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**BLUE LAGOON RESOURCES INC.**

Condensed Consolidated Interim Financial Statements

For the Three Months Ended June 30, 2022 and 2021

*(Expressed in Canadian dollars)*

*(Unaudited)*

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## **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**

**As at**  
(Expressed in Canadian dollars)  
(Unaudited)

	Note	June 30, 2022	March 31, 2022
<b><u>ASSETS</u></b>			
<b>Current assets</b>			
Cash		\$ 7,948,020	\$ 8,688,697
Receivables	5	198,255	146,564
Prepaid expenses		389,695	138,977
Investment in marketable securities	7	355,500	25,000
Total Current Assets		8,891,470	8,999,238
<b>Non-current assets</b>			
Reclamation deposits	6	649,644	642,644
Security deposits		12,534	12,534
Long-term investments	7	237,000	75,000
Exploration and evaluation assets	6	24,638,866	24,538,866
<b>Total Assets</b>		<b>\$ 34,429,514</b>	<b>\$ 34,268,282</b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	11	\$ 484,907	\$ 916,367
CEBA loan payable	9	56,668	-
		541,575	916,367
<b>Non-current liabilities</b>			
Flow-through premium	13	691,242	887,126
Long-term accounts payable	8	1,729,933	1,729,933
CEBA loan payable	9	-	55,088
Asset retirement obligation	10	1,365,395	1,354,223
Total Liabilities		4,328,145	4,942,737
<b>Equity</b>			
Share capital	14	45,636,506	43,937,037
Obligation to issue shares	8, 14	2,271,767	2,271,767
Reserves	14	4,502,735	4,495,247
Deficit		(22,309,639)	(21,378,506)
Total Equity		30,101,369	29,325,545
<b>Total Liabilities and Equity</b>		<b>\$ 34,429,514</b>	<b>\$ 34,268,282</b>

Nature of operations and going concern (Note 1)

Approved for issuance on behalf of the Board of Directors on August 29, 2022:

"Rana Vig"  
**Director**

"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,**  
(Expressed in Canadian dollars)  
(Unaudited)

	Note	June 30, 2022	June 30, 2021
<b>Expenses</b>			
General and administrative expenses		\$ 53,095	\$ 9,850
Consulting fees	11	95,611	179,201
Exploration expenses		1,142,691	1,714,101
Investor relations fees		-	206,748
Marketing		263,005	17,775
Professional fees		23,024	49,698
Stock-based compensation	11, 14	43,250	50,121
<b>Total Operating Expenses</b>		<b>(1,620,676)</b>	<b>(2,227,494)</b>
<b>Other Items</b>			
Accretion	9, 10	(12,752)	(14,856)
Interest income		17,356	5,499
Fair value gain on marketable securities	7	352,500	-
Gain on sale of marketable securities	7	136,555	-
Flow-through premium recovery	13	195,884	-
<b>Loss and comprehensive loss</b>		<b>\$ (931,133)</b>	<b>\$ (2,236,851)</b>
<b>Net loss attributable to:</b>			
Owners of the Company		\$ (931,133)	\$ (1,862,269)
Non-controlling interests	12	-	(374,582)
		\$ (931,133)	\$ (2,236,851)
<b>Basic and diluted loss per share</b>		<b>\$ (0.01)</b>	<b>\$ (0.03)</b>
<b>Weighted average number of common shares outstanding (basic and diluted)</b>		<b>101,052,256</b>	<b>73,707,409</b>

