
BLUE LAGOON RESOURCES INC.

Condensed Consolidated Interim Financial Statements

For the Three and Six Months Ended September 30, 2021 and 2020

(Expressed in Canadian dollars)

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements of Blue Lagoon Resources Inc. (the “Company”) have been prepared by management in accordance with International Financing Reporting Standards (“IFRS”). These condensed consolidated interim financial statements, which are the responsibility of management, are unaudited and have not been reviewed by the Company’s auditors. The Company’s Audit Committee and Board of Directors have reviewed and approved these condensed consolidated interim financial statements. In accordance with the disclosure requirements of National Instrument 51-102 released by the Canadian Securities Administrators, the Company’s independent auditors have not performed a review of these condensed consolidated interim financial statements.

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

	Note	September 30, 2021	March 31, 2021
<u>ASSETS</u>			
Current assets			
Cash and cash equivalents		\$ 7,684,362	\$ 3,539,683
Receivables	5	1,669,135	226,738
Prepaid expenses		419,359	383,117
Total Current Assets		9,772,856	4,149,538
Non-current assets			
Reclamation deposits	6	635,000	635,000
Security deposits		10,000	10,000
Long-term investments	6	100,000	100,000
Exploration and evaluation assets	6	28,292,616	28,267,616
Total Assets		\$ 38,810,472	\$ 33,162,154
Current liabilities			
Accounts payable and accrued liabilities		\$ 1,062,250	\$ 520,702
Due to related party	10	280	280
Total Current Liabilities		1,062,530	520,982
Flow-through premium liability	12	103,019	-
Long-term accounts payable	7	1,729,933	1,729,933
CEBA loan payable	8	52,060	49,184
Asset retirement obligation	9	795,217	768,326
Total Liabilities		3,742,759	3,068,425
Equity			
Share capital	13	38,631,827	29,515,010
Obligation to issue shares	13	2,271,767	2,271,767
Reserves	13	4,079,408	2,962,477
Deficit		(9,915,289)	(6,079,478)
Equity attributable to owners of parent		35,067,713	28,669,776
Equity attributable to non-controlling interests	11	-	1,423,953
		35,067,713	30,093,729
Total Liabilities and Equity		\$ 38,810,472	\$ 33,162,154

Nature of operations and going concern (Note 1)

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

(Signed) “*Rana Vig*” _____ Director

(Signed) “*Gurdeep Bains*” _____ Director

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

BLUE LAGOON RESOURCES INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

For the three and six months ended September 30, 2021 and 2020

(Expressed in Canadian dollars)

(Unaudited)

	Note	Three months ended September 30,		Six months ended September 30,	
		2021	2020	2021	2020
Expenses					
General and administrative expenses		\$ 292,675	\$ 41,351	\$ 320,300	\$ 71,621
Consulting fees		322,657	191,304	501,858	369,620
Exploration expenses		904,918	1,146,581	2,619,019	1,284,458
Investor relations fees		33,026	68,142	239,774	135,406
Professional fees		71,837	61,612	121,535	148,050
Stock-based compensation	10,13	505,162	319,243	555,283	462,311
Total Operating Expenses		(2,130,275)	(1,828,233)	(4,357,769)	(2,471,466)
Other Items					
Accretion	8,9	(14,911)	-	(29,767)	-
Interest income		2,900	9,952	8,399	14,397
Flow-through recovery	12	172,501	-	172,501	-
Net loss and comprehensive loss		\$ (1,969,785)	\$ (1,818,281)	\$ (4,206,636)	\$ (2,457,069)
Net loss attributable to:					
Owners of the Company		(1,973,542)	(1,664,937)	(3,835,811)	(2,270,081)
Non-controlling interests	11	3,757	(153,344)	(370,825)	(186,988)
		(1,969,785)	(1,818,281)	(4,206,636)	(2,457,069)
Basic and diluted loss per share		\$ (0.02)	\$ (0.03)	\$ (0.05)	\$ (0.04)
Weighted average number of common shares outstanding		86,400,857	59,654,210	80,088,815	53,635,140

