
BLUE LAGOON RESOURCES INC.

Consolidated Financial Statements

For the year ended March 31, 2021 and the four-month period ended

March 31, 2020

(Expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Blue Lagoon Resources Inc.

Opinion

We have audited the accompanying consolidated financial statements of Blue Lagoon Resources Inc. (the "Company"), which comprise the consolidated statements of financial position as at March 31, 2021 and 2020 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year ended March 31, 2021 and the fourth month period ended March 31, 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2021 and 2020, and its financial performance and its cash flows for the year ended March 31, 2021 and the fourth month period ended March 31, 2020 in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

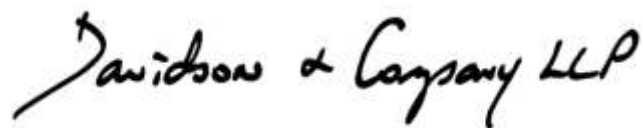
As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Alyson Neil.

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

July 29, 2021

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

	Note	March 31, 2021	March 31, 2020
<u>ASSETS</u>			
Current assets			
Cash and cash equivalents		\$ 3,539,683	\$ 1,248,567
Receivables		226,738	55,585
Prepaid expenses		383,117	37,621
Total current assets		4,149,538	1,341,773
Non-current assets			
Reclamation deposits	6	635,000	635,000
Security deposits		10,000	10,000
Long term investments	6	100,000	-
Exploration and evaluation assets	6	28,267,616	27,581,864
Total Assets		\$ 33,162,154	\$ 29,568,637
Current liabilities			
Accounts payable and accrued liabilities		\$ 520,702	\$ 239,014
Due to related parties	10	280	132,280
Total Current Liabilities		\$ 520,982	371,294
Long-term accounts payable	7	1,729,933	5,548,030
CEBA loan payable	8	49,184	-
Asset retirement obligation	9	768,326	585,977
		\$ 3,068,425	6,505,301
Equity			
Share capital	13	\$ 29,515,010	\$ 19,606,023
Obligation to issue shares	7,13	2,271,767	-
Reserves	13	2,962,477	2,096,081
Deficit		(6,079,478)	(1,103,572)
Equity attributable to owners of parent		28,669,776	20,598,532
Equity attributable to non-controlling interests	12	1,423,953	2,464,804
		30,093,729	23,063,336
Total Liabilities and Equity		\$ 33,162,154	\$ 29,568,637

Nature of operations and going concern (Note 1)

Subsequent events (Note 18)

Approved for issuance on behalf of the Board of Directors on July 29, 2021:

(Signed) "Rana Vig" Director

(Signed) "Gurdeep Bains" Director

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

BLUE LAGOON RESOURCES INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian dollars)

	Note	For the year ended March 31, 2021	For the four months ended March 31, 2020
Expenses			
General and administrative expenses		385,018	46,665
Consulting fees		785,684	122,929
Exploration expenses		5,274,588	52,848
Investor Relations		645,327	-
Professional fees		215,033	177,557
Stock-based compensation	13	557,982	15,793
Total Operating Expenses		7,863,632	415,792
Other Items			
Write-off of investment	11	-	(50,000)
Accretion	8,9	(63,439)	-
Write-off of exploration and evaluation asset	6	-	(25,000)
Interest income		25,146	1,615
Gain on modification of debt		1,546,330	-
Gain on sale of property	6	105,000	-
Income from government assistance	8	35,658	-
Flow through recovery	13	198,180	-
Net loss and comprehensive loss		\$ (6,016,757)	\$ (489,177)
Net loss attributable to:			
Owners of the Company		(4,975,906)	(382,928)
Non-controlling interests	12	(1,040,851)	(106,249)
		(6,016,757)	(489,177)
Basic and diluted loss per share		\$ (0.10)	\$ (0.01)
Weighted average number of common shares outstanding			
		62,599,356	33,888,669

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

BLUE LAGOON RESOURCES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian dollars)