*(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 \$	Deficit \$	Total shareholders' equity \$	Non- controlling interests \$	Total equity \$
<b>Balance, March 31, 2021</b>	<b>73,406,049</b>	<b>29,515,010</b>	<b>2,271,767</b>	<b>2,962,477</b>	<b>(6,079,478)</b>	<b>28,669,776</b>	<b>1,423,953</b>	<b>30,093,729</b>
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)
<b>Balance, June 30, 2021</b>	<b>74,678,997</b>	<b>30,345,042</b>	<b>2,543,481</b>	<b>2,837,665</b>	<b>(7,941,747)</b>	<b>27,784,441</b>	<b>1,049,371</b>	<b>28,833,812</b>
<b>Balance, March 31, 2022</b>	<b>98,207,110</b>	<b>43,937,037</b>	<b>2,271,767</b>	<b>4,495,247</b>	<b>(21,378,506)</b>	<b>29,325,545</b>	<b>-</b>	<b>29,325,545</b>
Non-flow through shares issued in private placement	2,753,636	1,514,500	-	-	-	1,514,500	-	1,514,500
Share issuance costs – cash	-	(48,400)	-	-	-	(48,400)	-	(48,400)
Share issuance costs – warrants	-	(22,784)	-	22,784	-	-	-	-
Exercise of warrants	395,214	256,153	-	(58,546)	-	197,607	-	197,607
Stock-based compensation	-	-	-	43,250	-	43,250	-	43,250
Loss	-	-	-	-	(931,133)	(931,133)	-	(931,133)
<b>Balance, June 30, 2022</b>	<b>101,355,960</b>	<b>45,636,506</b>	<b>2,271,767</b>	<b>4,502,735</b>	<b>(22,309,639)</b>	<b>30,101,369</b>	<b>-</b>	<b>30,101,369</b>

*(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,**  
(Expressed in Canadian dollars)  
(Unaudited)

	<b>June 30, 2022</b>	<b>June 30, 2021</b>
<b>Cash flows used in operating activities</b>		
Loss for the period	\$ (931,133)	\$ (2,236,851)
Items not involving cash:		
Stock-based compensation	43,250	50,121
Accretion expense	12,752	14,856
Interest income	(2,951)	(3,811)
Gain on sale of marketable securities	(136,555)	-
Fair value gain on marketable securities	(352,500)	-
Flow-through premium recovery	(195,884)	-
Changes in non-cash working capital:		
Receivables	(48,740)	14,317
Prepaid expenses	(250,718)	(144,579)
Accounts payable and accrued liabilities	(221,460)	265,675
<b>Net cash used in operating activities</b>	<b>(2,083,939)</b>	<b>(2,040,272)</b>
<b>Cash flows used in investing activities</b>		
Acquisition of reclamation deposit	(7,000)	-
Proceeds from sale of marketable securities	146,555	-
Acquisition of marketable securities	(150,000)	-
Exploration and evaluation assets	(310,000)	-
<b>Net cash used in investing activities</b>	<b>(320,445)</b>	<b>-</b>
<b>Cash flows provided by financing activities</b>		
Proceeds from issuance of shares in private placement	1,514,500	-
Proceeds from exercise of warrants	197,607	281,474
Proceeds from exercise of stock options	-	373,625
Obligation to issue shares	-	271,714
Share issue costs	(48,400)	-
<b>Net cash provided by financing activities</b>	<b>1,663,707</b>	<b>926,813</b>
Change in cash	(740,677)	(1,113,459)
Cash, beginning	8,688,697	3,539,683
<b>Cash, ending</b>	<b>\$ 7,948,020</b>	<b>\$ 2,426,224</b>
<b>Non-cash transactions:</b>		
Amounts reclassified from reserves to share capital upon the exercise of warrants and stock options (Note 14)	\$ 58,546	\$ 174,933
Warrants issued for finders' fees (Note 14)	\$ 22,784	\$ -

*(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, 2022 AND 2021  
(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. 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. There is no assurance that the Company will be able to obtain such financing or obtain financing on favorable terms. As at June 30, 2022, the Company had working capital of \$8,349,895 with which the Company will be able to meet its existing obligations and commitments and fund ongoing operations in the normal course of business for at least twelve months from June 30, 2022.

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 29, 2022.

#### *Comparative Figures*

Certain comparative figures have been reclassified to conform with the basis of presentation applied for the three months ended June 30, 2022.