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

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

	Number of shares	Share capital \$	Obligation to issue shares \$	Reserves \$	Accumulated Deficit \$	Total shareholders' equity \$	Non- controlling interests \$	Total equity \$
Balance, March 31, 2020	47,315,118	19,606,023	-	2,096,081	(1,103,572)	20,598,532	2,464,804	23,063,336
Shares issued for cash, net of financing fees	21,567,729	6,987,448	-	276,774	-	7,264,222	-	7,264,222
Option payment	600,000	552,000	-	-	-	552,000	-	552,000
Shares issued for services	17,500	17,500	-	-	-	17,500	-	17,500
Obligation to issue shares	-	-	3,830,054	-	-	3,830,054	-	3,830,054
Stock-based compensation	-	-	-	462,311	-	462,311	-	462,311
Net loss	-	-	-	-	(2,270,081)	(2,270,081)	(186,988)	(2,457,069)
Balance, September 30, 2020	69,500,347	27,162,971	3,830,054	2,835,166	(3,373,653)	30,454,538	2,277,816	32,732,354
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
Shares issued for cash, net of financing fees	12,817,730	7,863,171	-	67,609	-	7,930,780	-	7,930,780
Flow-through premium	-	(275,520)	-	-	-	(275,520)	-	(275,520)
Shares issued for interest in Gavin Mines	400,000	252,000	-	676,128	-	928,128	(1,053,128)	(125,000)
Exercise of warrants	1,442,903	744,518	-	(23,066)	-	721,452	-	721,452
Exercise of stock options	710,000	532,648	-	(159,023)	-	373,625	-	373,625
Stock-based compensation	-	-	-	555,283	-	555,283	-	555,283
Net loss	-	-	-	-	(3,835,811)	(3,835,811)	(370,825)	(4,206,636)
Balance, September 30, 2021	88,776,682	38,631,827	2,271,767	4,079,408	(9,915,289)	35,067,713	-	35,067,713

(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 six months ended September 30, 2021 and 2020
(Expressed in Canadian dollars)
(Unaudited)

	September 30, 2021	September 30, 2020
Cash flows used in operating activities		
Net loss	\$ (4,206,636)	\$ (2,457,069)
Items not involving cash:		
Accretion expense	29,767	-
Stock-based compensation	555,283	479,811
Interest income	(3,811)	-
Shares issued for services	-	11,957
Flow-through premium recovery	(172,501)	-
Changes in non-cash working capital:		
Receivables	(1,438,586)	(3,547)
Prepaid expenses	(36,242)	(698,871)
Accounts payable and accrued liabilities	541,548	(128,518)
Due to related parties	-	(132,000)
Net cash used in operating activities	(4,731,178)	(2,928,237)
Cash flows used in investing activities		
Exploration and evaluation assets	(25,000)	(55,000)
Investment in Gavin Mines	(125,000)	-
Net cash used in investing activities	(150,000)	(55,000)
Cash flows provided by financing activities		
Proceeds from exercise of warrants	721,452	-
Proceeds from exercise of stock options	373,625	-
Proceeds from issuance of shares	8,130,909	7,523,705
Share issue costs	(200,129)	(259,483)
Proceeds from long-term debt	-	80,000
Net cash provided by financing activities	9,025,857	7,344,222
Change in cash and cash equivalents	4,144,679	4,360,985
Cash and cash equivalents, beginning	3,539,683	1,248,567
Cash and cash equivalents, ending	\$ 7,684,362	\$ 5,609,552

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

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(Expressed in Canadian dollars)

(Unaudited)

1. NATURE OF OPERATIONS AND GOING CONCERN

Blue Lagoon Resources Inc. (the “Company”) was incorporated under the British Columbia Business Corporations Act on March 17, 2017. The Company is in the business of acquiring, exploring, and evaluating mineral resource interests in Canada. The address of the Company’s registered office is Suite 1200, 750 West Pender Street, Vancouver, British Columbia. The Company’s common shares trade on the Canadian Securities Exchange under the stock symbol “BLLG” and in the United States on the OTCQB under the symbol “BLAGF.”

