
BLUE LAGOON RESOURCES INC.

Condensed Consolidated Interim Financial Statements

For the Three Months Ended June 30, 2021 and 2020

(Expressed in Canadian dollars)

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements of 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, 2021	March 31, 2021
<u>ASSETS</u>			
Current assets			
Cash and cash equivalents		\$ 2,426,224	\$ 3,539,683
Receivables		216,232	226,738
Prepaid expenses		527,696	383,117
Total Current Assets		3,170,152	4,149,538
Non-current assets			
Reclamation deposits	5	635,000	635,000
Security deposits		10,000	10,000
Long-term investments	5	100,000	100,000
Exploration and evaluation assets	5	28,267,616	28,267,616
Total Assets		\$ 32,182,768	\$ 33,162,154
Current liabilities			
Accounts payable and accrued liabilities		\$ 786,377	\$ 520,702
Due to related party	9	280	280
Total Current Liabilities		786,657	520,982
Long-term accounts payable	6	1,729,933	1,729,933
CEBA loan payable	7	50,594	49,184
Asset retirement obligation	8	781,772	768,326
Total Liabilities		3,348,956	3,068,425
Equity			
Share capital	11	30,345,042	29,515,010
Obligation to issue shares	6,11	2,543,481	2,271,767
Reserves	11	2,837,665	2,962,477
Deficit		(7,941,747)	(6,079,478)
Equity attributable to owners of parent		27,784,441	28,669,776
Equity attributable to non-controlling interests	10	1,049,371	1,423,953
		28,833,812	30,093,729
Total Liabilities and Equity		\$ 32,182,768	\$ 33,162,154

Nature of operations and going concern (Note 1)

Subsequent events (Note 12)

Approved for issuance on behalf of the Board of Directors on August 27, 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**

For the three months ended June 30, 2021 and 2020

(Expressed in Canadian dollars)

(Unaudited)

	Note	June 30, 2021	June 30, 2020
Expenses			
General and administrative expenses		\$ 27,625	\$ 30,270
Consulting fees		179,201	178,316
Exploration expenses		1,714,101	137,877
Investor Relations		206,748	67,264
Professional fees		49,698	86,438
Stock-based compensation	11	50,121	143,068
Total Operating Expenses		2,227,494	643,233
Other Items			
Accretion	7,8	(14,856)	-
Interest income		5,499	4,445
Net loss and comprehensive loss		\$ (2,236,851)	\$ (638,788)
Net loss attributable to:			
Owners of the Company		(1,862,269)	(605,144)
Non-controlling interests	10	(374,582)	(33,644)
		(2,236,851)	(638,788)
Basic and diluted loss per share		\$ (0.03)	\$ (0.01)
Weighted average number of common shares outstanding			
		73,707,409	47,697,810

(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 \$	Obligation to issue shares \$	Reserves \$	Accumulated Deficit \$	Total shareholders' equity \$	Non- controlling interests \$	Total equity \$
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 services	17,500	17,500	-	-	-	17,500	-	17,500
Obligation to issue shares	-	-	3,818,097	-	-	3,818,097	-	3,818,097
Stock-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
Balance, March 31, 2021	73,406,049	29,515,010	2,271,767	2,962,477	(6,079,478)	28,669,776	1,423,953	30,093,729
Exercise of warrants	562,948	297,384	-	(15,910)	-	281,474	-	281,474
Exercise of stock options	710,000	532,648	-	(159,023)	-	373,625	-	373,625
Obligation to issue shares	-	-	271,714	-	-	271,714	-	271,714
Stock-based compensation	-	-	-	50,121	-	50,121	-	50,121
Net loss	-	-	-	-	(1,862,269)	(1,862,269)	(374,582)	(2,236,851)
Balance, June 30, 2021	74,678,997	30,345,042	2,543,481	2,837,665	(7,941,747)	27,784,441	1,049,371	28,833,812

(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, 2021 and 2020

(Expressed in Canadian dollars)

(Unaudited)