## **BLUE LAGOON RESOURCES INC.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED JUNE 30, 2022 AND 2021**

(Expressed in Canadian dollars)

(Unaudited)

## **2. BASIS OF PREPARATION (Continued)**

### *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.

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), Metal Mountain Resources Inc. (a Canadian corporation), which holds 100% interest in Lloyd Minerals Inc. (a Canadian corporation), and 100% 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, 2022 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 period of the change, if the change affects that period only, or in the period 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, 2022.



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

FOR THE THREE MONTHS ENDED JUNE 30, 2022 AND 2021

(Expressed in Canadian dollars)

(Unaudited)

**5. RECEIVABLES**

Receivables are composed of the following amount:

		<b>June 30, 2022</b>		<b>March 31, 2022</b>
GST receivable	\$	167,200	\$	118,460
Due from related parties (Note 11)		6,600		6,600
Other		24,455		21,504
	<b>\$</b>	<b>198,255</b>	<b>\$</b>	<b>146,564</b>

**6. 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>
	\$	\$	\$	\$	\$
<b>Balance, March 31, 2021</b>	-	5,584,354	16,624,148	6,059,114	28,267,616
Assignment of consideration	45,000	-	-	(150,000)	(105,000)
Acquisition costs – cash	-	-	255,000	-	255,000
Acquisition costs – shares	-	-	843,250	-	843,250
Impairment of exploration and evaluation assets	(45,000)	-	-	(5,209,114)	(5,254,114)
Asset retirement obligation – change in estimate	-	-	532,114	-	532,114
<b>Balance, March 31, 2022</b>	-	5,584,354	18,254,512	700,000	24,538,866
Acquisition costs – cash	-	-	100,000	-	100,000
<b>Balance, June 30, 2022</b>	-	5,584,354	18,354,512	700,000	24,638,866

*Golden Wonder Property*

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 Gama Explorations Inc. (“Gama”), whereby the Company sold its 100% interest in the Golden Wonder Property for consideration of:

- \$50,000 in cash (received);
- 1,000,000 common shares of Gama (received) (Note 7); and
- 0.5% net smelter return royalty.

## **BLUE LAGOON RESOURCES INC.**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED JUNE 30, 2022 AND 2021  
(Expressed in Canadian dollars)  
(Unaudited)

### **6. EXPLORATION AND EVALUATION ASSETS (Continued)**

Gama is a related company by way of a common director.

On November 12, 2021, the Company and Gama agreed to terminate the sale of the Golden Wonder Property; and as a result recorded a loss on termination of \$105,000 during the year ended March 31, 2022. Pursuant to the termination agreement, the Company and Gama agreed to apply the consideration previously exchanged of \$50,000 and 1,000,000 common shares of Gama to the option for purchase of an alternate property from the Company. On December 6, 2021, this consideration was applied to an option agreement related to the Big Onion project (described below).

During the year ended March 31, 2022, the Company recorded an impairment loss of \$45,000 with respect to the Golden Wonder Property on the basis that the Company does not intend to further advance the property.

#### *Pellaire Gold Property*

During the year ended March 31, 2021, the Company exercised its option to acquire the 100% interest in the Pellaire Gold Property, located in the Clinton Mining Division of British Columbia.

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, which if exercised would leave the vendor with a 0.5% NSR.

During the three months ended June 30, 2022, the Company purchased a reclamation bond in the amount of \$7,000 with respect to the Pellaire Gold Property.

#### *Dome Mountain Mine Group*

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 a reclamation deposit of \$600,000 related to the Dome Mountain Mine. As at June 30, 2022 and March 31, 2022, the accrued interest on the reclamation deposit of \$7,644 has been re-invested into the reclamation deposit's principal amount.

