

Blue Lagoon Resources Inc.

(CSE: BLLG / FSE: 7BL / OTCQB: BLAGF)

All Set to Reopen High-Grade Gold Mine in B.C. – Resuming Coverage**BUY****Current Price: C\$0.73****Fair Value: C\$1.11****Risk*: 4****Sector: Junior Mining****Highlights**

- We are resuming coverage on Blue Lagoon Resources/BLLG. The company's portfolio consists of **two gold projects** (Dome Mountain and Pellair), and **one copper project** (Big Onion) in B.C. BLLG is up 564% YoY vs the sector average of 52%.
- The company has recently secured a mining permit to re-open the underground mine at its flagship Dome Mountain gold project — a significant milestone. Notably, Dome Mountain is **only one of nine mining projects in B.C. to receive a permit** over the past decade, underscoring the rarity of such approvals in a province known for its rich mineral endowment, and stringent permitting process.
- Management aims to start pre-production this month, and announce commercial production by Q4-2025. The **official opening is planned for July 9, 2025**, when we will be conducting a site visit.
- Dome Mountain hosts **high-grade, underground resources** (234 Koz Au, and 1.2 Moz Ag). We believe there is resource expansion potential as the deposit remains open in multiple directions (laterally and vertically), and 90% of the project area remains untested.
- The project benefits from pre-existing underground development, and **an active toll milling arrangement** with Nicola Mining (TSXV: NIM). Although the mill is approximately 900 km from Dome Mountain, a distance that would typically make toll milling cost-prohibitive, we believe this model is feasible given the project's modest daily throughput (100–150 tpd), and **high-grade material (9 g/t)**.
- Management plans to process 55,000 tpy for 15,000 gold in the first year, aiming to increase to 75,000 tpy for 20,000 oz next year. **At 15,000 oz per year, we anticipate net cash flows of US\$21M for BLLG in the first year.**
- The company is **well-capitalized**, with more than \$4M in cash, \$5M potentially accessible through in-the-money derivatives, and just US\$1.5M in remaining CAPEX to achieve commercial production.
- With gold trading near record highs, we **anticipate an increase in M&A activity** over the next 12 months. We maintain a positive outlook on gold prices, anticipating continued US\$ weakness, strong demand for safe-haven assets amidst economic and geopolitical uncertainties, and the potential for a global slowdown in GDP.
- As part of final mine preparations, BLLG **passed three key government inspections**, electrical, reclamation, and health & safety, confirming full operational readiness at Dome Mountain.
- **Upcoming catalysts** include the commencement of pre-production, resulting in the company's transition from developer to producer, followed by an updated resource estimate.

Sid Rajeev, B.Tech, MBA, CFA
Head of Research**Nina Rose Coderis, B.Sc (Geology)**
Equity Analyst**Price and Volume (1-year)**

	YTD	12M
BLLG	356%	564%
TSXV	22%	30%
Gold	26%	38%
GDXJ	53%	52%

Company Data

52 Week Range \$0.08 – \$0.87

Shares O/S 141M

Market Cap. C\$103M

Yield (forward) N/A

P/E (forward) N/A

P/B 4.9x

* BLLG is a part of the CSE25 Index, which represents the top 25 companies on the CSE by MCAP.

* Subsequent to Q3-FY2025, BLLG completed a \$4.9M equity financings

Key Financial Data (FYE - Mar 31)	
(C\$)	FY2025 (9M)
Cash	\$251,287
Working Capital	\$217,930
Mineral Assets	\$22,797,809
Total Assets	\$23,880,164
Net Income (Loss)	-\$2,033,693
EPS	-\$0.02

* Qualified Person: Ted Vander Wart, P.Geo., a consultant to Blue Lagoon Resources (BLLG).

* **Blue Lagoon Resources Inc. has paid FRC a fee for research coverage and distribution of reports. See last page for other important disclosures, rating, and risk definitions.**

Portfolio Summary

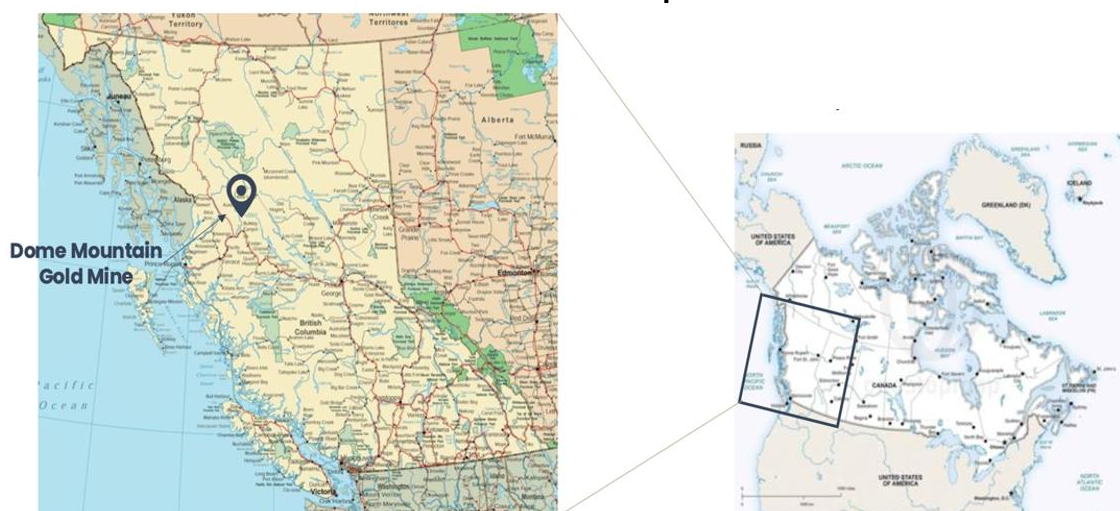
Project	Target Metals	Ownership
Dome Mountain	Gold, Silver	100%
Pellair	Gold	100%
Big Onion	Copper	100%

Source: Company

Dome Mountain Gold Project (100% interest)

This advanced-stage project, covering 21,541 hectares, is located within the Omineca Mining Division, approximately 38 km east of the town of Smithers in northwest B.C.