These condensed consolidated interim financial statements are prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of the business for the foreseeable future. These conditions indicate the existence of material uncertainty, which casts significant doubt about the Company’s ability to continue as a going concern. The continuing operations of the Company are dependent upon obtaining, in the short term, the necessary financing to meet the Company’s operating and mineral property commitments as they come due and to finance future exploration and development of potential business acquisitions, economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, and upon future profitable production. Failure to continue as a going concern would require that assets and liabilities be recorded at their liquidation values, which might differ significantly from their carrying values. Such adjustments have not been included in these condensed consolidated interim financial statements and could be material.

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

2. BASIS OF PREPARATION

Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including International Accounting Standards (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

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

Basis of Measurement and Consolidation

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial instruments measured at fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The condensed consolidated interim financial statements are presented in Canadian dollars unless otherwise indicated. The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates.

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(Expressed in Canadian dollars)

(Unaudited)

2. BASIS OF PREPARATION (Continued)

It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the condensed consolidated interim financial statements are disclosed in Note 4.

These condensed consolidated interim financial statements incorporate the accounts of the Company and its controlled subsidiaries, from the date of acquisition. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Company's wholly owned subsidiaries include, ASIC Mining Inc. ("ASIC") (a Canadian corporation), Metal Mountain Resources Inc. (a Canadian corporation), which holds 100% interest in Lloyd Minerals Inc. (a Canadian corporation), and Gavin Mines Inc. (a Canadian corporation) whose principal place of business is British Columbia (Note 11). The functional currency of the Company and its wholly owned subsidiaries is the Canadian dollar.

Non-controlling interests are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of the acquisition. Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the Company are set out in Note 3 to the audited annual consolidated financial statements for the year ended March 31, 2021 and have been consistently followed in the preparation of these condensed consolidated interim financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income (loss) in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

In preparing these condensed consolidated interim financial statements, the significant estimates and critical judgments were the same as those applied to the audited annual consolidated financial statements for the year ended March 31, 2021.

5. RECEIVABLES

Receivables are composed of the following amount:

	September 30, 2021	March 31, 2021
GST receivable	\$ 200,094	\$ 204,625
Due from toll milling partner (Note 6)	1,443,503	-
Other	25,538	22,113
	\$ 1,669,135	\$ 226,738

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

FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(Expressed in Canadian dollars)

(Unaudited)

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>
	\$	\$	\$	\$	\$
Balance, March 31, 2020	45,000	4,997,354	16,480,396	6,059,114	27,581,864
Acquisition costs – cash	-	35,000	20,000	-	55,000
Acquisition costs – 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
Acquisition costs – cash	-	-	25,000	-	25,000
Balance, September 30, 2021	-	5,584,354	16,649,148	6,059,114	28,292,616

Golden Wonder Project

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

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

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

On February 2, 2021, the Company entered into an agreement with a third party, whereby the Company sold its 100% interest in the Golden Wonder property for consideration of:

- \$50,000 in cash;
- 1,000,000 common shares of the third party; and
- 0.5% net smelter return royalty.

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

Pellaire Gold Property

On August 27, 2019, the Company acquired all of the issued and outstanding shares of ASIC Mining Inc. (“ASIC”) in exchange for a total of 11,600,000 common shares of the Company. The primary assets of ASIC consist of an option to acquire 100% interest in the Pellaire Gold Property located in the Clinton Mining Division of British Columbia.

On March 28, 2019, as amended on July 5, 2019 and July 31, 2019, ASIC entered into an option agreement to acquire a 100% interest in the Pellaire Gold Property.

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(Expressed in Canadian dollars)

(Unaudited)

6. EXPLORATION AND EVALUATION ASSETS (Continued)

During the year ended March 31, 2020, the Company issued 100,000 common shares with a fair value of \$154,500 toward earning a 100% interest in the Pellaire Gold Property. During the year ended March 31, 2021, the Company amended the option agreement which reduced the remaining cash payments from US \$200,000 to CAD \$35,000 (paid on May 27, 2020) and reduced the remaining consideration shares from 700,000 common shares to 600,000 common shares which were issued on May 26, 2020 at a fair value of \$552,000 (Note 13). During the year ended March 31, 2021, the Company exercised its option to acquire the 100% interest in the Pellaire Gold Project.