## **BLUE LAGOON RESOURCES INC.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED JUNE 30, 2022 AND 2021**

(Expressed in Canadian dollars)

(Unaudited)

#### **6. EXPLORATION AND EVALUATION ASSETS (Continued)**

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 1<sup>st</sup> truckload of Dome ore at the Nicola Mining Inc. mill which was made on June 15, 2021. The Company had agreed to pay 7% interest on those deferred payments. The Company had 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.
  - As a result of removing the mineralized material during the year ended March 31, 2022, an agreement was reached by both parties to settle all deferred and current royalty payments and accrued interest for total cash consideration of \$210,000 which the Company paid during the three months ended June 30, 2022. As at June 30, 2022, accounts payable and accrued liabilities include \$nil (March 31, 2022 - \$210,000) related to these royalty payments.
  - During the year ended March 31, 2022, the Company issued 1,937,500 common shares valued at \$843,250 as consideration for the purchase of various NSRs (Note 14). The value of the shares was estimated using the market price on grant date.
  - As at June 30, 2022, the Dome Mountain Project had not commenced commercial production.
- 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 per annum. The Company has the right to purchase 1% of the NSR for the aggregate sum of \$1,000,000.
- 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.
  - An agreement was reached by both parties to extend 2016, 2017, and 2018 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 which was made on June 15, 2021. The Company paid the deferred and current royalty payments for total cash consideration of \$100,000 during the three months ended June 30, 2022.
- Hilo Property; and
- Federal Creek Property
  - The interest in the property will be subject to a 3% NSR.

## **BLUE LAGOON RESOURCES INC.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED JUNE 30, 2022 AND 2021**

(Expressed in Canadian dollars)

(Unaudited)

#### **6. EXPLORATION AND EVALUATION ASSETS (Continued)**

##### *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.

The Company holds a reclamation deposit of \$35,000 related to the Big Onion Project.

On December 6, 2021, the Company entered into an option agreement with Gama for a 100% ownership and beneficial interest in the Big Onion property. In order to exercise its option on the Big Onion property, Gama is required to make cash and share payments to the Company and incur exploration and development expenditures on the property, as summarized below. The property is subject to an aggregate 3% net smelter return held by Metal Mountain Resources Inc. (1.125%) and an unrelated third party (1.875%).

- \$500,000 in cash paid in the following installments:
  - o \$50,000 upon execution of the agreement (assigned from Golden Wonder);
  - o \$50,000 on or before 12 months from the date on which the common shares of Gama are listed on a Canadian stock exchange (April 11, 2022, the “Purchaser’s Listing Date”);
  - o \$50,000 on or before 24 months following the Purchaser’s Listing Date;
  - o \$100,000 on or before 36 months following the Purchaser’s Listing Date; and
  - o \$250,000 on or before 48 months following the Purchaser’s Listing Date.
- 2,000,000 common shares of Gama issued in the following installments:
  - o 1,000,000 common shares upon execution of the agreement (assigned from Golden Wonder) issued into escrow and released in the following installments:
    - 100,000 on the Purchaser’s Listing Date (released)
    - 150,000 6 months following the Purchaser’s Listing Date
    - 150,000 12 months following the Purchaser’s Listing Date
    - 150,000 18 months following the Purchaser’s Listing Date
    - 150,000 24 months following the Purchaser’s Listing Date
    - 150,000 30 months following the Purchaser’s Listing Date
    - 150,000 36 months following the Purchaser’s Listing Date
  - o 250,000 common shares on or before 24 months following the Purchaser’s Listing Date;
  - o 250,000 common shares on or before 36 months following the Purchaser’s Listing Date; and
  - o 500,000 common shares on or before 48 months following the Purchaser’s Listing Date.
- \$1,500,000 expenditures on the Big Onion project as follows:
  - o \$250,000 on or before 12 months following the Purchaser’s Listing Date;
  - o An additional \$250,000 on or before 24 months following the Purchaser’s Listing Date;
  - o An additional \$250,000 on or before 36 months following the Purchaser’s Listing Date; and
  - o An additional \$750,000 on or before 48 months following the Purchaser’s Listing Date.

As a result of executing the option agreement with respect to the Big Onion Project, the Company assessed the recoverable amount of the Big Onion Project to be \$700,000 based on the total consideration expected to be received from Gama and recorded an impairment loss of \$5,209,114 during the year ended March 31, 2022.