Location Map



Source: Company

History and Mineralization

Mineralization was discovered on the property in the 1800s. Mineral claims were first staked in 1914. The project has since been explored by multiple parties (including well-known names such as Timmins and Noranda), and was also **briefly mined in 1992-93, resulting in the recovery of 43,900 tonnes, at a high grade of 12 gpt gold.** (Qualified Person: Dr. Gilles Arseneau, P. Geo., ARSENEAU Consulting Services Inc.)

The property hosts high-grade (Au, minor Ag) veins, characterized by quartz with lesser carbonate and sulphide mineralization. The principal zone of mineralization is known as the Boulder Vein System, comprised of the Boulder, Boulder East and Argillite veins. **In addition to the Boulder Vein System, 15 other veins have been identified on the property.** As almost all of the prior work was focused on

Two gold projects
and one copper
project in B.C.

Well-connected; 50-
minute drive from
Smithers

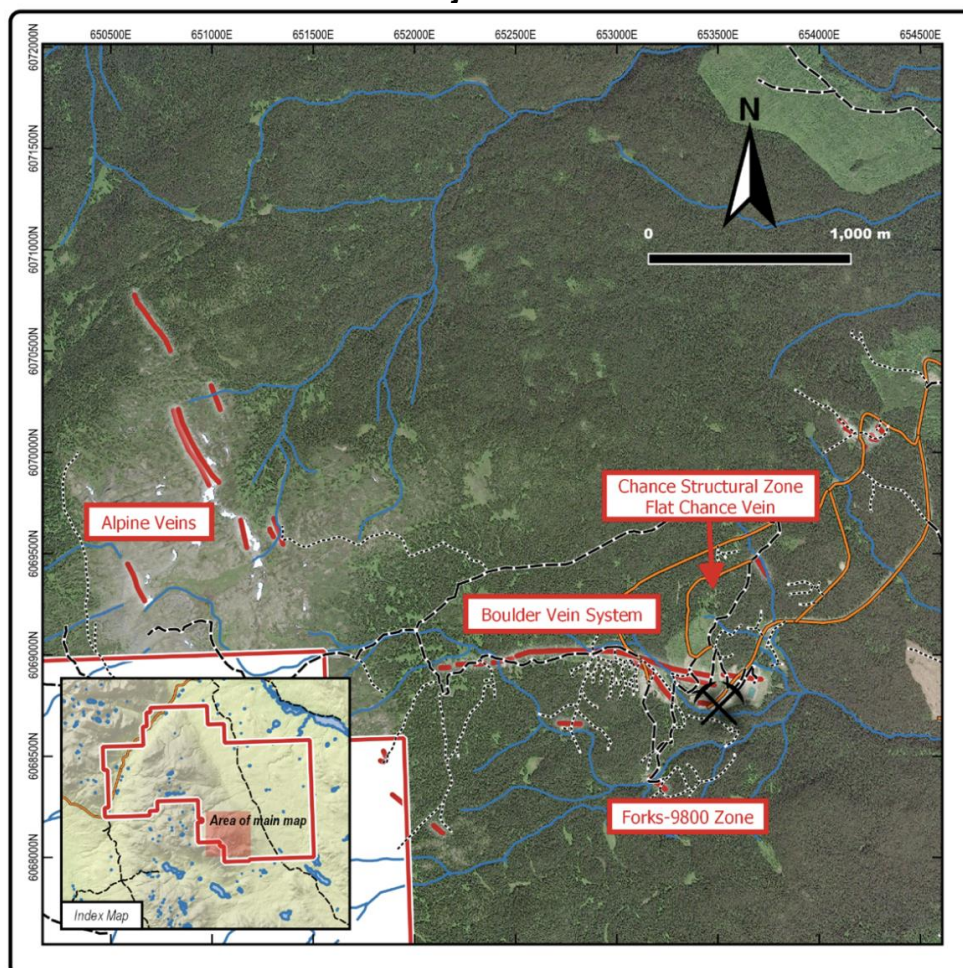
The project benefits
from strong support
from the Lake
Babine First Nation -
an important factor
in its development
and restart

Note that local
community support
is often key to a
project's success,
with many resource-
rich projects stalled
globally due to its
absence

Historically mined
43,900 tonnes at 12
gpt gold

the Boulder Main vein, management estimates that 90% of the land package is untested.

Major Veins



Source: Company

Resources & Infrastructure

The current resource estimate, based on 355 holes/42,869 m, is limited to the mineralization of the Boulder Main vein.