	Number of shares	Share capital \$	Obligation to issue shares	Reserves \$	Accumulated Deficit \$	Total shareholders' equity (deficit) \$	Non- controlling interest \$	Total equity (deficit) \$
Balance, November 30, 2019	33,072,800	6,212,681	-	80,665	(720,644)	5,572,702	-	5,572,702
Shares issued for acquisition of Metal Mountain	12,153,651	11,059,822	-	-	-	11,059,822	5,819,196	16,879,018
Shares and options issued for interest in Gavin Mines	1,372,000	1,248,520	-	1,999,623	-	3,248,143	(3,248,143)	-
Shares issued for cash	666,667	1,000,000	-	-	-	1,000,000	-	1,000,000
Option payment	50,000	85,000	-	-	-	85,000	-	85,000
Stock-based compensation	-	-	-	15,793	-	15,793	-	15,793
Net loss	-	-	-	-	(382,928)	(382,928)	(106,249)	(489,177)
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 pursuant to private placement, net of share issue costs	21,716,081	6,946,038	-	294,633	-	7,240,671	-	7,240,671
Flow-through shares issued pursuant to private placement, net of share issue costs	2,202,000	2,133,129	-	68,871	-	2,202,000	-	2,202,000
Flow-through premium	-	(198,180)	-	-	-	(198,180)	-	(198,180)
Exercise of warrants	481,820	246,000	-	(5,090)	-	240,910	-	240,910
Option payment	600,000	552,000	-	-	-	552,000	-	552,000
Obligation to issue shares	-	-	2,271,767	-	-	2,271,767	-	2,271,767
Shares issued for services	91,030	67,500	-	-	-	67,500	-	67,500
Exercise of stock options	1,000,000	162,500	-	(50,000)	-	112,500	-	112,500
Stock-based compensation	-	-	-	557,982	-	557,982	-	557,982
Net loss	-	-	-	-	(4,975,906)	(4,975,906)	(1,040,851)	(6,016,757)
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

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

BLUE LAGOON RESOURCES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)

	For the year ended March 31, 2021		For the four months ended March 31, 2020	
Cash flows used in operating activities				
Net loss	\$	(6,016,757)	\$	(489,177)
Items not involving cash:				
Accretion expense		63,439		-
Income from government assistance		(35,658)		-
Flow through premium recover		(198,180)		-
Write-off of exploration and evaluation asset		-		25,000
Write-off investment		-		50,000
Gain on modification of debt		(1,546,330)		-
Gain on sale of property		(105,000)		-
Stock-based compensation		557,982		15,793
Shares for services		67,500		-
Changes in non-cash working capital:				
Receivables		(171,153)		7,220
Prepaid Expenses		(345,496)		-
Accounts payable and accrued liabilities		281,688		(3,172)
Due to related parties		(132,000)		-
Net cash used in operating activities		(7,579,965)		(394,336)
Cash flows used in investing activities				
Exploration and evaluation assets		(55,000)		(100,000)
Proceeds on the sale of exploration and evaluation property		50,000		-
Investment in Mag One		-		(50,000)
Cash acquired from acquisition of subsidiaries		-		2,364
Net cash used in investing activities		(5,000)		(147,636)
Cash flows used in financing activities				
Proceeds from CEBA loans		80,000		-
Proceeds from warrant exercises		240,910		-
Proceeds from issuance of shares		9,860,705		1,000,000
Proceeds from exercise of stock options		112,500		-
Share issue costs		(418,034)		-
Net cash provided by financing activities		9,876,081		1,000,000
Change in cash and cash equivalents		2,291,116		458,028
Cash and cash equivalents, beginning		1,248,567		790,539
Cash and cash equivalents, ending	\$	3,539,683	\$	1,248,567
Cash is consisted of:				
Cash held in bank	\$	3,539,683	\$	148,567
Guaranteed investment certificate		-		1,100,000
Total cash and cash equivalents	\$	3,539,683	\$	1,248,567
Non-cash transactions:				
Sale of exploration and evaluation property for shares (Note 6)	\$	100,000	\$	-
Change in estimate of ARO (Note 9)		123,752		-
Shares issued for acquisition of subsidiary		-		11,059,822
Shares issued for option payment (Note 5)		552,000		85,000
Shares issued for 27.44% interest in Gavin Mines Inc.		-		1,248,520

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

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2021 AND FOUR MONTH PERIOD ENDED MARCH 31, 2020

(Expressed in Canadian dollars)

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

These consolidated 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 consolidated 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 has impacted 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 consolidated financial statements of the Company have been prepared in accordance with International Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board.

The consolidated financial statements were authorized for issue by the Board of Directors on July 29, 2021.

Basis of Measurement and Consolidation

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The consolidated 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 consolidated financial statements are disclosed in Note 4.

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2021 AND FOUR MONTH PERIOD ENDED MARCH 31, 2020

(Expressed in Canadian dollars)

2. BASIS OF PREPARATION (Continued)

The fiscal year end of the Company was changed from November 30, 2020, to March 31, 2020 so as to align with the fiscal year ends of its acquired subsidiaries. Accordingly, the current financial statements are prepared for the year ended March 31, 2021, and the comparative figures stated in the consolidated statements of loss and comprehensive loss, consolidated statements of cash flows, consolidated statements of changes in equity and related notes are not comparable as they are for the 4-month transition period ended March 31, 2020.

These consolidated 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

Cash and Cash Equivalents

Cash and cash equivalents include cash balances and short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. As at March 31, 2021, the Company held cash of \$3,539,683 (March 31, 2020 - \$148,567) and cash equivalents of \$Nil (March 31, 2020 - \$1,100,000).