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

The shares are subject to a release schedule that allows for the shares to be released in equal installments of 50,000 shares every 3 months over a 36-month period. In addition, the cash payment for the right to purchase a 2% NSR from the vendor was reduced from US\$2 million to US\$1 million, which if exercised would leave the vendor with a 0.5% NSR.

Dome Mountain Mine Group and Big Onion Project

On March 27, 2020, the Company acquired Dome Mountain Mine group of properties and Big Onion Project, both located near the town of Smithers in northwest British Columbia from the acquisition of Metal Mountain Resources Inc.

In addition, the Company acquired a 0.25% NSR in the Dome Mountain project in consideration for \$75,000 (paid).

The Company holds reclamation deposits of \$600,000 and \$35,000 related to the Dome Mountain Mine and Big Onion Project, respectively.

The Company owns 100% interest in the following mineral properties of the Dome Mountain Mine Group:

- Dome Mountain Project
 - Upon the property commencing production, the Company will pay an NSR of 2%, or not less than \$40,000 per annum. In the event that the property is not in production by January 28, 2011, an advance royalty payment in the amount of \$40,000 per annum must be paid. An agreement was reached by both parties to defer 2016, 2017, 2018 and 2019 annual royalty payments to the one-year anniversary date of the arrival of the 1st truckload of Dome ore at the Nicola Mining Inc. mill. The Company agreed to pay 7% interest on those deferred payments. The Company has further agreed that, upon the commencement of production, royalty payments will be paid within 5 business days of the Company and Nicola Mining Inc. receiving payment from the sale of the concentrates.
 - During the six months ended September 30, 2021, the Company removed stockpiled mineralized material from the mine site and shipped it to the Company’s toll milling partner; and as a result, the Company recorded a recovery of exploration and evaluation expenses of \$1,598,756 of which \$1,443,503 is included in the balance of receivables as at September 30, 2021 (Note 5). As at September 30, 2021, 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 before March 1, 2021. The Company has the right to purchase 1% of the NSR for the aggregate sum of \$1,000,000.
 - During the year ended March 31, 2021, the Company made royalty payments of \$20,000.

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2021 AND 2020
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(Unaudited)

6. EXPLORATION AND EVALUATION ASSETS (Continued)

- McKendrick Property
 - The interest in the property will be subject to an NSR of 2.5% and the Company is required to make annual royalty payment of \$25,000 per annum. The payment was made on July 1, 2021.
 - An agreement was reached by both parties to extend 2016, 2017, and 2018 annual royalty payments.
- 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. This transaction was accounted for as an asset acquisition, as a result, the Company assumed \$5,548,030 in long-term accounts payable.

On May 13, 2020, the Company entered into an agreement to amend a debt assignment agreement with AG Partner Holdings Ltd., initially entered into on March 27, 2020.

The Company negotiated an agreement to pay \$3,818,097, of the total long-term accounts payable, by way of issuance of 1,909,048 common shares of the Company with a fair value of \$2,271,767 on the date of the commencement of commercial production from the Dome Mountain Mine. In connection with the amendment, the Company recognized a gain on modification of \$1,546,330 during the year ended March 31, 2021.

The shares will be subject to a hold period which will expire in accordance with the following schedule:

- 10% on each of 12 and 15 months of the date of issuance
- 15% on each of 18 and 24 months from the date of issuance; and
- 25% on each of 30 and 36 months from the date of issuance

Long-term accounts payable of \$1,729,933 is unsecured, non-interest bearing, and payment is due within 30 months from the commencement date of commercial production at the Dome Mountain Mine. The payments will be made in quarterly payments from the available proceeds from the eventual sale of any gold and other metals or minerals mined and processed from the Dome Mountain Mine.

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 75% of the loan balance by December 31, 2022, the loan will convert into a loan with a three-year term at 5% interest per annum. The loan was initially recorded at a fair value of \$44,342 using an effective rate of 11.39%, considering the grant, the interest-free loan and the forgivable portion. The difference between the amount received in cash and the relative fair value was recognized as a government grant during the year ended March 31, 2021. During the six months ended September 30, 2021, the Company recorded accretion expense of \$2,876 (2020 - \$Nil) related to the CEBA loan.