2022 NI 43-101 Resource Estimate

Class	Tonnes	Au cap (g/t)	Ag Cap (g/t)	Au Oz	Ag Oz
Measured	136,000	10.32	57.31	45,000	250,000
Indicated	662,000	8.15	41.19	173,000	876,000
Inferred	85,000	6.02	26.13	16,000	71,000

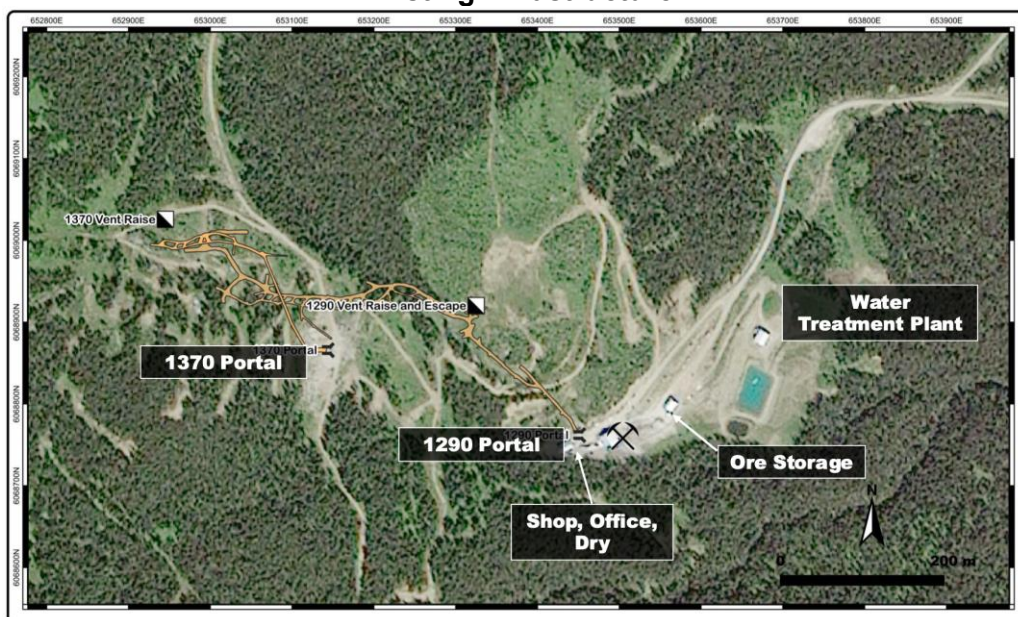
(QP: Dr. Gilles Arseneau, P. Geo., ARSENEAU Consulting Services Inc.)

Source: Company

90% of the land package is untested, with only six out of 15 known gold veins tested by BLLG

High-grade, underground resources totaling 234 Koz Au, and 1.2 Moz Ag

Existing Infrastructure



Source: Company

Processing Agreement & Production

BLLG has a milling profit share agreement with Nicola Mining for up to 75,000 tonnes per year (200 tpd).

Merritt Mill Location Map



Source: Nicola Mining

The project is moving swiftly toward production, leveraging existing underground workings, infrastructure, a water treatment facility, and road networks

Nicola has participated in BLLG's financings, and currently owns 7.4M shares, (representing 5% of BLLG's equity), demonstrating their commitment to the partnership

Additionally, Nicola has extended a \$2M unsecured line of credit to BLLG

Merritt Mill and Tailings Facility

The mill is capable of processing 200 tpd through crushing, grinding, and flotation; permitting is underway to increase capacity to 500 tpd

Deal terms and profit-sharing percentages were not disclosed

However, for valuation purposes, and based on comparable deals, we assume that profit will be split 70% to BLLG and 30% to Nicola



Source: Company

Nicola has an **offtake agreement** with Ocean Partners, a UK-based trading company that will purchase concentrates. Nicola currently has **active milling agreements with two juniors**, BLLG and Talisker Resources. It is also planning to process 3,000-4,000 tonnes of bulk samples from its Dominion Creek gold-silver project; however, this volume is relatively small compared to the proposed operations of BLLG and Talisker.

Processing Partners

Company	Project	Projected Processing Rate	Distance from Merritt Mill
Blue Lagoon Resources	Dome Mountain	An agreement in place to process up to 75,000 tpy (200 tpd) – commencing in Q3 2025	950 km
Talisker Resources	Bralorne Gold Mines	An initial agreement in place to process 6,300 tonnes – commenced trucking ore in May 2025	175 km
Nicola Mining	Dominion Creek	3,000 to 4,000 tonnes – expected to commence this year	450 km

Source: Company / FRC

Throughput will likely be split between BLLG and Talisker

Trucking strategy
and mill logistics

BLLG is anticipated to truck their maximum allowed 150 tpd to Nicola. Given that Talisker has announced plans to truck over 100 tpd to Nicola, and the mill's capacity is only 200 tpd, for valuation purposes, we assume the facility will be split equally between BLLG and Talisker at 100 tpd each in the first year. That said, Nicola holds an equity interest in BLLG but not in Talisker, and BLLG's resource is of higher grade. **These two factors suggest that Nicola may show a preference for processing BLLG's material.**

Nicola's mill is **approximately 900 km from Dome Mountain**. While long-distance trucking is typically challenging and cost-prohibitive for large operations, Dome Mountain's relatively small scale (100–150 tpd), and high-grade material (~9 g/t Au), make it feasible. This was demonstrated in 2021, when BLLG transported 5,000 tonnes of mineralized material to Nicola using three trucks per day, achieving 95% gold recovery, and generating \$1.6M in revenue at US\$1,800/oz gold.