Exploration and Evaluation Expenditures

The cost of acquiring and maintaining the Company's interest in its exploration and evaluation assets are capitalized on a property-by-property basis pending determination of the technical feasibility and the commercial viability of the project. The capitalized costs are presented as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired. When a license is relinquished or a project is abandoned, the related costs are recognized in the statement of operations immediately.

Exploration and evaluation costs are expensed as incurred. Costs directly related to the acquisition are capitalized once the legal rights to explore the exploration and evaluation assets are acquired or obtained. When the technical and commercial viability of a mineral resource has been demonstrated which would be when the property's water treatment plan has been completed and approved for operation, and a development decision has been made, the capitalized costs of the related property are first tested for impairment, then transferred to mining assets and depreciated using the units of production method on commencement of commercial production.

Management reviews the carrying value of capitalized mineral property interests at least annually. The review is based on the Company's intentions for development of an undeveloped property. If a project does not prove viable, all unrecoverable costs associated with the project net of any previous impairment provisions are written off. Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped property. Amounts shown for mineral property interests, net of write-downs and recoveries, are not intended to represent present or future values.

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2021 AND FOUR MONTH PERIOD ENDED MARCH 31, 2020

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-lived Assets

At the end of each reporting period, the Company reviews the carrying amounts of its equipment and finite life intangible assets, including deferred evaluation and exploration expenditures, to determine whether any indication exists that any of those assets have suffered an impairment loss. If any such indication exists, it estimates the asset's recoverable amount to determine the extent of the impairment loss (if any). Where it is not possible to estimate an individual asset's recoverable amount, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where it can identify a reasonable and consistent basis of allocation, it also allocates corporate assets to individual cash-generating units, or otherwise allocates them to the smallest group of cash-generating units for which it can identify a reasonable and consistent allocation basis.

Recoverable amount is the higher of fair value less costs to dispose and value in use. In assessing value in use, the Company discounts estimated future cash flows to their present value using a pre-tax discount rate.

This rate reflects current market assessments of the time value of money and also reflects the risks specific to the asset (unless these risks are reflected in the estimates of future cash flows). If the Company estimates an asset or cash-generating unit's recoverable amount to be less than its carrying amount, it reduces the carrying amount to the recoverable amount, recognizing an impairment loss immediately in profit or loss. Where an impairment loss subsequently reverses, the Company increases the asset or unit's carrying amount to the revised estimate of its recoverable amount, without exceeding the carrying amount that would have existed if no impairment loss had been recognized in prior years. It recognizes a reversal of an impairment loss immediately in profit or loss.

Income Taxes

Income tax expense comprises current and deferred income tax. Current tax and deferred tax are recognized in the statement of operations, except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income (loss).

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting nor taxable income or loss.

Recognition of deferred tax assets for unused tax losses, tax credits, and deductible temporary differences is restricted to those instances where it is probable that future taxable income will be available against which the deferred tax asset can be utilized. At the end of each reporting year, the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Decommissioning Liabilities

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities and may from time to time incur decommissioning liabilities and the associated retirement costs related to site reclamation and abandonment. The fair value of the liability for a decommissioning liability is recorded when it is incurred and the corresponding increase to the asset is depreciated over the life of the asset.

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2021 AND FOUR MONTH PERIOD ENDED MARCH 31, 2020

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. As at March 31, 2021 a decommissioning liability of \$768,326 (March 31, 2020 - \$585,977) has been recorded.

Share-based Compensation

The grant date fair value of share-based payment awards granted to employees is recognized as stock-based compensation expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards.

The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where equity instruments are granted to parties other than employees, they are recorded by reference to the fair value of the services received. If the fair value of the services received cannot be reliably estimated, the Company measures the services received by reference to the fair value of the equity instruments granted, measured at the date the counterparty renders service.

All equity-settled share-based payments are reflected in share-based payment reserve, unless exercised. Upon exercise, shares are issued from treasury and the amount reflected in share-based payment reserve is credited to share capital, adjusted for any consideration paid.

Flow-through share private placement

As an incentive to complete private placements the Company may issue common shares, which by agreement are designated as flow-through shares. Such agreements require the Company to spend the funds from these placements on qualified exploration expenditures and renounce the expenditures and income tax benefits to the flow-through shareholders, resulting in no exploration deductions to the Company.

The shares are usually issued at a premium to the trading value of the Company's common shares. The premium is a reflection of the value of the income tax benefits that the Company must pass on to the flow-through shareholders. On issue, share capital is increased only by the non-flow-through share equivalent value. Any premium is recorded as a flow-through share premium liability.

The deferred income tax liability and reversal of the flow-through share premium liability are recorded on a pro-rata basis as the required exploration expenditure are completed.

Government Assistance

Loans received from in connection with government assistance programs are recognized initially at fair value, with the difference between the fair value of the loan based on prevailing market interest rates and the amount received recorded as government assistance in the consolidated statements of loss and comprehensive loss.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the period.