## BLUE LAGOON RESOURCES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED JUNE 30, 2022 AND 2021  
(Expressed in Canadian dollars)  
(Unaudited)

### 7. INVESTMENTS

The Company's investments consist of common shares held in Gama Explorations Inc. (CNSX: GAMA) which were issued to the Company in connection with agreements for the sale or option of its exploration and evaluation assets (Note 6). During the three months ended June 30, 2022, the Company invested an additional \$150,000 in Gama in connection with a private placement for common shares.

		<b>Gama Explorations Inc.</b>
Cost, March 31, 2021 and 2022	\$	100,000
Additions		150,000
Disposals		(10,000)
Cost, June 30, 2022	\$	240,000
Adjustment to fair value, March 31, 2021 and 2022	\$	-
Fair value adjustment for the period		352,500
Adjustment to fair value, June 30, 2022	\$	352,500
<b>Fair value, March 31, 2022</b>	<b>\$</b>	<b>100,000</b>
<b>Fair value, June 30, 2022</b>	<b>\$</b>	<b>592,500</b>

During the three months ended June 30, 2022, the Company sold 100,000 common shares of Gama with a carrying value of \$10,000 for proceeds of \$146,555 and recorded a gain on sale of \$136,555.

As of June 30, 2022, 900,000 common shares of Gama were held in escrow and restricted from trading and scheduled to be released from escrow as follows: 150,000 common shares on October 11, 2022, 150,000 common shares on April 11, 2023, 150,000 common shares on October 11, 2023, 150,000 common shares on April 11, 2024, 150,000 common shares on October 11, 2024, and 150,000 common shares on April 11, 2025.

As of June 30, 2022, the fair value of the common shares of Gama was determined to be \$592,500 (March 31, 2022 - \$100,000), based on the closing share price of Gama on that date, of which \$355,500 (March 31, 2022 - \$25,000) is presented within current assets and relates to common shares which are free trading or become free trading within the next 12 months.

### 8. 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 (Note 14). In connection with the amendment, the Company recognized a gain on modification of \$1,546,330 during the year ended March 31, 2021.

## BLUE LAGOON RESOURCES INC.

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#### 8. LONG-TERM ACCOUNTS PAYABLE (Continued)

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.

#### 9. CEBA LOAN PAYABLE

During the year ended March 31, 2021, 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 income from government assistance during the year ended March 31, 2021. During the three months ended June 30, 2022, the Company recorded accretion expense of \$1,580 (June 30, 2021 - \$1,410) related to the CEBA loan.

#### 10. 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. 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:

<b>Balance, March 31, 2021</b>	<b>\$</b>	<b>768,326</b>
Changes in estimates		532,114
Accretion expense		53,783
<b>Balance, March 31, 2022</b>		<b>1,354,223</b>
Accretion expense		11,172
<b>Balance, June 30, 2022</b>	<b>\$</b>	<b>1,365,395</b>

The total undiscounted cash flow estimated to settle the obligations as at June 30, 2022 and March 31, 2022 is \$1,588,342 which was adjusted for inflation at the rate of 2.1% and then discounted at a rate of 3.3%. Certain minimum amounts of asset retirement obligation will occur each year with the significant amounts expected to be incurred in 2035.

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## 11. 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.

<b>For the three months ended</b>	<b>June 30, 2022</b>	<b>June 30, 2021</b>
Consulting fees	\$ 36,000	\$ 36,600

As at June 30, 2022, accounts payable and accrued liabilities include \$280 (March 31, 2022 - \$280) owing to the President, CEO and director of the Company. The amount payable is unsecured, non-interest bearing and has no fixed terms of repayment.

As at June 30, 2022, prepaid expenses include \$12,000 (March 31, 2022 - \$12,000) for consulting fees paid to a company controlled by the President, CEO and director of the Company which were applied to services rendered in a subsequent period.

As at June 30, 2022, receivables include \$6,600 (March 31, 2022 - \$6,600) due from directors of the Company for amounts paid on behalf of the directors. The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

During the year ended March 31, 2022, the Company entered into agreements with Gama with respect to exploration and evaluation assets and a subscription agreement for the purchase of common shares (Notes 6 and 7). Gama is a related company by way of a common director.