To maintain daily throughput of 100–150 tpd, **BLLG will use three to five trucks**. Estimated trucking costs range from **US\$200 to US\$300 per oz** recovered. Should near-term exploration lead to a meaningful resource expansion, we believe management may evaluate the construction of an on-site mill, which we estimate would require \$30–\$50M in CAPEX. In addition to Nicola's Merritt mill, there are **a few other potential toll milling options** for BLLG. However, Merritt is currently the only facility in the region permitted for custom milling. Other mills, such as the New Afton mill (owned by New Gold Inc./TSX: NDG), have excess capacity to process BLLG's material but would require additional permitting to do so.

Resource Upside

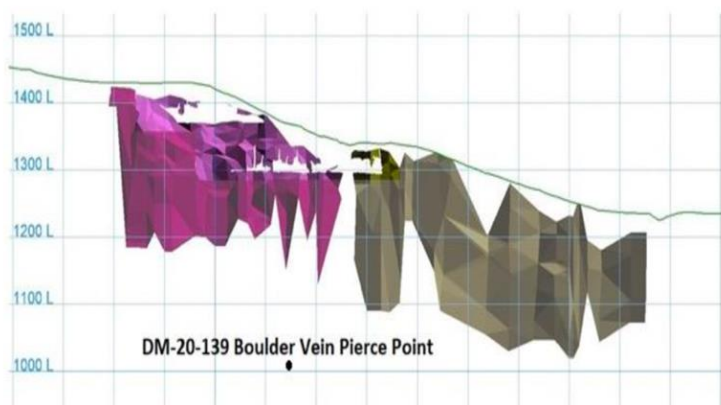
A total of 596 holes, including 43 underground holes, have been drilled across the property, **totaling 89,982 m**. Surface drillholes averaged 160 m in depth. Between 2020 and 2023, BLLG focused on the Boulder vein system, drilling up to 150 m below the current resource envelope, as well as several other targets.

Over \$80M has been spent on Dome Mountain since 1985, including \$30M by BLLG since 2020

BLLG drilled 187 holes/48,937 m into the Boulder vein system, and other targets

The property was last drilled in 2023 (10 holes/2,909 m)

BLLG Drilling 150 m beyond the Boulder Vein Resource

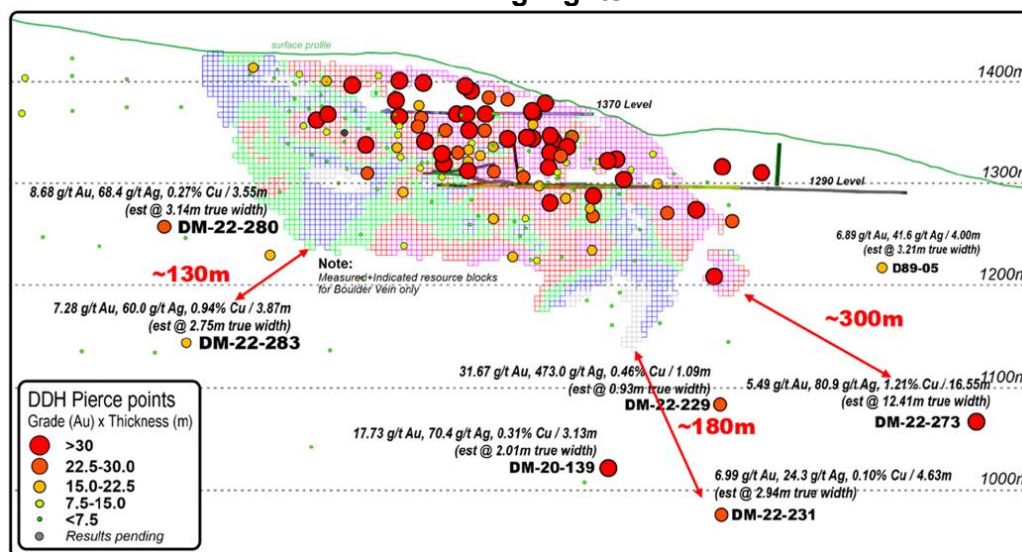


150 meters deeper than the lowest elevation of the Boulder Resource

3.13 meters - **17.69 g/t Au** and **70.40 g/t Ag** (including 0.65 meters **running 48.4 g/t Au** and 95 g/t Ag).

(QP: William Cronk, P. Geo., Chief Geologist of BLLG)
Source: Company

Drill Highlights



BLLG's drilling outside the current resource envelope intersected high gold and silver grades, indicating the high-grade nature of the area

- DM-20-132: **25.92 g/t Au** and **169.46 g/t Ag** over 4.52 m
- DM-20-135: **53.76 g/t Au** and **22.7 g/t Ag** over 2.2 m
- DM-21-160: **24.07 g/t Au** and **127.92 g/t Ag** over 3 m
- DM-22-232: **14.8 g/t Au** and **38.3 g/t Ag** over 7.3 m, and **11.78 g/t Au** and **39.9 g/t Ag** over 7.7 m
- DM-22-273: **11.02 g/t Au**, **115.8 g/t Ag**, and **2.31% Cu** over 5.65 m
(QP: William Cronk, P. Geo., Chief Geologist of BLLG)
Source: Company