	June 30, 2021	June 30, 2020
Cash flows used in operating activities		
Net loss	\$ (2,236,851)	\$ (638,788)
Items not involving cash:		
Accretion expense	14,856	-
Stock-based compensation	50,121	160,568
Interest income	(3,811)	-
Changes in non-cash working capital:		
Receivables	14,317	9,382
Prepaid expenses	(144,579)	(46,977)
Accounts payable and accrued liabilities	265,675	(97,598)
Net cash used in operating activities	(2,040,272)	(613,413)
Cash flows used in investing activities		
Exploration and evaluation assets	-	(55,000)
Net cash used in investing activities	-	(55,000)
Cash flows provided by financing activities		
Proceeds from exercise of warrants	281,474	-
Obligation to issue shares	271,714	-
Proceeds from exercise of stock options	373,625	-
Proceeds from long-term debt	-	80,000
Net cash provided by financing activities	926,813	80,000
Change in cash and cash equivalents	(1,113,459)	(588,413)
Cash and cash equivalents, beginning	3,539,683	1,248,567
Cash and cash equivalents, ending	\$ 2,426,224	\$ 660,154

(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, 2021 AND 2020

(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 on the Canadian Securities Exchange under the stock symbol “BLLG” and in the United States on the OTCQB under the symbol “BLAGF.”

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 of 2020, the World Health Organization declared an outbreak of COVID-19 Global pandemic. The COVID-19 outbreak has impacted a vast array of businesses through the restrictions put in place by most governments internationally, including the Canadian federal government as well as provincial and municipal governments, regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown to what extent the impact of the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place world-wide to fight the virus. While the extent of the impact is unknown, the COVID-19 outbreak may hinder the Company’s ability to raise financing for exploration or operating costs due to uncertain capital markets, supply chain disruptions, increased government regulations and other unanticipated factors, all of which may also negatively impact the Company’s business and financial condition.

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 27, 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 condensed consolidated interim 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, 2021 AND 2020

(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 condensed consolidated interim 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, as at June 30, 2021, 78.28% interest in Gavin Mines Inc. (a Canadian corporation) whose principal place of business is British Columbia (Note 12). 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 3 to the audited annual consolidated financial statements for the year ended March 31, 2021 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 (loss) 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 audited annual consolidated financial statements for the year ended March 31, 2021.

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

FOR THE THREE MONTHS ENDED JUNE 30, 2021 AND 2020

(Expressed in Canadian dollars)

(Unaudited)

5. EXPLORATION AND EVALUATION ASSETS

	<i>Golden Wonder Project</i>	<i>Pellaire Gold Property</i>	<i>Dome Mountain Mine</i>	<i>Big Onion Project</i>	<i>Total</i>
	\$	\$	\$	\$	\$
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
Sale of property	(45,000)	-	-	-	(45,000)
Asset retirement obligation – change in estimate	-	-	123,752	-	123,752
Balance, March 31, 2021 and June 30, 2021	-	5,584,354	16,624,148	6,059,114	28,267,616

Golden Wonder Project

On April 18, 2019, the Company entered into an agreement to purchase a 100% interest in the Golden Wonder Property located in British Columbia, Canada by:

- Payment of \$15,000 (paid) on execution of the agreement,
- Payment of \$10,000 (paid) within three days of the final receipt of the prospectus; and
- Issuance of 200,000 common shares (issued) within 10 business days of the Company commencing trading on the Canadian Securities Exchange.

On July 16, 2019, the Company executed on its rights to purchase 100% interest in the Golden Wonder property.

On February 2, 2021, the Company entered into an agreement with a third party, 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; and
- 0.5% net smelter return royalty.

The fair value of the common shares of the third party were determined to be \$100,000 measured using level 2 of the fair value hierarchy and has been recorded as a long-term investment. A gain of \$105,000 was recorded during the year ended March 31, 2021 in connection with this sale. As of June 30, 2021, the fair value of the common shares was determined to be \$100,000.

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.

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED JUNE 30, 2021 AND 2020

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(Unaudited)

5. EXPLORATION AND EVALUATION ASSETS (Continued)

During the year ended March 31, 2020, the Company issued 100,000 common shares with a fair value of \$154,500 toward earning a 100% interest in the Pellaire Gold Property. During the year ended March 31, 2021, the Company amended the option agreement which reduced the remaining cash payments from US \$200,000 to CAD \$35,000 (paid on May 27, 2020) and reduced the remaining consideration shares from 700,000 common shares to 600,000 common shares which were issued on May 26, 2020 at a fair value of \$552,000. During the year ended March 31, 2021, the Company exercised its option to acquire the 100% interest in the Pellaire Gold Project.