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2021 AND FOUR MONTH PERIOD ENDED MARCH 31, 2020

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The treasury stock method is used for the calculation of diluted loss per share, whereby all “in the money” stock options and share purchase warrants are assumed to have been exercised at the beginning of the period and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the period. When a loss is incurred during the period, basic and diluted loss per share are the same as the exercise of stock options and share purchase warrants is considered to be anti-dilutive.

Financial Instruments

Financial assets

Initial recognition and measurement

A financial asset is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue, except for financial assets carried at fair value through net income or loss (“FVTPL”). On initial recognition, a financial asset is classified as measured at amortized cost or fair value through profit or loss.

A financial asset is measured at amortized cost if it meets the conditions that:

- i) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows;
- ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and
- iii) is not designated as fair value through profit or loss.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets measured at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value therein, recognized in the statement of loss and comprehensive loss.

Financial assets measured at amortized cost

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment allowance, if:

- the asset is held within a business whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

Derecognition

A financial asset or, where applicable a part of a financial asset or part of a group of similar financial assets is derecognized when:

- the contractual rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost. Loss allowances for accounts receivables are always measured at an amount equal to lifetime expected credit losses if the amount is not considered fully recoverable. A financial asset carried at amortized cost is considered credit-impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Individually significant financial assets are tested for credit-impairment on an individual basis. The remaining financial assets are assessed collectively.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed.

Financial liabilities

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires. Financial liabilities are classified as either financial liabilities at fair value through profit or loss, net of any directly attributable transaction costs, or financial liabilities subsequently measured at amortized cost. All interest-related charges are reported in profit or loss within interest expense, if applicable.

Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs for assets or liabilities that are not based on observable market data.

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. Information about critical estimates and judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements are discussed below.

BLUE LAGOON RESOURCES INC.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Estimates

Stock-based compensation

The fair value of stock-based compensation is subject to the limitations of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share prices and forfeiture rates, changes in subjective input assumptions can materially affect the fair value estimate.

Economic recoverability and probability of future economic benefits of exploration and evaluation assets

Management has determined its exploration and evaluation assets, which have been recognized on the statement of financial position, are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geological data, scoping studies, accessible facilities, and existing and future permits.

Asset retirement obligation

Liabilities for asset retirement obligations are recognized at the time of environmental disturbance, in amounts equal to the discounted value of expected future mine reclamation and closure costs. The provision for asset retirement obligations represents management's best estimate of the present value of the future cash outflows required to settle the liability.

Factors that affect the final cost of remediation include estimates of the extent and costs of rehabilitation activities, the expected timing, technological changes, cost increases and changes in discount rates. Changes in the above factors can result in a change to the asset retirement obligation. This liability is reassessed and re-measured at each reporting date.

Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities. In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent that it is probable that taxable income will be available against which a deductible temporary difference can be utilized. This is deemed to be the case when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse in the same year as the expected reversal of the deductible temporary difference, or in years into which a tax loss arising from the deferred tax asset can be carried back or forward. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

Asset Acquisition

Estimates are made as to the fair value of assets and liabilities acquired. The Company measures all the assets acquired and liabilities assumed at their acquisition-date fair values.

BLUE LAGOON RESOURCES INC.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred and the services are received (except for the costs to issue debt or equity securities which are recognized according to specific requirements). The excess of the aggregate of the consideration paid to obtain control, and the amount of any non-controlling interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed (net assets), is recognized as intangible assets (for an asset acquisition) or goodwill (for a business combination) as of the acquisition date.

Judgements

Title to exploration and evaluation assets

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing historical characteristic of many properties. The Company has investigated title to its mineral properties and, to the best of its knowledge title to all of its properties is in good standing. Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

Asset acquisition versus business combination

Management had to apply judgment with respect to whether the acquisition of Metal Mountain Resources Inc. was an asset acquisition or business combination. The assessments required management to assess the inputs, processes and outputs of the companies acquired at the time of acquisition. Pursuant to the assessment, Metal Mountain Resources Inc. was considered to be an asset acquisition (note 5).

Going Concern

The assumption that the Company will be able to continue as a going concern is subject to critical judgments of management with respect to assumptions surrounding the short- and long-term operating budget, expected profitability, investing and financing activities, and management's strategic planning. Should those judgments prove to be inaccurate, management's continued use of the going concern assumption could be inappropriate.

5. ACQUISITION OF METAL MOUNTAIN RESOURCE INC.

On March 27, 2020, the Company completed the acquisition of all the issued and outstanding shares of Metal Mountain Resources Inc. ("Metal Mountain") in exchange for a total of 12,153,651 common shares of the Company. Metal Mountain Resources Inc. is a private Canadian company. Metal Mountain holds a 50.84% interest in Gavin Mines Inc. ("Gavin Mines"), which holds a 100% interest in the Dome Mountain mine. Metal Mountain also holds 100% of Lloyd Minerals Inc., which holds a 100% interest in the Big Onion porphyry copper project. Both projects are located in northwest British Columbia.