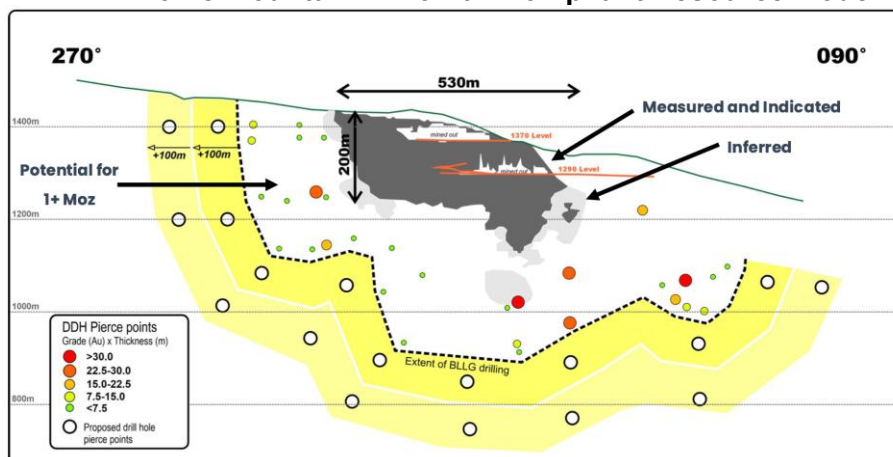
The current resource estimate does not include drilling from the 2022 to 2023 infill drill campaigns. Several of these holes intersected the Boulder and Argillite veins, extending the mineralized zone by at least 550 m along strike, and >200 m down dip, indicating the project's potential to host over 1 Moz of gold on the Boulder vein alone.

90% of the project area remains untested

The current resource envelope measures 530 m long x 200 m deep

We believe there is resource expansion potential, as the deposit remains open in multiple directions

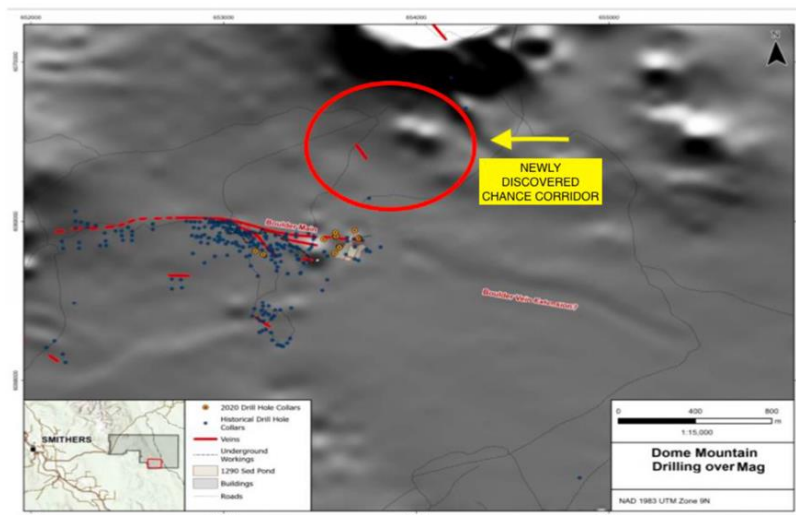
Dome Mountain NI 43-101 Compliant Resource Model



Source: Company

In 2021, BLLG discovered two new targets, Chance Corridor and Federal Creek. The nearby historic Forks area, less than 1 km away, also offers additional targets for future resource growth.

Chance Corridor Prospect

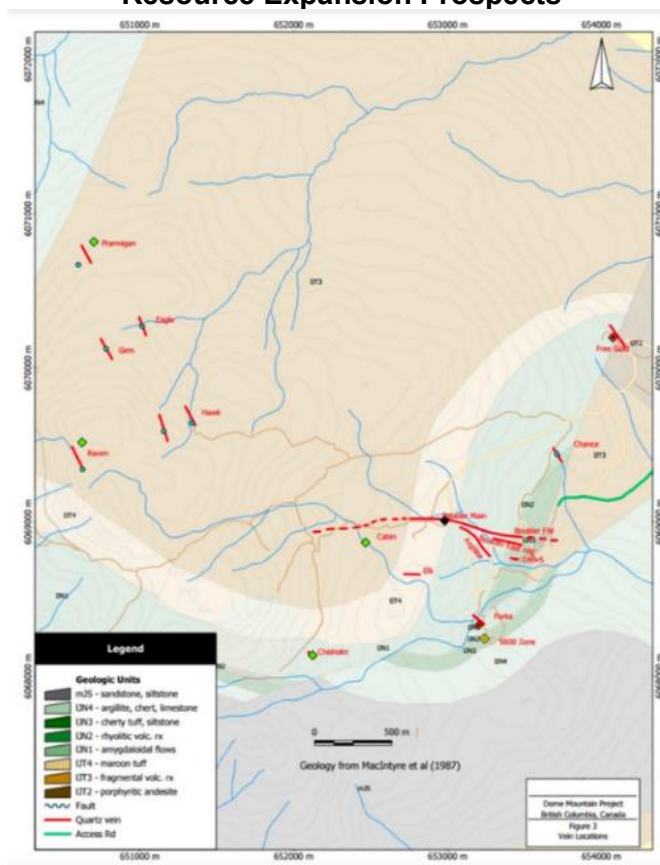


A Mag survey highlighted a potential eastern extension of the Boulder vein (in red)

Multiple high-grade veins, extending up to 20 km along strike, are not included in the current resource estimate

BLLG's immediate exploration focus is the Argillite vein, parallel to Boulder, with grades ~25% higher

Resource Expansion Prospects



Source: Company

The company plans to **use cash flow from production to potentially expand its resources** through three main strategies:

- Infill and expansion drilling at the Boulder vein, which remains open in several directions
- Drilling other nearby vein systems, including the Argillite vein.
- Regional exploration across the 22,000-hectare Dome Mountain area, following up on geophysical and geochemical targets, with 15 veins already identified

Upcoming Catalysts

The company plans to process 55,000 tpy (150 tpd), **targeting annual gold recovery of 15 Koz** at a projected grade of 9 g/t, and 95% recovery. They are also applying to increase capacity to 75,000 tpy (200 tpd), which could boost annual gold output to 20 Koz. We note that these targets depend on milling space availability at the Merritt mill, and whether Nicola prioritizes BLLG's material over others. As mentioned above, BLLG also has alternative toll milling options.