## 12. NON-CONTROLLING INTEREST ("NCI")

The net change in non-controlling interest is as follows:	<b>Total</b>
<b>Balance, March 31, 2021</b>	<b>\$ 1,423,953</b>
Share of loss	(230,002)
Change in ownership interest	(1,193,951)
<b>Balance, March 31, 2022 and June 30, 2022</b>	<b>\$ -</b>

As at March 31, 2021, the Company held a 78.28% ownership interest in Gavin Mines with \$1,423,953 NCI balance. On May 27, 2021, the Company acquired an additional 13.67% ownership interest in Gavin Mines for cash consideration of \$125,000. On July 21, 2021, the Company acquired the remaining 8.05% ownership interest in Gavin Mines for consideration of 400,000 common shares of the Company valued at \$252,000 (Note 14). As the Company previously controlled Gavin Mines, the transactions resulted in a change to the Company's ownership interest and were accounted for as equity transactions. The difference of \$816,951 between the non-controlling interest acquired of \$1,193,951, and the fair value of consideration paid of \$377,000, was recognized in reserves during the year ended March 31, 2022. As at June 30, 2022 and March 31, 2022, the Company held a 100% ownership interest in Gavin Mines.

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### 13. FLOW-THROUGH PREMIUM LIABILITY

On July 15, 2021, the Company closed private placements and issued 4,761,154 flow-through units at a price of \$0.7425 per unit for gross proceeds of \$3,535,157 and 609,758 flow-through units at a price of \$0.82 per unit for gross proceeds of \$500,002 (Note 14). Upon closing of the private placements, the Company recognized an aggregate flow-through premium liability in the statement of financial position of \$275,520 which reflects the value of income tax benefits that the Company will pass on to the flow-through shareholders.

On March 22, 2022, the Company closed private placements and issued 7,367,928 flow-through units at a price of \$0.78 per unit for gross proceeds of \$5,746,985 (Note 14). Upon closing of the private placements, the Company recognized an aggregate flow-through premium liability in the statement of financial position of \$1,031,510 which reflects the value of income tax benefits that the Company will pass on to the flow-through shareholders.

During the three months ended June 30, 2022, the Company incurred qualifying exploration expenditures resulting in recognition of flow-through premium recovery in the statement of loss and comprehensive loss of \$195,884 and a balance of flow-through premium liability of \$691,242 as of June 30, 2022.

<b>Balance, March 31, 2021</b>	\$	-
Issuance of flow-through shares		1,307,030
Flow-through recovery		(419,904)
<b>Balance, March 31, 2022</b>		<b>887,126</b>
Flow-through recovery		(195,884)
<b>Balance, June 30, 2022</b>	\$	<b>691,242</b>

### 14. SHARE CAPITAL AND RESERVES

Authorized: Unlimited number of common shares without par value.

#### COMMON SHARES

*For the three months ended June 30, 2022*

- On April 11, 2022, the Company closed a second tranche of its non-brokered private placement of 2,753,636 units at a price of \$0.55 per unit for aggregate proceeds of \$1,514,500. Each unit is comprised of one common share of the Company and one-half of one warrant. Each full warrant is exercisable into one common share of the Company at an exercise price of \$0.78 per share until April 15, 2024. The Company paid finders' fees in cash of \$48,400 and issued 88,000 finders' warrants with a fair value of \$22,784 estimated using the Black-Scholes pricing model. The finders' warrants may be exercised to acquire common shares of the Company at a price of \$0.78 per common share until April 15, 2024.
- The Company issued 395,214 common shares pursuant to the exercise of 395,214 warrants for gross proceeds of \$197,607. In connection with the warrant exercises, an amount of \$58,546 was reclassified from reserves to share capital.