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

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(Unaudited)

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 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:

Balance, March 31, 2020	\$	585,977
Changes in estimates		123,752
Accretion expense		58,597
Balance, March 31, 2021		768,326
Accretion expense		26,891
Balance, September 30, 2021	\$	795,217

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

10. RELATED PARTY TRANSACTIONS**Summary of key management personnel compensation:**

Key management personnel include those persons having authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of members of the Company's Board of Directors and corporate officers.

For the six months ended	September 30, 2021	September 30, 2020
Management fees	\$ 72,000	\$ 72,000
Stock-based compensation (Note 13)	289,416	132,644
	\$ 361,416	\$ 204,644

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

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

FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

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(Unaudited)

11. NON-CONTROLLING INTEREST (“NCI”)

The net change in non-controlling interest is as follows:		Total
Balance, March 31, 2020	\$	2,464,804
Share of loss		(1,040,851)
Balance, March 31, 2021	\$	1,423,953
Share of loss		(370,825)
Change in ownership interest		(1,053,128)
Balance, September 30, 2021	\$	-

As at March 30, 2021, the Company held a 78.28% ownership interest in Gavin Mines with \$1,423,953 NCI balance. On July 21, 2021, the Company acquired the remaining 21.72% ownership in Gavin Mines for consideration of 400,000 common shares of the Company valued at \$252,000 and \$125,000 (Note 13). As the Company previously controlled Gavin Mines, the transaction resulted in a change to the Company’s ownership interest and was accounted for as an equity transaction. The difference of \$676,128 between the non-controlling interest acquired of \$1,053,128, and the fair value of consideration paid of \$377,000, was recognized in reserves during the six months ended September 30, 2021. As at September 30, 2021, the Company held a 100% ownership interest in Gavin Mines.

12. 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 13). 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. During the six months ended September 30, 2021, the Company incurred qualifying exploration expenditures resulting in recognition of flow-through recovery in the statement of loss and comprehensive loss of \$172,501.

Balance, March 31, 2021	\$	-
Issuance of flow-through shares		275,520
Flow-through recovery		(172,501)
Balance, September 30, 2021	\$	103,019

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

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(Unaudited)

13. SHARE CAPITAL AND RESERVES

Authorized: Unlimited number of common shares without par value.

COMMON SHARES

For the six months ended September 30, 2021

- On April 15, 2021, the Company issued 50,000 common shares pursuant to the exercise of 50,000 warrants with an exercise price of \$0.50 per share for proceeds of \$25,000.
- On May 4, 2021, the Company issued 7,142 common shares pursuant to the exercise of 7,142 warrants with an exercise price of \$0.50 per share for proceeds of \$3,571.
- On May 28, 2021, the Company issued 11,400 common shares pursuant to the exercise of 11,400 warrants with an exercise price of \$0.50 per share for proceeds of \$5,700. In connection with the exercise, an amount of \$578 was reclassified from reserves to share capital.
- On May 28, 2021, the Company issued 210,000 common shares pursuant to the exercise of 210,000 stock options with an exercise price of \$0.1125 per share for proceeds of \$23,625. In connection with the exercise, an amount of \$11,233 was reclassified from reserves to share capital.
- On June 14, 2021, the Company issued 494,406 common shares pursuant to an exercise of 494,406 warrants with an exercise price of \$0.50 for proceeds of \$247,203. In connection with the exercise, an amount of \$15,453 was reclassified from reserves to share capital.
- On June 14, 2021, the Company issued 500,000 common shares pursuant to the exercise of 500,000 stock options with an exercise price of \$0.70 per share for proceeds of \$350,000. In connection with the exercise, an amount of \$147,790 was reclassified from reserves to share capital.
- On July 9, 2021, the Company issued 322,000 common shares pursuant to the exercise of 322,000 warrants with an exercise price of \$0.50 per warrant for proceeds of \$161,000.
- On July 15, 2021, the Company issued 4,761,154 flow-through units at a price of \$0.7425 per flow-through unit 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 12).
- 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 12).