Project Timeline



Source: Company

Due to the existing infrastructure and upgrades performed by the company in the past five years, management's projected CAPEX from now until commercial production is just US\$1.5M. We estimate total cash costs (mining, trucking, and processing) of US\$1,200-US\$1,400 per ounce, with profits likely split 70% (BLLG): 30% (Nicola).

Management is aiming to produce 15 Koz in year one

Other Projects

	Pellaire Gold Project	Big Onion Copper Project
Ownership	100%	100%
Area	7,120 hectares	4,810 hectares
Mineralization	10 high-grade gold-silver veins (350 m strike each x 200 m deep); 1.14 Kt of material previously processed at 23.65 g/t Au	Three major zones of porphyry copper-molybdenum mineralization extending 3,000 m long x 200 m wide x 130 m deep
Resources	25 Kt of stockpiled mineralized material (5 g/t Au) available for processing without any permits	Historical resources totaling 641 Mlbs Cu and 17 Mlbs Mo

Source: FRC / Company

Management and Board

Share Ownership		
Management/Directors	Shares	% of Total
Rana Vig, CEO & Director	4,503,855	3.83%
Bill Cronk, Chief Geologist	-	-
Norman Brewster, Independent Director	80,000	0.14%
Gurdeep Bains, Independent Director	1,080,000	1.84%
Regina Lara Yunes, CFO	-	-
Total	5,663,855	5.81%

Source: sedi.ca

Brief biographies of the management team and important consultants and advisory members, as provided by the company, who are assisting the transition from exploration to production, follow:

Rana Vig – CEO & Director

Rana has over 35 years of business experience during which time he has helped to launch five business ventures in private industry. He has been involved in publicly traded companies since 2010, and from 2011 to 2016 he was the President of Musgrove Minerals, an Idaho focused gold and copper junior, and from 2013 to 2016, he was the Chairman and CEO of Continental Precious Minerals Inc., a TSX senior board listed junior. In 2018, he became the CEO of Lead Ventures and led

BLLG has no immediate plans for these projects

Management, board, and founding shareholders own 14%

Two out of three directors are independent

its re-structuring by acquiring Curaleaf Holdings Inc. (CURA) which raised \$520M, making it the largest Canadian cannabis financing in history. Shortly after that he took the helm of Rockbridge Resources, a failed Oil and Gas venture, which he re-structured by acquiring Harvest Health & Recreation (HARV) that closed a \$300M financing – making it the third largest cannabis financing of 2018.

Bill Cronk- Chief Geologist

Mr. Cronk has over 25 years of experience as a geologist and manager of exploration programs for precious and base metal deposits. He has worked in Africa, Europe as well as North and South America with expertise that ranges from grass roots reconnaissance up to advanced stage and pre-feasibility work. Mr. Cronk worked for mining industry leaders such as Dundee Precious Metals, and Northern Empire - which was acquired by NY listed Coeur Mining.

Norman Brewster – Independent Director

Mr. Brewster is President, Director, and CEO of Cadillac Ventures Inc., with projects in Ontario and New Brunswick, and has served on numerous public and private boards in the mineral industry. Previously, he led Iberian Minerals Corp. in developing Spain's Aguas Teñidas Mine and acquiring the Condestable Mine in Peru, oversaw major company sales, and holds science and education degrees from Acadia University.

Gurdeep Bains – Independent Director

Mr. Bains is a Chartered Professional Accountant with a BBA from Simon Fraser University. He has held senior roles at KPMG, Canaccord Genuity, and served as CFO at OK Tire Stores Inc. and Zenabis Ltd.

Peter Bojtos, P.Eng – Technical Advisor

Mr. Bojtos is a Professional Engineer with over 50 years of global mining experience, having evaluated properties in nearly 80 countries and been involved in operations in 30 of them. He has led more than 15 major acquisitions, mergers, or sales involving 24 mines, participated in the financing and development of 19 mines, and currently serves as Chairman of Avino Silver & Gold Mines Ltd.

Yannis Tsitos – Chair of Mining Committee

Mr. Tsitos has over 35 years of mining industry experience, including 19 years with BHP Billiton, where he served as New Business Development Manager for Minerals Exploration and executed over 60 mining agreements worldwide. Originally a physicist-geophysicist, he sits on several company boards, has contributed to multiple deposit discoveries, published industry articles, and is a strong advocate for anti-corruption policies in mining.

Roy Edvardsen – Dome Mountain Mine Manager

Mr. Edvardsen has over 40 years of mining industry experience, holding roles from mine superintendent to underground mine manager. He has extensive expertise in

underground mining and safety, with key positions at the Wolverine Mine, Ekati Diamond Mine, and Eskay Creek Gold Mine.

Wayne Kindrat - Underground Mining Specialist & Contractor

Mr. Kindrat has over 40 years of mining and construction experience, starting at age 10 at Cronin Mine and later holding key roles at Skyline, New-Hawk, and Timmons Nickel mines. He has extensive hands-on expertise in underground mining and safety, and a long history with Dome Mountain Mine, where he has contributed to multiple development phases and now serves as a valuable member of Blue Lagoon's Mining Committee.