The seller retains a 2.5% net smelter royalty interest (“NSR”). The Company has the right to purchase 2% of the NSR for US\$1,000,000 at any time prior to commencement of commercial production.

The 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 cash payment for the right to purchase a 2% NSR 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.

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.

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 of \$20,000 before March 1, 2021. The Company has the right to purchase 1% of the NSR for the aggregate sum of \$1,000,000.
 - During the year ended March 31, 2021, the Company made royalty payments of \$20,000.
- McKendrick Property
 - The interest in the property will be subject to an NSR of 2.5% and the Company is required to make annual royalty payment of \$25,000 per annum. The payment was made on July 1, 2021.
 - An agreement was reached by both parties to extend 2016, 2017, and 2018 annual royalty payments.

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED JUNE 30, 2021 AND 2020

(Expressed in Canadian dollars)

(Unaudited)

5. EXPLORATION AND EVALUATION ASSETS (Continued)

- Hilo Property; and
- Federal Creek Property
 - The interest in the property will be subject to a 3% NSR.

6. 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 with a fair value of \$2,271,767 on the date of the commencement of commercial production from the Dome Mountain Mine. In connection with the amendment, the Company recognized a gain on modification of \$1,546,330 during the year ended March 31, 2021.

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.

7. CEBA LOAN PAYABLE

The Company obtained \$80,000 in interest-free loans from the Government of Canada under the Emergency Business Account (“CEBA”) COVID-19 Economic Response Plan. The loan is interest free until December 31, 2022. If the Company has repaid at least \$60,000 (75%) of the loan balance by December 31, 2022, the remaining \$20,000 (25%) is forgiven. If the Company is not able to repay 75% of the loan balance by December 31, 2022, the loan will convert into a loan with a three-year term at 5% interest per annum. The loan was initially recorded at a fair value of \$44,342 using an effective rate of 11.39%, considering the grant, the interest-free loan and the forgivable portion. The difference between the amount received in cash and the relative fair value was recognized as a government grant during the year ended March 31, 2021. During the three months ended June 30, 2021, the Company recorded accretion expense of \$1,410 (2020 - \$Nil) related to the CEBA loan.

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

FOR THE THREE MONTHS ENDED JUNE 30, 2021 AND 2020

(Expressed in Canadian dollars)

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8. 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 5). These activities, which are site specific, include costs for earthworks, re-contouring, re-vegetation, water treatment and demolition. The expenditures are expected to occur in 2035 and go on for a five-year period.

A continuity of the asset retirement obligation is as follows:

Balance, March 31, 2020	\$	585,977
Changes in estimates		123,752
Accretion expense		58,597
Balance, March 31, 2021		768,326
Accretion expense		13,446
Balance, June 30, 2021	\$	781,772

The total undiscounted cash flow estimated to settle the obligations as at June 30, 2021 is \$2,068,775 (March 31, 2021 – \$2,068,775) which was adjusted for inflation at the rate of 1.2% (March 31, 2021 – 1.2%) and then discounted at a risk-adjusted rate of 7% (March 31, 2021 – 7%). Certain minimum amounts of asset retirement obligation will occur each year with the significant amounts expected to be incurred in 2035.

9. RELATED PARTY TRANSACTIONS**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 months ended	June 30, 2021		June 30, 2020	
Management fees	\$	36,600	\$	37,450
Stock-based compensation		-		5,344
	\$	36,600	\$	42,794

As at June 30, 2021, there was \$280 (March 31, 2021 - \$280) owing to the President, CEO and director of the Company.

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED JUNE 30, 2021 AND 2020

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(Unaudited)

10. NON-CONTROLLING INTEREST (“NCI”)

The following table presents the summarized financial information for Gavin Mines Inc., the Company’s subsidiary that has non-controlling interests. This information represents amounts before intercompany eliminations.

		As at June 30, 2021		As at March 31, 2021
Current assets	\$	327,251	\$	305,906
Non-current assets		15,621,750		17,110,394
Current liabilities		664,904		470,217
Non-current liabilities		1,563,355		1,549,205
		Three months ended June 30, 2021		Three months ended June 30, 2020
Revenues	\$	-	\$	3,302
Net loss		(1,724,597)		(154,897)

The net change in non-controlling interest is as follows:		Total
Balance, March 31, 2020	\$	2,464,804
Share of loss		(1,040,851)
Balance, March 31, 2021	\$	1,423,953
Share of loss		(374,582)
Balance, June 30, 2021	\$	1,049,371

As at June 30, 2021, the Company held a 78.28% (March 31, 2020 – 78.28%) ownership interest in Gavin Mines with \$1,049,371 (March 31, 2021 - \$1,423,953) NCI balance.