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(Expressed in Canadian dollars)

(Unaudited)

13. SHARE CAPITAL AND RESERVES (Continued)

- On July 15, 2021, the Company issued 7,446,818 units at a price of \$0.55 per unit for gross proceeds of \$4,095,750. 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 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. In connection with the exercise, an amount of \$2,820 was reclassified from reserves to share capital.
- 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 21.72% ownership interest in Gavin Mines (Note 11).
- On August 3, 2021, the Company issued 60,202 common shares pursuant to the exercise of 60,202 warrants with an exercise price of \$0.50 per warrant for proceeds of \$30,101. In connection with the exercise, an amount of \$4,215 was reclassified from reserves to share capital.
- On August 17, 2021, the Company issued 107,500 common shares pursuant to the exercise of 107,500 warrants with an exercise price of \$0.50 per warrant for proceeds of \$53,750.

For the six months ended September 30, 2020

- On May 26, 2020, the Company issued 600,000 common shares with a fair value of \$552,000 in connection with the Pellaire Gold Property option agreement (Note 6).
- On June 9, 2020, the Company entered into an agreement with Fundamental Research Corp. ("Fundamental") whereby Fundamental agreed to prepare research reports for the Company in consideration for \$19,500 plus GST, of which \$17,500 was paid by the issuance of 17,500 common shares of the Company.
- 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 whole warrant entitling the holder to acquire one common share at a price of \$0.50 for a period of two years. In addition, 669,951 share purchase warrants were issued as finders' warrants with a fair value of \$276,774 estimated using the Black-Scholes option pricing model. Each finders' warrant entitles the holder to purchase one share at a price of \$0.50 per share until August 11, 2022. The Company also issued 71,429 common shares as finders' shares with a fair value of \$25,000 and incurred cash share issue costs of \$259,483 relating to 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 six months ended September 30, 2020, an obligation to issue shares of \$11,956 was recorded to represent the investor relations fees incurred in connection to this agreement.

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(Expressed in Canadian dollars)

(Unaudited)

13. SHARE CAPITAL AND RESERVES (Continued)

OBLIGATION TO ISSUE SHARES

As at September 30, 2021, the balance of obligation to issue shares includes long-term accounts payable to be settled of \$2,271,767 (March 31, 2021 - \$2,271,767) (Note 7).

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 six months ended September 30, 2021

- On April 1, 2021, the Company issued 150,000 stock options with an exercise price of \$0.55, vesting on issuance, and expiring on March 19, 2026. The grant date fair value of the stock options was \$50,121 which was determined using the Black-Scholes option pricing model and the following assumptions: estimated volatility of 109.45%, risk free interest rate of 1%, expected life of 5 years, exercise price of \$0.55, a dividend yield of 0%, and a share price of \$0.44.
- On July 15, 2021 the Company issued 960,000 stock options with an exercise price of \$0.70 vesting immediately on grant, and expiring on July 15, 2026. The grant date fair value of the stock options was \$505,162 which was determined using the Black-Scholes option pricing model and the following assumptions: estimated volatility of 102%, risk free interest rate of 0.88%, expected life of 5 years, exercise price of \$0.70, a dividend yield of 0%, and a share price of \$0.70.

For the six months ended September 30, 2020

- On June 2, 2020, the Company issued 200,000 stock options with an exercise price of \$1.20, vesting immediately on grant, and expiring on June 2, 2025. The grant date fair value of the stock options was \$137,096 which was determined using the Black-Scholes option pricing model and the following assumptions: estimated volatility of 109%, risk free interest rate of 0.34%, expected life of 5 years, exercise price of \$1.20, a dividend yield of 0%, and a share price of \$0.92.
- On July 13, 2020, the Company issued 237,500 stock options with an exercise price of \$0.50, vesting immediately on grant, and 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.

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

FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(Expressed in Canadian dollars)

(Unaudited)

13. SHARE CAPITAL AND RESERVES (Continued)

- On August 20, 2020, the Company issued 350,000 stock options with an exercise price of \$0.60, vesting immediately on grant, and 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 as part of an investor relations services contract. The stock options have an exercise price of \$0.70, vest three months after grant date, and expired 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.

