidated interim financial statements for the three and nine months ended December 31, 2020, and the related notes contained therein which have been prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

All financial information in this MD&A has been prepared in accordance with IFRS and all dollar amounts are quoted in Canadian dollars, the reporting and functional currency of Blue Lagoon Resources Inc. (formerly Blue Lagoon Capital Inc.) ("Blue Lagoon" or the "Company") unless specifically noted.

The Company has changed its fiscal year end from November 30 to March 31 to align with acquired subsidiaries during the four-month period ended March 31, 2020. Based on the change of year end from November 30 to March 31, the Company has a transition year of four months from December 1, 2019 to March 31, 2020. Pursuant to section 4.8(3) of National Instrument 51-102, the Company filed a notice of Change in Year End on [www.sedar.com](http://www.sedar.com) on April 20, 2020. On a go forward basis, the Company will shift to a fiscal year based on a March 31, 2020 financial year, with fiscal quarters ending on the last day in June, September, and December of each year.

### **FORWARD-LOOKING STATEMENTS**

This MD&A may contain "forward-looking statements" which reflect the Company's current expectations regarding future results of operations, performance and achievements of the Issuer. The Issuer has tried, wherever possible, to identify these forward-looking statements by, among other things, using words such as "anticipate," "believe," "estimate," "expect" and similar expressions. The statements reflect the current beliefs of the management of the Company, and are based on currently available information. Accordingly, these statements are subject to known and unknown risks, uncertainties and other factors, which could cause the actual results, performance, or achievements of the Issuer to differ materially from those expressed in, or implied by, these statements.

The Company undertakes no obligation to publicly update or review the forward-looking statements whether as a result of new information, future events or otherwise.

Historical results of operations and trends that may be inferred from the following discussions and analysis may not necessarily indicate future results from operations.

### **DESCRIPTION OF BUSINESS**

The Company was incorporated by a Certificate of Incorporation issued pursuant to the provisions of the Business Corporations Act (British Columbia) 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 registered office is Suite 1200, 750 West Pender Street, Vancouver, British Columbia.

The Company's common shares trade in Canada on the CSE under the stock symbol "BLLG", in the United States on the OTCQB under "BLAGF" and in Frankfurt, Germany under "7BL".

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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. Metal Mountain Resources Inc. is a private Canadian company. Metal Mountain holds a 50.84% interest in Gavin Mines Inc. ("Gavin Mines"), which holds a 100% interest in the Dome Mountain mine. Metal Mountain also holds 100% of Lloyd Minerals Inc., which holds a 100% interest in the Big Onion porphyry copper project. Both projects are located in northwest British Columbia. Concurrently with the transaction, the Company issued 1,372,000 common shares of the Company to AGC Investments Inc. to acquire an additional 27.44% interest in Gavin Mines Inc. ("Gavin Mines").

### EXPLORATION PROJECTS

	<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>
	\$	\$	\$	\$	\$	\$
<b>Balance, November 30, 2019</b>	<b>45,000</b>	<b>4,912,354</b>	-	-	-	<b>4,957,354</b>
Acquisition cost – cash	-	-	25,000	75,000	-	<b>100,000</b>
Acquisition - shares	-	85,000	-	16,405,396	6,059,114	<b>22,549,510</b>
Write off of exploration and evaluation asset	-	-	(25,000)	-	-	<b>(25,000)</b>
<b>Balance, March 31, 2020</b>	<b>45,000</b>	<b>4,997,354</b>	-	<b>16,480,396</b>	<b>6,059,114</b>	<b>27,581,864</b>
Acquisition cost – cash	-	35,000	-	20,000	-	<b>55,000</b>
Acquisition - shares	-	552,000	-	-	-	<b>552,000</b>
<b>Balance, December 31, 2020</b>	<b>45,000</b>	<b>5,584,354</b>	-	<b>16,500,396</b>	<b>6,059,114</b>	<b>28,188,864</b>

#### *Golden Wonder Project*

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

#### *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;

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- 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 Pellarie 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 nine months ended December 31, 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 11).

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.

#### *Dome Mountain Mine Group and Big Onion Project*

On March 27, 2020, the Company acquired the Dome Mountain Mine group of properties and the 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 interest in the following mineral properties in the Dome Mountain Mine Group:

- Dome Mountain Project
  - Upon the property commencing production, 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 1<sup>st</sup> 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.

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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 \$20,000. The Company has the right to purchase 1% of the NSR for the aggregate sum of \$1,000,000.
  - During the nine-month period ended December 31, 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 was agreed by both parties to be deferred to December 2020 and was paid.
- Hilo Property; and
- Federal Creek Property
  - The interest in the property will be subject to a 3% NSR.