## **BLUE LAGOON RESOURCES INC.**

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#### **14. SHARE CAPITAL AND RESERVES (Continued)**

*For the year ended March 31, 2022*

- On July 15, 2021, the Company issued 4,761,154 flow-through units at a price of \$0.7425 per flow-through unit for gross proceeds of \$3,535,157. Each flow-through unit is comprised of one flow-through common share and one-half of one share purchase warrant. Each whole 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. Upon issuance of the flow-through shares, the Company recognized a flow-through premium liability of \$202,349 (Note 13).
- On July 15, 2021, the Company issued 609,758 flow-through units at a price of \$0.82 per flow-through unit for gross proceeds of \$500,002. Each unit is comprised of one flow-through common share and one-half of one share purchase warrant. Each whole 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. Upon issuance of the flow-through shares, the Company recognized a flow-through premium liability of \$73,171 (Note 13).
- On July 15, 2021, the Company issued 7,446,818 units at a price of \$0.55 per unit for gross proceeds of \$4,095,748. Each unit is comprised of one common share and one-half of one share purchase warrant. Each whole 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.
- In connection with the private placements which closed on July 15, 2021, the Company incurred share issuance costs of \$200,129 and issued 159,516 finders' warrants with a fair value of \$55,546 estimated using the Black-Scholes pricing model. Each finders' warrant entitles the holder to purchase one common share at a price of \$0.75 per share until July 15, 2023. The Company also issued 42,683 finders' warrants with a fair value of \$12,063 estimated using the Black-Scholes pricing model. Each finders' warrant entitles the holder to purchase one common share at a price of \$1.10 per share until July 15, 2023.
- On July 21, 2021, the Company issued 400,000 common shares with a fair value of \$252,000 as consideration for the acquisition of the remaining 8.05% ownership interest in Gavin Mines (Note 12).
- On February 4, 2022, the Company issued 1,450,000 common shares with a fair value of \$580,000 as consideration for the purchase of certain NSRs on the Dome Mountain Project (Note 6).
- On February 23, 2022, the Company issued 487,500 common shares with a fair value of \$263,250 as consideration for the purchase of certain NSRs on the Dome Mountain Project (Note 6).
- On March 22, 2022, the Company issued 1,282,052 flow-through units at a price of \$0.78 per flow-through unit for gross proceeds of \$1,000,001. Each unit is comprised of one flow-through common share and one-half of one share purchase warrant. Each whole warrant is exercisable into one common share of the Company at an exercise price of \$0.90 per share until April 15, 2024. Upon issuance of the flow-through shares, the Company recognized a flow-through premium liability of \$179,487 (Note 13).
- On March 22, 2022, the Company issued 6,085,876 flow-through units at a price of \$0.78 per flow-through unit for gross proceeds of \$4,746,984. Each unit is comprised of one flow-through common share and one-half of one share purchase warrant. Each whole warrant is exercisable into one common share of the Company at an exercise price of \$0.78 per share until April 15, 2024. Upon issuance of the flow-through shares, the Company recognized a flow-through premium liability of \$852,023 (Note 13).

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### **14. SHARE CAPITAL AND RESERVES (Continued)**

- In connection with the private placements which closed on March 22, 2022, the Company incurred share issuance costs of \$234,719 and issued 224,000 finders' warrants with a fair value of \$57,525 estimated using the Black-Scholes pricing model. Each finders' warrant entitles the holder to purchase one common share at a price of \$0.78 per share until April 15, 2024. The Company also issued 76,923 finders' warrants with a fair value of \$16,168 estimated using the Black-Scholes pricing model. Each finders' warrant entitles the holder to purchase one common share at a price of \$0.90 per share until March 22, 2024.
- The Company issued 1,567,903 common shares pursuant to the exercise of 1,567,903 warrants with an exercise price of \$0.50 per share for proceeds of \$783,952. In connection with the warrant exercises, an amount of \$23,066 was reclassified from reserves to share capital.
- The Company issued 710,000 common shares pursuant to the exercise of 710,000 stock options for proceeds of \$373,625. In connection with the stock option exercises, an amount of \$159,023 was reclassified from reserves to share capital.
- In connection with stock option exercises, the Company incurred share issuance costs of \$7,601.

### **OBLIGATION TO ISSUE SHARES**

As at June 30, 2022 and March 31, 2022, the balance of obligation to issue shares includes long-term accounts payable to be settled of \$2,271,767 on the date of the commencement of commercial production on the Dome Mountain Mine (Note 8).