11. SHARE CAPITAL AND RESERVES

Authorized: Unlimited number of common shares without par value.

COMMON SHARES

For the three months ended June 30, 2021

- On April 15, 2021, the Company issued 50,000 common shares pursuant to the exercise of 50,000 warrants with an exercise price of \$0.50 per share for proceeds of \$25,000.
- On May 4, 2021, the Company issued 7,142 common shares pursuant to the exercise of 7,142 warrants with an exercise price of \$0.50 per share for proceeds of \$3,571.
- On May 28, 2021, the Company issued 11,400 common shares pursuant to the exercise of 11,400 warrants with an exercise price of \$0.50 per share for proceeds of \$5,700. In connection with the exercise, an amount of \$574 was reclassified from reserves to share capital.
- On May 28, 2021, the Company issued 210,000 common shares pursuant to the exercise of 210,000 stock options with an exercise price of \$0.1125 per share for proceeds of \$23,625. In connection with the exercise, an amount of \$11,233 was reclassified from reserves to share capital.

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED JUNE 30, 2021 AND 2020

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11. SHARE CAPITAL AND RESERVES (Continued)

- On June 14, 2021, the Company issued 494,406 common shares pursuant to an exercise of 494,406 warrants with an exercise price of \$0.50 for proceeds of \$247,203. In connection with the exercise, an amount of \$15,336 was reclassified from reserves to share capital.
- On June 14, 2021, the Company issued 500,000 common shares pursuant to the exercise of 500,000 stock options with an exercise price of \$0.70 per share for proceeds of \$350,000. In connection with the exercise, an amount of \$147,790 was reclassified from reserves to share capital.

For the three months ended June 30, 2020

- On May 26, 2020, the Company issued 600,000 common shares with a fair value of \$552,000 in connection with the Pellaire Gold Property option agreement (Note 5).
- On June 9, 2020, the Company entered into an agreement with Fundamental Research Corp. ("Fundamental") whereby Fundamental agreed to prepare research reports for 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.

OBLIGATION TO ISSUE SHARES

During the three months ended June 30, 2021, the Company received proceeds of \$271,714 for which common shares were issued subsequent to the three months ended June 30, 2021 (Note 12).

As at June 30, 2021, the balance of obligation to issue shares includes cash proceeds received of \$271,714 (March 31, 2021 - \$Nil) and long-term accounts payable to be settled of \$2,271,767 (March 31, 2021 - \$2,271,767) (Note 6).

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 months ended June 30, 2021

- On April 1, 2021, the Company issued 150,000 stock options with an exercise price of \$0.55, vesting on issuance, expiring on March 19, 2026. The grant date fair value of the stock options was \$50,121 which was determined using the Black-Scholes option pricing model and the following assumptions: estimated volatility of 109.45%, risk free interest rate of 1%, expected life of 5 years, exercise price of \$0.55, a dividend yield of 0%, and a share price of \$0.44.

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

FOR THE THREE MONTHS ENDED JUNE 30, 2021 AND 2020

(Expressed in Canadian dollars)

(Unaudited)

11. SHARE CAPITAL AND RESERVES (Continued)*For the three months 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 grant date fair value of the stock options was \$137,096 which was determined using the Black-Scholes option pricing model and the following assumptions: estimated volatility of 109%, risk free interest rate of 0.34%, expected life of 5 years, exercise price of \$1.20, a dividend yield of 0%, and a share price of \$0.92.

Stock option activities are summarized in the table below.

	Number of Stock Options	Weighted Average Exercise Price
Balance, March 31, 2020	2,150,000	\$0.65
Granted	1,287,500	\$0.71
Exercised	(1,000,000)	\$0.11
Outstanding and exercisable, March 31, 2021	2,437,500	\$0.95
Granted	150,000	\$0.55
Exercised	(710,000)	\$0.53
Outstanding and exercisable, June 30, 2021	1,877,500	\$1.08

Details of the share options outstanding and exercisable as at June 30, 2021 are as follows:

Expiry date	Number of Options Outstanding	Number of Options Vested	Exercise Price
September 20, 2021	100,000	100,000	\$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
March 19, 2026	150,000	150,000	\$0.55
Balance, June 30, 2021	1,877,500	1,877,500	

As of June 30, 2021, the weighted average remaining life for outstanding options was 3.76 years (March 31, 2021 – 2.89 years).

