
BLUE LAGOON RESOURCES INC.

Condensed Consolidated Interim Financial Statements

For the Three and Nine Months Ended December 31, 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	December 31, 2020	March 31, 2020
<u>ASSETS</u>			
Current assets			
Cash and cash equivalents		\$ 5,888,954	\$ 1,248,567
Receivables		119,548	55,585
Prepaid expenses		638,181	37,621
Total current assets		6,646,683	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		\$ 35,480,547	\$ 29,568,637
<u>LIABILITIES AND EQUITY</u>			
Current liabilities			
Accounts payables and accrued liabilities		\$ 73,546	\$ 239,014
Due to related parties	9	280	132,280
Flow through premium	10	198,180	-
Total Current Liabilities		\$ 272,006	371,294
Long-term accounts payable	5	1,729,933	5,548,030
Long-term debt		80,000	-
Asset retirement obligation	7	585,977	585,977
		\$ 2,667,916	6,505,301
Equity			
Share capital	10	\$ 29,280,119	\$ 19,606,023
Obligation to issue shares	5,10	3,855,054	-
Reserves	10	2,994,618	2,096,081
Deficit		(5,277,767)	(1,103,572)
Equity attributable to owners of parent		30,852,024	20,598,532
Equity attributable to non-controlling interests	8	1,960,607	2,464,804
		32,812,631	23,063,336
Total Liabilities and Equity		\$ 35,480,547	\$ 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 March 1, 2021:

(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
(Expressed in Canadian dollars)
(Unaudited)

	Note	Three months ended December 31,		Nine months ended December 31,	
		2020	2019	2020	2019
Expenses					
General and administrative expenses		\$ 121,986	\$ 87,730	\$ 193,607	\$ 139,993
Consulting fees		285,682	56,399	655,302	226,035
Exploration expenses		1,450,396	33,282	2,734,854	50,797
Investor relations fees	10	252,694	19,488	388,100	83,491
Professional fees		21,619	33,327	169,669	98,050
Stock-based compensation	10	95,671	15,942	557,982	80,665
Total Operating Expenses		2,228,048	246,168	4,699,514	679,031
Other Items					
Interest income		6,725	-	21,122	-
Write-off of exploration and evaluation asset		-	-	-	(25,000)
Net loss and comprehensive loss		\$ (2,221,323)	\$ (246,168)	\$ (4,678,392)	\$ (704,031)
Net loss attributable to:					
Owners of the Company		(1,904,114)	(246,168)	(4,174,195)	(704,031)
Non-controlling interests	8	(317,209)	-	(504,197)	-
		(2,221,323)	(246,168)	(4,678,392)	(704,031)
Basic and diluted loss per share		\$ (0.03)	\$ (0.01)	\$ (0.08)	\$ (0.03)
Weighted average number of common shares outstanding		70,486,071	32,811,387	59,272,542	20,478,895

(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

(Expressed in Canadian dollars)

(Unaudited)