Stock option activities are summarized in the table below.

	Number of Stock Options	Weighted Average Exercise Price
Balance, March 31, 2020	2,150,000	\$0.65
Granted	1,287,500	\$0.71
Exercised	(1,000,000)	\$0.11
Outstanding and exercisable, March 31, 2021	2,437,500	\$0.95
Granted	1,110,000	\$0.68
Exercised	(710,000)	\$0.53
Expired	(100,000)	\$1.20
Outstanding and exercisable, September 30, 2021	2,737,500	\$0.94

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

Expiry date	Number of Options Outstanding	Number of Options Vested	Exercise Price
March 26, 2025	840,000	840,000	\$1.50
June 2, 2025	200,000	200,000	\$1.20
July 13, 2025	237,500	237,500	\$0.50
August 20, 2025	350,000	350,000	\$0.60
March 19, 2026	150,000	150,000	\$0.55
July 15, 2026	960,000	960,000	\$0.70
Balance, September 30, 2021	2,737,500	2,737,500	

As of September 30, 2021, the weighted average remaining life for outstanding options was 4.09 years (March 31, 2021 – 2.89 years).

BLUE LAGOON RESOURCES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(Expressed in Canadian dollars)

(Unaudited)

13. SHARE CAPITAL AND RESERVES (Continued)

WARRANTS

For the six months ended September 30, 2021

- On July 15, 2021, the Company issued 2,380,579 warrants in connection with private placement issuance of 4,761,154 flow-through units. Each warrant entitles the holder to purchase one common share at a price of \$0.75 per common share until July 15, 2023.
- On July 15, 2021, the Company issued 304,879 warrants in connection with private placement issuance of 609,758 flow-through units. Each warrant entitles the holder to purchase one common share at a price of \$1.10 per common share until July 15, 2023.
- On July 15, 2021, the Company issued 3,723,407 warrants in connection with private placement issuance of 7,446,818 units. Each warrant entitles the holder to purchase one common share at a price of \$0.75 per common share until July 15, 2023.
- On July 15, 2021, the Company issued 159,516 finders' warrants with a fair value of \$55,546 estimated using the Black-Scholes pricing model and the following assumptions: estimated volatility of 98.1%, risk free interest rate of 0.44%, expected life of 2 years, exercise price of \$0.75, a dividend yield of 0%, and a share price of \$0.70. Each finders' warrant entitles the holder to purchase one common share at a price of \$0.75 per common share until July 15, 2023.
- On July 15, 2021, the Company issued 42,683 finders' warrants with a fair value of \$12,063 estimated using the Black-Scholes pricing model and the following assumptions: estimated volatility of 98.1%, risk free interest rate of 0.44%, expected life of 2 years, exercise price of \$1.10, a dividend yield of 0%, and a share price of \$0.70. Each finders' warrant entitles the holder to purchase one common share at a price of \$1.10 per common share until July 15, 2023.

For the six months ended September 30, 2020

- On August 11, 2020, the Company issued 669,951 finders' warrants in connection with a private placement. The warrants were determined to have a fair value of \$276,774 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 per common share until August 11, 2022.
- On August 11, 2020, the Company issued 10,748,150 warrants in connection with a private placement. Each warrant entitles the holder to purchase one common share at a price of \$0.50 per common share until August 11, 2022.

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

FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(Expressed in Canadian dollars)

(Unaudited)

13. SHARE CAPITAL AND RESERVES (Continued)

Warrant activities are summarized in the table below.

	Number of Warrants	Weighted Average Exercise Price
Outstanding, March 31, 2020	-	-
Issued	12,712,935	\$0.58
Exercised	(481,820)	\$0.50
Outstanding, March 31, 2021	12,231,115	\$0.58
Exercised	(1,442,903)	\$0.50
Issued	6,611,064	\$0.77
Outstanding and exercisable, September 30, 2021	17,399,276	\$0.66

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

Expiry date	Number of warrants	Exercise price
August 11, 2022	9,493,092	\$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
Balance, September 30, 2021	17,399,276	

As at September 30, 2021, the weighted average remaining life for outstanding warrants was 1.31 years (March 31, 2021 – 1.50 years).