*Exploration and evaluation expenses*

The Company incurred the following expenses related to evaluation and exploration:

**For the three months ended December 31, 2020**

	<i>Dome Mountain Mine</i>	<i>Pellaire Gold Property</i>	<i>Total</i>
Exploration costs	\$ 1,367,857	\$ 82,539	\$ 1,450,396
Total	\$ 1,367,857	\$ 82,539	\$ 1,450,396

**For the nine months ended December 31, 2020**

	<i>Dome Mountain Mine</i>	<i>Pellaire Gold Property</i>	<i>Total</i>
Exploration costs	\$ 2,160,750	\$ 574,104	\$ 2,734,854
Total	\$ 2,160,750	\$ 574,104	\$ 2,734,854

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**RESULTS OF OPERATIONS – EXPENSES**

The following summarizes the Company's financial results for the three months ended December 31, 2020 compared to the three months ended December 31, 2019:

<b>Three months ended December,</b>	<b>2020 \$</b>	<b>2019 \$</b>	<b>Change \$</b>	<b>Change %</b>
<b>General and administrative</b>				
Bank charges and interest	17,106	131	16,975	12,859%
Filing fees	9,119	2,048	7,071	345%
Meals and entertainment	-	1,521	(1,521)	-100%
Marketing	14,540	61,129	(46,589)	-76%
Office and miscellaneous expenses	81,221	22,901	58,320	255%
<b>Total general and administrative expenses</b>	<b>121,986</b>	<b>87,730</b>	<b>34,256</b>	<b>39%</b>
Consulting	285,682	56,399	229,283	407%
Investor relations	252,694	19,488	233,206	1,197%
Exploration	1,450,396	33,282	1,417,114	4,258%
Professional fees	21,619	33,327	(11,708)	-35%
Stock based compensation	95,671	15,942	79,729	500%
<b>Total operating Expenses</b>	<b>2,228,048</b>	<b>246,168</b>	<b>1,981,880</b>	<b>805%</b>
Interest income	6,725	-	6,725	100%
<b>Net Loss and comprehensive loss</b>	<b>2,221,323</b>	<b>246,168</b>	<b>1,975,155</b>	<b>802%</b>

For the three months ended December 31, 2020, the Company had a net loss of \$2,221,323 compared to a net loss of \$246,168 for the three months ended December 31, 2019. Net loss is significantly higher during the three months ended December 31, 2020 due to the fact that the Company's operations have expanded significantly since 2019, including the acquisition of Metal Mountain, which as a result has led to increased efforts on the Company's exploration activities. During the three months ended December 31, 2020, the Company's efforts were mainly focused on exploration and evaluation activities.

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The following summarizes the Company's financial results for the nine months ended December 31, 2020 compared to the nine months ended December 31, 2019:

<b>Nine months ended December,</b>	<b>2020 \$</b>	<b>2019 \$</b>	<b>Change \$</b>	<b>Change %</b>
<b>General and administrative</b>				
Bank charges and interest	21,395	491	20,904	4,257%
Filing fees	9,665	2,756	6,909	251%
Meals and entertainment	-	5,538	(5,538)	-100%
Marketing	36,069	61,179	(25,110)	-41%
Office and miscellaneous expenses	126,478	70,029	56,449	81%
<b>Total general and administrative expenses</b>	<b>193,607</b>	<b>139,993</b>	<b>53,614</b>	<b>38%</b>
Consulting	655,302	226,035	429,267	190%
Investor relations	388,100	83,491	304,609	365%
Exploration	2,734,854	50,797	2,684,057	5,284%
Professional fees	169,669	98,050	71,619	73%
Stock based compensation	557,982	80,665	477,317	592%
<b>Total operating Expenses</b>	<b>4,699,514</b>	<b>679,031</b>	<b>4,020,483</b>	<b>592%</b>
Interest income	21,122	-	21,122	100%
Write-off of exploration and evaluation asset	-	(25,000)	25,000	100%
<b>Net Loss and comprehensive loss</b>	<b>4,678,392</b>	<b>704,031</b>	<b>3,974,361</b>	<b>565%</b>

For the nine months ended December 31, 2020, the Company had a net loss of \$4,678,392 compared to a net loss of \$704,031 for the nine months ended December 31, 2019. Net loss is significantly higher during the nine months ended December 31, 2020 due to the fact that the Company's operations have expanded significantly since 2019, including the acquisition of Metal Mountain, which as a result has led to increased efforts on the Company's exploration activities. The Company has also increased its consulting and other costs as compared to the nine months ended December 31, 2019.