	Number of shares	Share capital	Special Warrants	Obligation to issue shares	Reserves	Accumulated Deficit	Total shareholders' equity (deficit)	Non- controlling interest	Total equity (deficit)
		\$	\$		\$	\$	\$	\$	\$
Balance, March 31, 2019	4,000,800	20,020	403,050	-	-	(88,543)	334,527	-	334,527
Shares issued for cash	1,100,000	1,100,000	-	-	-	-	1,100,000	-	1,100,000
Special warrants converted to common shares	16,122,000	403,050	(403,050)	-	-	-	-	-	-
Shares issues for acquisition of Golden Wonder project	200,000	20,000	-	-	-	-	20,000	-	20,000
Shares issued for property acquisition	50,000	69,500	-	-	-	-	69,500	-	69,500
Shares issued for the acquisition of subsidiary	11,600,000	4,640,000	-	-	-	-	4,640,000	-	4,640,000
Share issuance cost	-	(39,889)	-	-	-	-	(39,889)	-	(39,889)
Share based compensation	-	-	-	-	80,665	-	80,665	-	80,665
Net loss	-	-	-	-	-	(704,031)	(704,031)	-	(704,031)
Balance, December 31, 2019	33,072,800	6,212,681	-	-	80,665	(792,574)	5,500,772	-	5,500,772
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
Non-flow through shares issued in private placement	21,716,081	7,658,705	-	-	-	-	7,658,705	-	7,658,705
Flow-through shares issued in private placement	2,202,000	2,202,000	-	-	-	-	2,202,000	-	2,202,000
Flow-through premium	-	(198,180)	-	-	-	-	(198,180)	-	(198,180)
Share issuance cost – cash	-	(418,034)	-	-	-	-	(418,034)	-	(418,034)
Share issuance cost – warrants	-	(345,645)	-	-	345,645	-	-	-	-
Exercise of warrants	401,320	205,750	-	-	(5,090)	-	200,660	-	200,660
Option payment	600,000	552,000	-	-	-	-	552,000	-	552,000
Obligation to issue shares	-	-	-	3,855,054	-	-	3,855,054	-	3,855,054
Shares issued for consulting services	17,500	17,500	-	-	-	-	17,500	-	17,500
Share based compensation	-	-	-	-	557,982	-	557,982	-	557,982
Net loss for the period	-	-	-	-	-	(4,174,195)	(4,174,195)	(504,197)	(4,678,392)
Balance, December 31, 2020	72,252,019	29,280,119	-	3,855,054	2,994,618	(5,277,767)	30,852,024	1,960,607	32,812,631

(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
(Expressed in Canadian dollars)
(Unaudited)

For the nine months ended December 31,	2020	2019
Cash flows used in operating activities		
Net loss	\$ (4,678,392)	\$ (704,031)
Items not involving cash:		
Write-off of exploration and evaluation asset	-	25,000
Stock-based compensation	557,982	80,665
Stock based investor relations fees	36,957	-
Stock based consulting fees	17,500	-
Changes in non-cash working capital:		
Receivables	(63,963)	(6,774)
Prepaid Expenses	(600,560)	8,079
Accounts payable and accrued liabilities	(165,468)	(50,679)
Due to related parties	(132,000)	132,000
Net cash used in operating activities	(5,027,944)	(515,740)
Cash flows used in investing activities		
Exploration and evaluation assets	(55,000)	(182,687)
Cash acquired from acquisition of subsidiaries	-	23,069
Net cash used in investing activities	(55,000)	(159,618)
Cash flows used in financing activities		
Proceeds from CEBA loans	80,000	-
Proceeds from warrant exercises	200,660	-
Proceeds from issuance of shares	9,860,705	1,100,000
Share issue costs	(418,034)	(39,889)
Net cash provided by financing activities	9,723,331	1,060,111
Change in cash	4,640,387	384,753
Cash and cash equivalents, beginning	1,248,567	332,013
Cash and cash equivalents, ending	\$ 5,888,954	\$ 716,766
Non-cash transactions:		
Shares issued for acquisition of subsidiary	-	4,460,000
Shares issued for option payment (Note 6)	552,000	89,500
Conversion of special warrants to common shares	-	403,050
Flow-through premium liability recognized	198,180	-

(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 AND NINE MONTHS ENDED DECEMBER 31, 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 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”.

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 March 1, 2021.

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 AND NINE MONTHS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in Canadian dollars)

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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
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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, conditionally payable upon the Dome Mountain mine going into production.

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 of \$1,729,933 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, December 31, 2020	45,000	5,584,354	-	16,500,396	6,059,114	28,188,864

Golden Wonder Project

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

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in Canadian dollars)

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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 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.

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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 interest in the following mineral properties in 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 \$20,000. 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.

7. ASSET RETIREMENT 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

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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Company used a risk-adjusted rate of 10%. The expenditures are expected to occur in 2032 and go on for a five-year period.