The Company has determined that Metal Mountain does not have the inputs and processes capable of producing outputs that are necessary to meet the definition of a business as defined by IFRS 3. Therefore, the acquisition is accounted for as an asset acquisition whereby the Company has acquired all of the net assets of Metal Mountain.

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5. ACQUISITION OF METAL MOUNTAIN RESOURCE INC. (Continued)

The Company considered the Metal Mountain transaction an asset acquisition with details as follows:

Consideration

Fair value of 12,153,651 common shares	\$	11,059,822
Settlement of intercompany balances		43,493
		<u>11,103,315</u>
Non-controlling interests		5,819,196
	\$	<u>16,922,511</u>

The cost of the acquisition was allocated to assets and liabilities as follows:

Cash	\$	2,364
Receivables		44,837
Deposits		645,000
Prepaid expenses		37,621
Exploration and evaluation asset – Dome Mountain Project		16,405,396
Exploration and evaluation asset – Big Onion		6,059,114
Asset retirement obligation		(585,977)
Accounts payable and accrued liabilities		(137,814)
Long-term accounts payable		(5,548,030)
Net assets acquired	\$	<u>16,922,511</u>

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

6. EXPLORATION AND EVALUATION ASSETS

	<i>Golden Wonder Project</i>	<i>Pellaire Gold Property</i>	<i>Gordon Lake Project</i>	<i>Dome Mountain Mine</i>	<i>Big Onion Project</i>	<i>Total</i>
	\$	\$	\$	\$	\$	\$
Balance, November 30, 2019	45,000	4,912,354	-	-	-	4,957,354
Acquisition cost – cash	-	-	25,000	75,000	-	100,000
Acquisition - shares	-	85,000	-	16,405,396	6,059,114	22,549,510
Write off of exploration and evaluation asset	-	-	(25,000)	-	-	(25,000)
Balance, March 31, 2020	45,000	4,997,354	-	16,480,396	6,059,114	27,581,864
Acquisition cost – cash	-	35,000	-	20,000	-	55,000
Acquisition - shares	-	552,000	-	-	-	552,000
Sale of property	(45,000)	-	-	-	-	(45,000)
Asset retirement obligation-change in estimate	-	-	-	123,752	-	123,752
Balance, March 31, 2021	-	5,584,354	-	16,624,148	6,059,114	28,267,616

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6. EXPLORATION AND EVALUATION ASSETS (Continued)

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 after the company commence trading on the Canadian Stock 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
- 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 in connection with this sale.

Gordon Lake Gold Property

On December 3, 2019, the Company entered into an option agreement with Exgen Resources Inc. (“Exgen”) to acquire 80% interest in the Gordon Lake gold property located in the Northwest Territories of Canada by:

- Incurring \$250,000 in exploration expenditures during the first year of the option;
- A cash payment of \$100,000 and issuance of 100,000 common shares of the Company over a period of two years; (\$25,000 paid)
- A cash payment of \$50,000 per year until the commencement of commercial production;
- Issuance of 100,000 shares upon obtaining a NI 43-101 technical report establishing a resource estimate;
- Issuance of 200,000 common shares upon obtain a further technical report establishing economics on the property; and
- Issuance of 350,000 common shares upon commencing commercial production.

In addition, the Company will grant a 2.5% net smelter royalty to Exgen, with all prior cash payments being credited towards royalty payments.

As at March 31, 2020, the Company decided to terminate the Gordon Lake Option Agreement and wrote off the 25,000 capitalized for the property balance.

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.

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6. EXPLORATION AND EVALUATION ASSETS (Continued)

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.

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% 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.

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 right to repurchase a 2% NSR royalty from the vendor was reduced from US\$2 million to US\$1 million, which if exercised would leave the vendor with a 0.5% NSR royalty.

Dome Mountain Mine Group and Big Onion Project

On March 27, 2020, the Company acquired 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 (Note 5).

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 paid \$20,000 for the 2020 royalty advance on February 26, 2021.
- **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 and the 2020 payment was due and paid on July 1, 2021.

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6. EXPLORATION AND EVALUATION ASSETS (Continued)

- An agreement was reached by both parties to extend 2016, 2017, and 2018 annual royalty payments.
- Hilo Property; and
- Federal Creek Property
 - The interest in the property will be subject to a 3% NSR.

7. 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 (Note 5). 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.

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.

8. 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, the loan will convert into a regular loan with a three-year term at 5% 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, the Company recorded accretion expense of \$4,842 (2020 - \$Nil).

9. 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.