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED JUNE 30, 2021 AND 2020

(Expressed in Canadian dollars)

(Unaudited)

11. SHARE CAPITAL AND RESERVES (Continued)

WARRANTS

No warrants were issued during the three months ended June 30, 2021 or 2020.

Warrant activities are summarized in the table below.

	Number of Warrants	Weighted Average Exercise Price
Outstanding, March 31, 2020	-	-
Granted	12,712,935	\$0.58
Exercised	(481,820)	\$0.50
Outstanding, March 31, 2021	12,231,115	\$0.58
Exercised	(562,948)	\$0.50
Outstanding and exercisable, June 30, 2021	11,668,167	\$0.59

As at June 30, 2021, the following warrants are outstanding:

Expiry date	Number of warrants	Exercise price
August 11, 2022	10,373,047	\$0.50
October 2, 2022	42,000	\$0.50
November 19, 2023	1,253,120	\$1.30
Balance, March 31, 2021	11,668,167	

As at June 30, 2021, the weighted average remaining life for outstanding warrants was 1.25 years (March 31, 2021 – 1.50 years).

12. SUBSEQUENT EVENTS

- On July 9, 2021, the Company issued 322,000 common shares pursuant to the exercise of 322,000 warrants with an exercise price of \$0.50 per warrant for proceeds of \$161,000.
- On July 15, 2021, the Company issued 4,761,154 flow-through units at a price of \$0.7425 per flow-through unit. Each flow-through unit will be comprised of one flow-through common share and one-half of one non-transferrable share purchase warrant. Each warrant is exercisable into one common share of the Company at an exercise price of \$0.75 per share for a period of 24 months from closing date of the offering.
- On July 15, 2021, the Company issued 609,758 flow-through units at a price of \$0.82 per flow-through unit. Each unit will be comprised of one flow-through common share and one-half of one non-transferrable share purchase warrant. Each warrant is exercisable into one common share of the Company at an exercise price of \$1.10 per share for a period of 24 months from closing date of the offering.
- On July 15, 2021, the Company issued 7,446,818 units at a price of \$0.55 per unit. Each unit will be comprised of one common share and one-half of one non-transferrable share purchase warrant. Each warrant is exercisable into one common share of the Company at an exercise price of \$0.75 per share for a period of 24 months from closing date of the offering.
- On July 15, 2021, the Company issued 159,516 finder's warrants in connection with the private placements completed. Each finder's warrant is exercisable into one common share of the Company at an exercise price of \$0.75 per share for a period of 24 months from the date of issuance.

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED JUNE 30, 2021 AND 2020

(Expressed in Canadian dollars)

(Unaudited)

12. SUBSEQUENT EVENTS (Continued)

- On July 15, 2021, the Company issued 42,683 finder's warrants in connection with the private placements completed. Each finder's warrant is exercisable into one common share of the Company at an exercise price of \$1.10 per share for a period of 24 months from the date of issuance.
- On July 15, 2021, the Company granted 960,000 stock options with an exercise price of \$0.70 which vested upon grant and expire on July 15, 2026.
- On July 20, 2021, the Company issued 390,253 common shares pursuant to the exercise of 390,253 warrants with an exercise price of \$0.50 per warrant for proceeds of \$195,127.
- On July 21, 2021, the Company increased its ownership interest in Gavin Mines Inc. to 100% by acquiring an additional 21.73% ownership interest by way of a cash payment of \$125,000 and issuance of 400,000 common shares. The cash payment of \$125,000 was advanced on May 28, 2021 and is included in the balance of prepaid expenses as at June 30, 2021.
- On August 3, 2021, the Company issued 60,202 common shares pursuant to the exercise of 60,202 warrants with an exercise price of \$0.50 per warrant for proceeds of \$30,101.
- On August 17, 2021, the Company issued 107,500 common shares pursuant to the exercise of 107,500 warrants with an exercise price of \$0.50 per warrant for proceeds of \$53,750.