### **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.

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**14. SHARE CAPITAL AND RESERVES (Continued)***Stock Option Activity*

Stock option activities are summarized in the table below.

	Number of Stock Options	Weighted Average Exercise Price
<b>Outstanding and exercisable, March 31, 2021</b>	2,437,500	\$0.95
Granted	1,810,000	\$0.61
Exercised	(710,000)	\$0.53
Expired/Cancelled	(150,000)	\$0.98
<b>Outstanding and exercisable, March 31, 2022</b>	3,387,500	\$0.86
Granted	100,000	\$0.65
<b>Outstanding and exercisable, June 30, 2022</b>	3,487,500	\$0.85

Details of stock options outstanding and exercisable as at June 30, 2022 are as follows:

Expiry date	Number of Options Outstanding	Number of Options Vested	Exercise Price
February 17, 2025	250,000	250,000	\$0.60
March 26, 2025	840,000	840,000	\$1.50
April 11, 2025	100,000	100,000	\$0.65
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	100,000	100,000	\$0.55
July 15, 2026	960,000	960,000	\$0.70
January 11, 2027	450,000	450,000	\$0.45
<b>Total</b>	3,487,500	3,487,500	

As of June 30, 2022, the weighted average remaining life for outstanding options was 3.42 years (March 31, 2022 - 3.69 years).

During the three months ended June 30, 2022, the Company recorded stock-based compensation of \$43,250 (June 30, 2021 - \$50,121) related to the fair value of stock options which vested in the period. The following weighted average assumptions were applied using the Black-Scholes Option Pricing model to estimate the fair value of stock options granted during the three months ended June 30, 2022 and 2021:

	June 30, 2022	June 30, 2021
Risk-free interest rate	2.48%	1.00%
Expected life (years)	3.0	5.0
Annualized volatility	99.90%	109.45%
Dividend yield	-%	-%
Share price	\$0.68	\$0.44

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**14. SHARE CAPITAL AND RESERVES (Continued)****WARRANTS**

Warrant activities are summarized in the table below.

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
<b>Outstanding and exercisable, March 31, 2021</b>	12,231,115	\$0.58
Exercised	(1,567,903)	\$0.50
Issued	10,595,951	\$0.78
<b>Outstanding and exercisable, March 31, 2022</b>	21,259,163	\$0.69
Exercised	(395,214)	\$0.50
Issued	1,464,818	\$0.78
<b>Outstanding and exercisable, June 30, 2022</b>	22,328,767	\$0.70

As at June 30, 2022, the following warrants are outstanding:

<b>Expiry date</b>	<b>Number of warrants</b>	<b>Exercise price</b>
August 11, 2022 <sup>(1)</sup>	8,972,878	\$0.50
October 2, 2022	42,000	\$0.50
November 19, 2023	1,253,120	\$1.30
July 15, 2023	6,263,502	\$0.75
July 15, 2023	347,562	\$1.10
April 15, 2024	641,026	\$0.90
April 15, 2024	3,266,938	\$0.78
March 22, 2024	76,923	\$0.90
April 8, 2024	1,464,818	\$0.78
<b>Total</b>	<b>22,328,767</b>	

<sup>(1)</sup> Subsequent to the three months ended June 30, 2022, the warrants expired unexercised.

As at June 30, 2022, the weighted average remaining life for outstanding warrants was 0.87 years (March 31, 2022 - 0.89 years).

During the three months ended June 30, 2022, the Company issued finders' warrants in connection with private placements completed and recorded share issuance costs of \$22,784 (June 30, 2021 - \$nil) related to the grant date fair value of the warrants. The following weighted average assumptions were applied using the Black-Scholes Option Pricing model to estimate the fair value of finders' warrants issued during the three months ended June 30, 2022 and 2021:

	<b>June 30, 2022</b>	<b>June 30, 2021</b>
Risk-free interest rate	2.43%	-
Expected life (years)	2.02	-
Annualized volatility	77.1%	-
Dividend yield	-%	-
Share price	\$0.67	-