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9. ASSET RETIREMENT OBLIGATION (Continued)

A continuity of the asset retirement obligation is as follows:

Balance, November 30, 2019	\$	-
Addition		585,977
Balance, March 31, 2020		585,977
Changes in estimates		123,752
Accretion expense		58,597
Balance, March 31, 2021	\$	768,326

The total undiscounted cash flow estimated to settle the obligations as at March 31, 2021 is \$2,068,775 (2020 -\$2,167,640) which was adjusted for inflation at the rate of 1.2% (2020 – 1.2%) and then discounted at a risk-adjusted rate of 7% (2020 - 10%). Certain minimum amounts of ARO will occur each year with the significant amounts expected to be incurred in 2035.

10. 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 year ended March 31, 2021	For the four months ended March 31, 2020
Management fees	\$ 144,000	\$ 37,800
Share-based compensation	132,644	15,793
	\$ 276,644	\$ 53,593

As at March 31, 2021, there was \$280 (March 31, 2020 - \$132,280) owing to the officers or directors of the Company.

11. MAG ONE AGREEMENT

On January 7, 2020, entered into an earn-in and operating agreement (the "Agreement") with Mag One Products Inc. ("MOPI"), and MOPI's wholly owned subsidiary, Mag One Operations Inc. ("Mag One") dated January 6, 2020 pursuant to which the Company may acquire an option to acquire up to a 70% equity joint venture ownership interest in Mag One through the purchase of shares of Mag One. Mag One is in the business of development and commercialization of technologies for the processing and production of magnesium metal, magnesium compounds, by-products and vertically integrated co-products from serpentinite tailings.

On April 15, 2020, the Company entered into a mutual termination agreement and release with MOPI and Mag One to terminate the agreement. As a result, \$50,000 paid in connection with the Agreement was expensed during the period ended March 31, 2020.

12. 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.

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12. NON-CONTROLLING INTEREST (“NCI”) (Continued)

	March 31, 2021	March 31, 2020
Current assets	305,906 \$	70,818
Non-current assets	17,110,394	24,078,436
Current liabilities	470,217	5,872,171
Non-current liabilities	1,549,205	585,977
Revenues	-	-
Net loss	(4,792,134) \$	(531)
The net change in non-controlling interest is as follows		
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		(1,040,851)
Balance, March 31, 2021	\$	1,423,953

Concurrently with the acquisition of Metal Mountains Resources Inc. (note 5), the Company issued 1,372,000 common shares of the Company and 840,000 stock options to AGC Investments Inc. to acquire an additional 27.44% interest in Gavin Mines Inc. The fair value of the common shares and stock options were determined to be \$1,248,520 and \$511,006, respectively. 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 during the year ended March 31, 2020.

As at March 31, 2021, the Company holds 78.28% (2020 – 78.28%) ownership interest in Gavin Mines with \$1,423,953 (March 31, 2020 - \$2,464,804) NCI balance.

13. SHARE CAPITAL AND RESERVES

Authorized: Unlimited number of common shares without par value.

COMMON SHARES

For the year ended March 31, 2021

- On May 26, 2020, the Company issued 600,000 shares in connection with the Pellaire Gold Property option agreement. The shares have a fair value of \$552,000 (note 6).
- On June 9, 2020, the Company entered into an agreement with Fundamental Research Corp. (“Fundamental”) whereby Fundamental agrees to prepare research reports to the Company in consideration for \$19,500 plus GST, of which \$17,500 was paid by the issuance of 17,500 common shares of the Company.
- 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, 711,665 finder's warrants were issued with a fair value of \$294,633 estimated using the Black-Scholes option pricing model with the following weighted average

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13. SHARE CAPITAL AND RESERVES (Continued)

- assumptions: expected dividend yield- 0%, risk-free rate- 0.25%, expected volatility- 97.1%, exercise price- \$0.50, share price - \$0.70 and an expected life- two years. 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 and incurred cash share issue cost of \$418,034 in connection with the private placement.
- 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 year ended March 31, 2021, the Company issued 73,530 common shares to represent the investor relations fees of \$50,000 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 with the following weighted average assumptions: expected dividend yield- 0%, risk-free rate- 0.26%, expected volatility- 97.4%, exercise price- \$1.30, share price - \$0.87 and an expected life- three years. Each Finder's warrant entitles the holder to purchase one common share at a price of \$1.30 per share until November 23, 2023.

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. By March 31, 2021, the Company had fulfilled its commitment to incur \$2,202,000 in exploration expenses and as a result the Company has recorded \$198,180 in flow through recovery income.

- During the year March 31, 2021, the Company issued 481,820 common shares pursuant to the exercise of 481,820 warrants with a weighted average exercise price of \$0.50 per share for proceeds of \$240,910. In connection with the exercise, an amount of \$5,090 was reclassified from reserves to share capital.
- During the year March 31, 2021, the Company issued 1,000,000 common shares pursuant to the exercise of 1,000,000 stock options with a weighted average exercise price of \$0.1125 per share for proceeds of \$112,500. In connection with the exercise, an amount of \$50,000 was reclassified from reserves to share capital.