Net loss is composed of general and administrative expenses of \$193,607 (2019 - \$139,993), consulting fees of \$655,302 (2019 - \$226,035), investor relations of \$388,100 (2019 - \$83,491), exploration expenses of \$2,734,854 (2019 - \$50,797), professional fees of \$169,669 (2019 - \$98,050) and stock-based compensation of \$557,982 (2019 - \$80,665).

## SUMMARY OF QUARTERLY RESULTS

The following table summarizes the financial results of the Company for the three months ended September 30, 2020 and each of the seven most recently completed three-month periods prepared under IFRS, including the four month period ended March 31, 2020.

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Period Ended	Net Revenues (\$)	Net Loss Total (\$)	Per Share (\$)
2020-December-31	-	(2,221,323)	(0.03)
2020-September-30	-	(1,818,281)	(0.03)
2020-June-30	-	(638,788)	(0.01)
2020-March-31	-	(489,177)	(0.02)
2019-November 30	-	(315,949)	(0.01)
2019-Aug 31	-	(290,821)	(0.03)
2019-May 31	-	(26,263)	(0.01)
2019-February 28	-	(69,348)	(0.02)
2018-November 30	-	(18,170)	(0.00)
2018-August 31	-	(18)	(0.00)

## SHARE CAPITAL ACTIVITY

### *Share Issuances*

#### *For the nine-months ended December 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 for services and paid \$19,500, of which \$17,500 was paid by the issuance of 17,500 common shares of the Company.

On August 11, 2020, the Company closed a private placement for 21,496,300 units at a price of \$0.35 per unit for gross proceeds of \$7,523,705. Each unit consists of one common share and one-half share purchase warrant, with each full warrant entitling the holder to acquire one common share at a price of \$0.50 for a period of two years from the closing of the private placement. In addition, 669,951 share purchase warrants were issued as Finders' warrants with a fair value of \$276,774 estimated using the Black-Scholes option pricing model. Each Finders' warrant entitles the holder to purchase one share at a price of \$0.50 per share until August 11, 2022. The Company also issued 71,429 common shares as Finders' shares with a fair value of \$25,000.

On August 17, 2020, the Company entered into an agreement for investor relations services in exchange for \$50,000 in common shares of the Company. During the nine-month period ended December 31, 2020, an obligation to issue shares of \$36,957 has been recorded to represent the investor relations fees incurred in connection to this agreement.

On November 23, 2020, the Company closed a private placement offering of 2,202,000 units at a price of \$1.00 per unit and 148,352 common shares at a price of \$0.91 per share for aggregate gross proceeds of \$2,337,000. Each unit is comprised of one flow-through common share and one-half share purchase warrant, with each full warrant entitling the holder to acquire one common share at a price of \$1.30 per common share for a period of three years from the closing of the private placement. The Company issued 152,120 share purchase warrants as Finders' warrants with a fair value of \$68,871 estimated using the Black-Scholes option pricing model. Each Finder's warrant entitles the holder to purchase one common share at a price of \$1.30 per share until November 23, 2023. All securities issued in connection with the



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private placement are subject to a four month-and-one-day statutory hold period from the date of issue, expiring on March 24, 2021.

The Company used the residual value method to calculate the fair value of the tax deduction attached with the flow-through common share and recorded a flow-through liability of \$198,180. The Company is committed to spend \$2,202,000 in Qualifying Canadian Exploration Expenditure ("CEE") by December 31, 2021. None of the Qualifying CEE will be available to the Company for future deduction from taxable income.

During the nine months ended December 31, 2020, the Company issued 401,320 common shares pursuant to the exercise of 401,320 warrants with a weighted average exercise price of \$0.50 per share for proceeds of \$200,660. In connection with the exercise, an amount of \$5,090 was reclassified from reserves to share capital.

*For the period ended March 31, 2020*

On January 21, 2020, the Company closed the first tranche of a non-brokered private placement for proceeds of \$850,000 and issued 566,667 non-flow-through common shares.

On January 31, 2020, the Company closed the second tranche of a non-brokered private placement for proceeds of \$150,000 and issued 100,000 non-flow-through common shares.

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.

On March 27, 2020, the Company issued 12,153,651 common shares in connection to the Metal Mountain transaction. The shares were determined to have a fair value of \$11,059,822.

The Company issued 1,372,000 common shares in exchange for purchasing an additional 27.44% ownership interest in Gavin Mines. The shares were determined to have a fair value of \$1,248,520.

## **LIQUIDITY AND CAPITAL RESOURCES**

As at December 31, 2020, the Company had cash of \$5,888,954 (March 31, 2020 - \$1,248,567). As at December 31, 2020, the Company had working capital deficit of \$6,374,677 (March 31, 2020 -\$970,479).