Steve Cutler - Mining Consultant

Mr. Cutler, founder and President of Roughstock, has over 40 years of mining experience, specializing in underground operations. He has overseen underground mine design and management since 1997, including as General Manager at Stillwater's East Boulder Mine, and founded Roughstock Mining in 2012 to serve mines across North America.

Financials

(in C\$) (FYE - Mar 31)	FY2025 (9M)
Cash	\$251,287
Working Capital	\$217,930
Current Ratio	2.38
LT A/P	\$1,729,933
Monthly Burn Rate (G&A)	-\$38,899
Exploration and Development	-\$496,390
Cash from Financing Activities	\$381,500

Options	#	Exercise Price	Amount
Total	8,667,500	\$0.19	\$1,673,975
In-the-Money	8,667,500	\$0.19	\$1,673,975

Warrants	#	Exercise Price	Amount
Total	11,657,136	\$0.29	\$3,334,498
In-the-Money	11,657,136	\$0.29	\$3,334,498

Source: FRC / Company

Strong balance sheet, driven by a recent \$4.9M equity financing

The company has a \$2M unsecured line of credit from Nicola; no drawdown yet

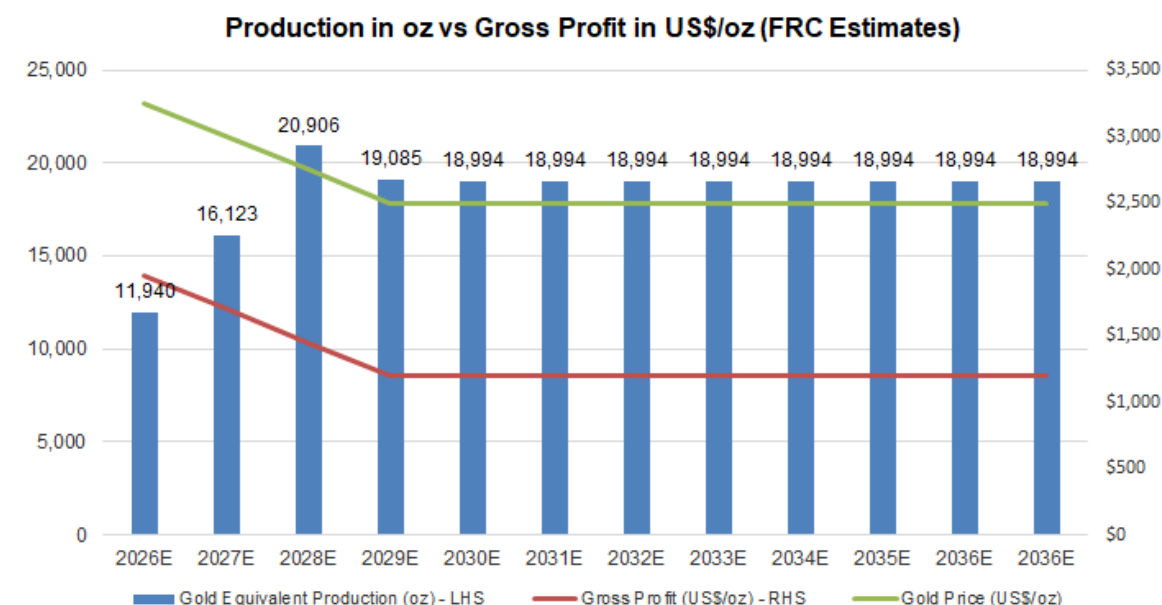
Can raise up to \$5M from in-the-money options and warrants

Valuation and Rating

Our models are based on a 15-year mine life, producing 18 Koz AuEq per year

We assume the company will gradually increase throughput from 100 tpd in year one, to 200 tpd by year four. Given Nicola's equity interest in BLLG, along with BLLG's higher-grade resource, we assume Nicola will prioritize BLLG's materials for processing

Our DCF valuation is \$0.99/share



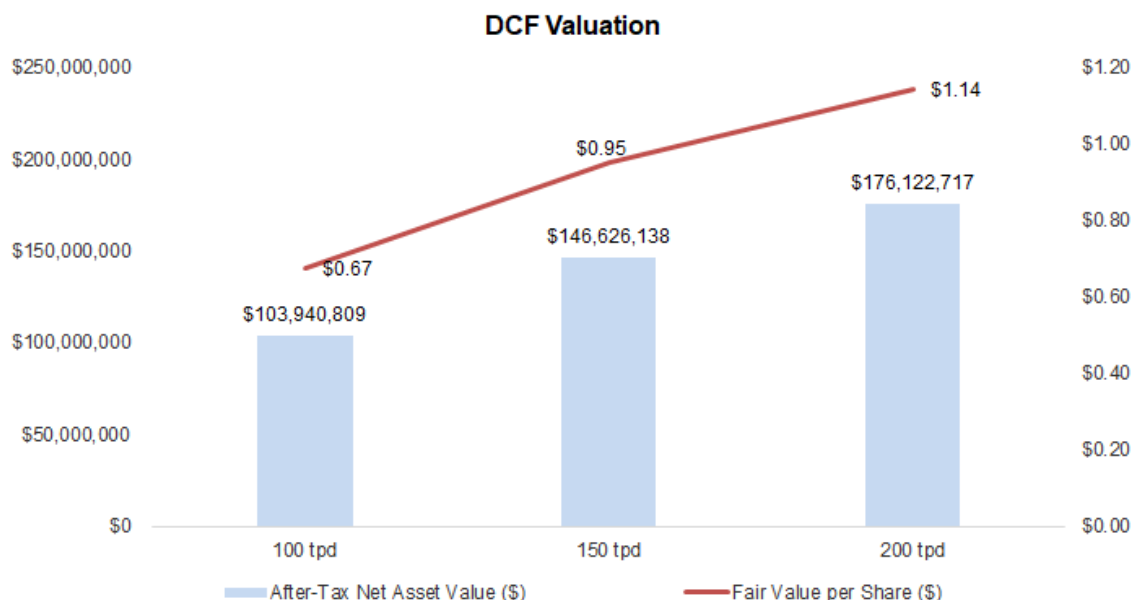
DCF Valuation - Dome Mountain - Base-Case