For the four-month period ended March 31, 2020

- On January 21, 2020, the Company closed the first tranche of a non-brokered private placement for proceeds of \$850,000 and issued 566,667 non-flow-through common shares.
- On January 31, 2020, the Company closed the second tranche of a non-brokered private placement for proceeds of \$150,000 and issued 100,000 non-flow-through common shares.
- On February 27, 2020, the Company issued 50,000 shares in connection with the Pellaire Gold Property option agreement. The shares have a fair value of \$85,000.
- On March 27, 2020, the Company issued 12,153,651 common shares in connection to the Metal Mountain transaction (note 5). The shares have a fair value of \$11,059,822.

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13. SHARE CAPITAL AND RESERVES (Continued)

- The Company issued 1,372,000 common shares in exchange for purchasing an additional 27.44% ownership interest in Gavin Mines (note 5). The shares were determined to have a fair value of \$1,248,520.

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 year ended March 31, 2021

- On June 2, 2020, the Company issued 200,000 stock options with an exercise price of \$1.20, vesting immediately on grant, expiring on June 2, 2025. The fair value of the stock options was \$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, a dividend yield of 0%, and a share price of \$0.92.
- On July 13, 2020, the Company issued 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 \$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, a dividend yield of 0% and a share price of \$0.49.
- On August 20, 2020, the Company issued 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 \$175,140 using the Black-Scholes option pricing model 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, a dividend yield of 0% and a share price of \$0.65.
- On August 20, 2020, the Company issued 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 \$155,334 using the Black-Scholes option pricing model determined using the following weighted average assumptions: estimated volatility of 112%, risk free interest rate of 0.22%, expected life of 0.76 years, exercise price of \$0.70, a dividend yield of 0% and a share price of \$0.79.
- On February 19, 2021, the Company issued 1,000,000 common shares pursuant to the exercise of stock options with a weighted average exercise price of \$0.1125 for total proceeds of \$112,500. In connection with the exercise, an amount of \$50,000 was reclassified from reserves to share capital.

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(Expressed in Canadian dollars)

13. SHARE CAPITAL AND RESERVES (Continued)*For the four-month period ended March 31, 2020*

- The Company issued 840,000 stock options, vesting on grant, with an exercise price of \$1.50 per option to AGC in consideration for an additional 27.44% ownership interest in Gavin mines (note 5). The fair value of the stock options was \$511,006 using the Black-Scholes option pricing model using the following assumptions: estimated volatility of 100%, risk free interest rate of 0.62%, expected life of 1.5 years, exercise price of \$1.50 and a share price of \$0.91.

	Number of Stock Options	Weighted Average Exercise Price
Balance, November 30, 2019	1,310,000	0.20
Granted	840,000	1.5
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

Details of the share options outstanding and exercisable as at March 31, 2021 are as follows:

Expiry date	Number of Options Outstanding	Number of Options Vested	Exercise Price
July 19, 2021	210,000	210,000	0.11
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
August 20, 2021	500,000	500,000	0.70
Balance, March 31, 2021	2,437,500	2,437,500	

As of March 31, 2021, the weighted average remaining life for outstanding options was 2.89 years (2020 – 2.75 years).

WARRANTS*For the year ended March 31, 2021*

- On August 11, 2020, the Company issued 711,665 finder's warrants in connection to a private placement. The warrants were determined to have a fair value of \$294,633 using the Black-Scholes option pricing model determined using the following assumptions: estimated volatility of 97%, risk free interest rate of 0.25%, expected life of 2 years, exercise price of \$0.50 and a share price of \$0.70. Each warrant entitles the holder to purchase one common share at a price of \$0.50 for a period of two years from the closing of the private placement.
- On November 19, 2020, the Company issued 152,120 finder's warrants in connection to a private placement. The warrants were determined to have a fair value of \$68,871 using the Black-Scholes option pricing model determined using the following assumptions: estimated volatility of 97%, risk free interest rate of 0.26%, expected life of 3 years, exercise price of \$1.30 and a share price of \$0.87. Each warrant entitles the holder to purchase one common share at a price of \$1.30 per share until November 19, 2023.

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13. SHARE CAPITAL AND RESERVES (Continued)

The changes in warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, November 30, 2019 and March 31, 2020	-	-
Granted	12,712,935	0.58
Exercised	(481,820)	(0.50)
Outstanding and exercisable, March 31, 2021	12,231,115	0.58

As at March 31, 2021, the following warrants are outstanding:

Expiry date	Number of warrants	Exercise price
August 11, 2022	10,935,995	0.50
October 2, 2022	42,000	0.50
November 19, 2023	1,253,120	1.30
Balance, March 31, 2021	12,231,115	

As of March 31, 2021, the weighted average remaining life for outstanding options was 1.50 years.