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.

	December 31, 2020	March 31, 2020
Current assets	160,664 \$	70,818
Non-current assets	24,098,456	24,078,436
Current liabilities	58,330	553,856
Non-current liabilities	5,012,916	5,904,292
Revenues	-	-
Net loss	(2,321,348) \$	(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	(504,197)
Balance, December 31, 2020	\$ 1,960,607

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 December 31, 2020, the Company holds 78.28% ownership interest in Gavin Mines with \$1,960,607 (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 nine-month period ended	December 31, 2020	December 31, 2019
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.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2020 AND 2019
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10. SHARE CAPITAL AND RESERVES

Authorized: Unlimited number of common shares without par value.

COMMON SHARES

For the nine-month period ended December 31, 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.
- 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 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.

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2020 AND 2019
(Expressed in Canadian dollars)
(Unaudited)

10. SHARE CAPITAL AND RESERVES (Continued)

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 nine-month period ended December 31, 2020

On June 2, 2020, the Company granted 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 was determined to have a fair value of \$137,096 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.

On July 13, 2020, the Company granted 237,500 stock options with an exercise price of \$0.50, vesting immediately on grant, expiring on July 13, 2025. The fair value of the stock options was determined to have a fair value of \$90,412 using the Black-Scholes option pricing model determined using the following assumptions: estimated volatility of 109%, risk free interest rate of 0.36%, expected life of 5 years, exercise price of \$0.50 and a share price of \$0.49.

On August 20, 2020, the Company granted 350,000 stock options with an exercise price of \$0.60, vesting immediately on grant, expiring on August 20, 2025. The fair value of the stock options was determined to have a fair value of \$175,140 using the Black-Scholes option pricing model determined using the following assumptions: estimated volatility of 105%, risk free interest rate of 0.37%, expected life of 5 years, exercise price of \$0.60 and a share price of \$0.65.

On August 20, 2020, the Company granted 500,000 stock options to a consultant in exchange for investor relations services. The stock options have an exercise price of \$0.70, vest three months after grant date, and expire on August 20, 2021. The fair value of the stock options was determined to have a fair value of \$154,370 using the Black-Scholes option pricing model determined using the following assumptions: estimated volatility of 112%, risk free interest rate of 0.20%, expected life of 0.70 years, exercise price of \$0.70 and a share price of \$0.79. Share based compensation for these options during the nine-month period ended December 31, 2020 was \$147,790 (2019 - \$nil).

Share based compensation expense for the stock options expiring on September 20, 2021 that vested during the nine-month period ended December 31, 2020 was \$7,544 (2019 - \$nil).

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

	Number of Stock Options	Weighted Average Exercise Price
Balance, March 31, 2020	2,150,000	0.71
Granted	1,287,500	0.71
Balance, December 31, 2020	3,437,500	0.71

Details of the share options outstanding and exercisable as at December 31, 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 26, 2025	840,000	840,000	1.50
June 2, 2025	200,000	200,000	1.20
July 13, 2025	237,500	237,500	0.50
August 20, 2025	350,000	350,000	0.60
August 20, 2021	500,000	500,000	0.70
Balance, December 31, 2020	3,437,500	3,437,500	

As of December 31, 2020, the weighted average remaining life for outstanding options was 2.38 years.

WARRANTS

The changes in warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, March 31, 2020	-	-
Granted	12,670,935	0.58
Exercised	(401,320)	(0.50)
Balance, December 31, 2020	12,269,615	0.58

As at December 31, 2020, the following warrants are outstanding:

Expiry date	Number of warrants	Exercise price
August 11, 2022	11,016,495	0.50
November 19, 2023	1,253,120	1.30
Balance, December 31, 2020	12,269,615	

As of December 31, 2020, the weighted average remaining life for outstanding options was 1.74 years.

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11. SUBSEQUENT EVENTS

- Subsequent to Dec 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.