Operating Life (years)	15
Throughput (tpd)	100 tpd in Year 1, increasing to 200 tpd by Year 4
Tonnage	1,025,650
Gold Recovered (LOM)	263,987
Silver Recovered (LOM)	1,275,625
LT (2029+) Gold Prices (US\$/oz)	\$2,500
LT (2029+) Silver Prices (US\$/oz)	\$25
C\$:US\$	1.38
OPEX (US\$/oz)	\$1,300
Remaining Initial CAPEX (US\$M)	\$2
Profit Share (BLLG: Nicola)	70:30
Discount Rate	10%
After-Tax Net Asset Value (\$) + Working Capital	\$152,295,626
Shares (treasury stock method)	154,242,495
Fair Value per Share (\$)	\$0.99

Source: FRC

Our valuation ranges from \$0.67 to \$1.14 per share, based on varying throughput assumptions between 100 tpd and 200 tpd

DCF Valuation - Dome Mountain	100 tpd	150 tpd	200 tpd
Operating Life (years)	25	20	15
After-Tax Net Asset Value (\$) + Working Capital	\$103,940,809	\$146,626,138	\$176,122,717
Shares (treasury stock method)	154,242,495	154,242,495	154,242,495
Fair Value per Share (\$)	\$0.67	\$0.95	\$1.14



BLLG is trading at a 70% discount to comparable junior gold miners

Applying sector multiples, we arrived at a fair value estimate of \$1.24/share on BLLG

	Junior Gold Producers	EV (US\$M)	EV / R (forward)	EV / EBITDA (forward)
1	Lundin Gold	\$16,774	7.8x	11.2x
2	New Gold Inc.	\$5,720	3.2x	5.5x
3	China Gold International	\$5,299	3.8x	7.2x
4	Orla Mining	\$4,835	4.1x	6.8x
5	Perseus Mining Limited	\$3,672	2.2x	4.1x
6	K92 Mining	\$3,505	4.9x	7.6x
7	Lingbao Gold	\$2,644	0.8x	n/a
8	Dundee Precious	\$2,598	2.6x	4.0x
9	Aris Mining	\$2,453	2.3x	5.5x
10	Tongguan Gold	\$1,754	3.8x	9.2x
11	Resolute Mining Limited	\$1,137	0.9x	2.0x
12	Steppe Gold	\$369	1.7x	3.0x
13	Bear Creek Mining	\$150	1.1x	11.2x
14	Blue Lagoon Resources	\$110	1.8x	4.3x
15	Monument Mining	\$95	0.9x	1.6x
	Average		2.8x	5.9x
	Fair Value of BLLG @ Sector Average		\$1.10	\$1.37

Source: FRC / S&P Capital IQ

We are resuming coverage on BLLG with a BUY rating, and a fair value estimate of \$1.11/share (the average of our DCF and comparables valuations). With pre-production starting soon, and commercial production expected by Q4-2025, we believe BLLG is well-positioned to generate strong cash flows from a modest but high-grade operation. Given favorable gold market conditions, and upcoming operational milestones, we maintain a positive outlook, and view BLLG as a compelling opportunity in the junior mining space.

Our valuation is highly sensitive to gold prices

C\$:US\$ - 1.38		LT (2029+) Gold Price (US\$/oz)				
		\$2,000	\$2,250	\$2,500	\$3,000	\$3,500
Discount Rate	5.0%	\$1.10	\$1.20	\$1.29	\$1.47	\$1.65
	7.5%	\$1.04	\$1.12	\$1.19	\$1.34	\$1.49
	10.0%	\$0.99	\$1.05	\$1.11	\$1.24	\$1.36
	12.5%	\$0.95	\$1.00	\$1.05	\$1.15	\$1.25
	15.0%	\$0.92	\$0.96	\$1.00	\$1.09	\$1.17

Source: FRC

Risks

We believe the company is exposed to the following key risks (not exhaustive):

Assigning a risk rating of 4 (Speculative)

- The value of the company is dependent on **gold prices**
- Advancing Dome Mountain to production without a feasibility study
- **Exploration and development**
- Need to secure permit upgrades to expand mine capacity
- Production ramp-up depends on the availability of milling capacity or tolling options

Fundamental Research Corp. Equity Rating Scale (ratings are not a recommendation to acquire, dispose of, or take no action regarding a security; the definitions of our ratings are explained below):

Buy – Fair value is 12% above the current market price; or risk and reward is favorable

Hold – Fair value is between 5% to 12% above the current market price

Sell – Fair value is 5% above, or less, than the current market value; or risk and reward is unfavorable

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues and may rely on external funding. These stocks are considered highly speculative.

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