14. SEGMENTED INFORMATION

The Company operates in one reportable operating segment – mineral exploration. The Company's resource properties are all located in Canada and its corporate assets are located in Canada. The Company is in the exploration stage, and accordingly, has no reportable segment revenues.

15. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which will allow it to pursue its business objectives.

Therefore, the Company monitors the level of risk incurred in its expenditures relative to its capital structure. The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund the operation of the Company.

The Company considers its capital structure to include equity. The Company monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the potential underlying assets. To maintain or adjust the capital structure, the Company may issue new equity if available on favorable terms.

The Company is not exposed to any externally imposed capital requirements. There were no changes in the Company's approach to capital management during the year ended March 31, 2021.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values

The judgements and estimates are made in determining the fair values of the financial instruments that are recognized and measured at fair value in the consolidated financial statements. To provide an indication about the reliability of the inputs

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16. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

used in determining fair value, The Company has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level is as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of the of the Company's financial assets and current financial liabilities are assumed to approximate their carrying values due to their short-term nature. The carrying values of the CEBA loan approximate its fair value given the market rate of interest. The fair value of the Company's long-term accounts payable is assumed to approximate their carrying value, due to the nature of the item and are classified as long term as the Company is not expected to reach commercial production within the next 12 months (note 5).

Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. As at March 31, 2021, the Company had cash and cash equivalents of \$3,539,683 to settle current liabilities of \$520,982. The Company intends to finance future requirements from its existing cash reserves together with share issuances, the exercise of options and/or warrants, debt or other sources. There can be no certainty of the Company's ability to raise additional financing through these means.

Credit risk

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

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate because of changes in market interest rates. The Company does not have any variable rate debt, The interest earned on cash and cash equivalents is insignificant and the Company does not rely on interest to fund its operations. As a result, the Company is not exposed to significant interest rate risk.

Price Risk

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

Currency Risk

Currency risk is the risk that changes in foreign exchange rates may have an effect on future cash flows associated with financial instruments. As at March 31, 2021, the Company does not hold any financial instruments denominated in foreign currencies, as such the Company is not exposed to currency risk.

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(Expressed in Canadian dollars)

17. INCOME TAXES

The reconciliation of the provision for income taxes at the federal statutory rate compared to the Company's income tax expense as reported is as follows:

	For the year ended	For the Four-
	March 31, 2021	months ended
		March 31, 2020
Net loss	\$ (6,016,757)	\$ (489,177)
Statutory rate	27%	27%
Expected income tax expense (recovery)	(1,625,000)	(132,000)
Tax effect of:		
Change in statutory, foreign tax, foreign exchange rates and other	34,000	-
Permanent differences	69,000	7,000
Share issue costs	(113,000)	-
Other	(1,052,000)	(219,000)
Change in unrecognized deferred income tax assets	2,687,000	344,000
Income tax provision	\$ -	\$ -

The significant components of deferred income tax assets at March 31, 2021 and March 31, 2020 are as follows:

	March 31, 2021	March 31, 2020
Non-capital losses carried forward	\$ 4,253,000	\$ 1,388,000
Allowable capital losses	129,000	136,000
Property and equipment	678,000	659,000
Exploration and evaluation assets	2,200,000	2,153,000
Asset retirement obligation	174,000	
Share issuance costs	97,000	8,000
Unrecognized deferred income tax assets	(7,531,000)	(4,344,000)
	\$ -	\$ -

As at March 31, 2021, the Company has non-capital losses carried forward of \$15,751,000, which are available to offset future years' taxable income that expire between 2028 to 2041.

The potential future tax benefits of these expenses and losses carried-forward have not been reflected in these financial statements due to the uncertainty regarding their ultimate realization. Tax attributes are subject to review, and potential adjustment by tax authorities.

18. SUBSEQUENT EVENTS

- 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 warrant for proceeds of \$3,142
- 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 warrant for proceeds of \$5,700
- 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 option for proceeds of \$23,625

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18. SUBSEQUENT EVENTS (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 and 500,000 common shares pursuant to the exercise of 500,000 stock options at a price of \$0.70 per share.
- On July 9, 2021, the Company issued 322,000 units at a price of \$0.50 per share. Each unit will be comprised of one common share and one-half of one transferrable share purchase warrant. Each warrant is exercisable into one common share at an exercise price of \$0.50 per share for a period of 24 months from the closing date of the offering.
- On July 15, 2021, the Company issued 4,761,154 flow-through units at a price of \$0.7425 per FT1 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 \$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 FT1 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 granted 960,000 stock options at an exercise price of \$0.70 vesting on grant date and expiring 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 400,00 common shares