The Company may have capital requirements in excess of its currently available resources. In the event the Company's plans change, its assumptions change or prove inaccurate, or its capital resources in addition to projected cash flow, if any, prove to be insufficient to fund operations, the Company may be required to seek additional financing. There can be no assurance that the Company will have sufficient financing to meet its future capital requirements or that additional financing will be available on terms acceptable to the Company in the future.

### **Operating activities**

For the nine months ended December 31, 2020, the Company's operating activities used cash of \$5,027,944 (2019 - \$515,740). Cash used in operating activities during the nine months ended December 31, 2020 was drastically higher than the nine months ended December 31, 2019 due to the increase in the business operations that occurred after 2019. General and administrative expenses increased by \$53,614 compared to the nine months ended December 31, 2019, consulting fees increased by \$429,267 compared to the prior

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comparative period, and exploration activities increased by \$2,684,057 as compared to the prior comparative period.

### **Investing activities**

For the nine months ended December 31, 2020, the Company used cash of \$80,000 (2019 - \$159,618) on exploration and evaluation assets, which consisted of \$20,000 for the 2020 royalty advance on the Freegold property, \$35,000 towards acquiring 100% interest in the Pellaire gold project, and \$25,000 for the 2020 royalty advance on the McKendrick property.

### **Financing activities**

For the nine months ended December 31, 2020, the Company received proceeds of \$80,000 from the Canada Emergency Business Loan that was made available by the Canadian government to businesses affected by the COVID-19 pandemic.

The Company also received net proceeds of \$9,442,671 from the issuance of shares in connection to a private placement that closed on August 11, 2020 and November 23, 2020. During the nine months ended December 31, 2020, the Company issued 401,320 common shares pursuant to the exercise of 401,320 warrants for proceeds of \$200,660.

The Company has no operating revenues and therefore must utilize its income from financing transactions to maintain its capacity to meet ongoing operating activities.

The Company has minimal debt and its credit and interest rate risk is minimal. Accounts payable and accrued liabilities and due to related party are short-term and non-interest-bearing.

## **FINANCIAL INSTRUMENTS AND RISKS**

The fair values of the Company's financial instruments, which include cash, accounts payable and accrued liabilities, and amount due to related party, approximate their carrying values due to the relatively short-term maturity of these instruments.

### **Liquidity risk**

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. As at December 31, 2020, the Company had cash of \$5,888,954 to settle current liabilities of \$272,006. The Company intends to finance future requirements from its existing cash reserves together with share issuances, the exercise of options and/or warrants, debt, or other sources. There can be no certainty of the Company's ability to raise additional financing through these means.

### **Credit risk**

Credit risk is the risk that the counterparty to a financial instrument will fail to meet their payment obligations. Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

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### Interest rate risk

Interest rate risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at December 31, 2020, the Company does not have any interest-bearing loans or liabilities outstanding. All accounts payable and accrued liability balances as well as third party loans and dues from related parties as at December 31, 2020 are current and as such, are not subject to interest.

### Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company's ability to raise capital to fund exploration and development activities is subject to risks associated with fluctuations in the market price of commodities.

## **OFF BALANCE SHEET ARRANGEMENTS**

The Company does not utilize off-balance sheet arrangements.

## **TRANSACTIONS BETWEEN RELATED PARTIES**

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.

<b>For the nine-month period ended</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Management fees	\$ 108,000	\$ 108,000

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

## **ADDITIONAL DISCLOSURE FOR COMPANIES WITHOUT SIGNIFICANT REVENUE**

An analysis of material components of the Company's general and administrative expenses is disclosed in the condensed consolidated interim financial statements for the three and six months ended September 30, 2020 to which this MD&A relates.

## **DISCLOSURE OF OUTSTANDING SHARE DATA**

### **Share Capital**

As at March 1, 2021 the Company had 73,363,049 shares issued and outstanding.

### **Warrants**

As at March 1, 2021, the Company had 12,232,115 warrants outstanding.

### **Stock Options**

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As at March 1, 2021, the Company had 2,437,500 stock options outstanding.

### **SUBSEQUENT EVENTS**

- Subsequent to December 31, 2020, the Company entered into an agreement whereby the Company sold its 100% interest in the Golden Wonder property for consideration of:
  - \$50,000 in cash
  - 1,000,000 common shares of the third party
  - 0.5% net smelter return royalty.
- On January 6, 2021, the Company issued 37,500 common shares pursuant to the exercise of warrants for proceeds of \$18,750.
- Subsequent to December 31, 2020, the CEO exercised 1 million stock options.

### **OTHER**

Additional disclosures pertaining to the Company's material change reports, press releases and other information are available on the SEDAR website at [www.sedar.com](http://www.sedar.com).