



**King's Bay Resources Corp.  
(An Exploration Company)**

**MANAGEMENT'S DISCUSSION and ANALYSIS  
For the Three Months Ended March 31, 2020**

**Report date: May 14, 2020**

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## **MANAGEMENT'S DISCUSSION & ANALYSIS**

The following discussion and analysis of the financial position and results of operations for **KING'S BAY RESOURCES CORP.** (the "Company" or "King's Bay") should be read in conjunction with the condensed interim financial statements for the three months ended March 31, 2020, which are prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS").

This discussion provides management's analysis of the Company's historical financial and operating results and provides estimates of the Company's future financial and operating performance based on information that is currently available. Actual results will vary from estimates and the variances may be significant. Readers should be aware that historical results are not necessarily indicative of future performance.

Unless otherwise stated, all amounts discussed herein are denominated in Canadian dollars.

Additional information on the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Corporation's website at [www.kingsbayres.com](http://www.kingsbayres.com).

## **CORPORATE OVERVIEW**

King's Bay was incorporated pursuant to the Canada Business Corporations Act on March 20, 1998. The head office and registered office of the Company is Suite 1450 – 789 West Pender Street, Vancouver, BC, V6C 1H2. The Company changed its name from King's Bay Gold Corporation to King's Bay Resources Corp. on August 14, 2017.

The Company became a publicly traded entity on the TSX Venture Exchange ("TSX-V") in April 2002 (Symbol: "KBG"), as a mineral resource exploration company which has been assembling, exploring and rationalizing a portfolio of exploration projects over the last seventeen years. Since that time, the Company has completed several prospective offerings and brokered and non-brokered private placement offerings, with the net capital being raised mostly used to conduct exploration and development programs on its properties.

On January 29, 2019, the Company incorporated a subsidiary company in Nevada, King's Bay Holdings (USA) Corp. The Company owns 100% of the issued and outstanding shares of the subsidiary. Subsequent to December 31, 2019, the Company dissolved the subsidiary company.

On March 29, 2019, the Company entered into an arm's length agreement to acquire all of the issued and outstanding equity of S&S Company, LLC ("S&S"), which owns and operates the licensed S&S California cannabis production and extraction lab ("Proposed Transaction"). This Proposed Transaction was approved by the shareholders at the Annual and Special Meeting on October 10, 2019, to complete the Company's business focus from exploration and evaluation of mineral resources to production and extraction of cannabis. Due to the downturn in the Cannabis markets, it was not possible to secure financing and in March 2020, the parties mutually agreed to terminate the agreement. As a result, the Company wrote off the \$147,328 loaned to S&S towards acquisition expenses that was unsecured and interest-free. The Company's shares have been transferred from Tier 2 to the NEX board effective April 20, 2010 while the Company concentrates on finding a new business opportunity to acquire or develop.

Early in 2020 there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact 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 by Canada and other countries to fight the virus.

For additional details of the Company, visit the Company's website at [www.kingsbayres.com](http://www.kingsbayres.com) or public filings at [www.sedar.com](http://www.sedar.com).

## **KEY DEVELOPMENTS – 2020**

The Company's shares have been transferred from Tier 2 to the NEX board effective April 20, 2010 while the Company concentrates on finding a new business opportunity to acquire or develop.

## **EXPLORATION AND EVALUATION ASSETS**

Due to the Proposed Transaction in 2019, the Company impaired all exploration and evaluation assets at December 31, 2018.

## **ANNUAL FINANCIAL INFORMATION**

### **Financial Data**

The following table shows selected key financial information for the last three fiscal years:

	<b>Year ended December 31, 2019</b>	<b>Year ended December 31, 2018</b>	<b>Year ended December 31, 2017</b>
Total revenues	-	-	-
Loss for the year before taxes	(756,007)	(1,281,541)	(1,242,973)
Weighted average number of shares outstanding	68,810,214	59,097,960	43,910,929
Loss per share	(0.01)	(0.02)	(0.03)
Total assets	2,244	459,108	745,989
Long term debt	Nil	Nil	Nil
Cash dividends	Nil	Nil	Nil

The Company has recorded losses in each of its three most recently completed fiscal years and expects to continue to record losses until such time as an economic resource is identified, developed and brought into profitable commercial operation. The increased net loss in 2017 was due to share-based compensation expense and the increased loss in 2018 was due to the impairment of mineral properties.

## **OPERATING RESULTS**

Net loss for the three months ended March 31, 2020 was \$97,053, compared to a net loss during the three months ended March 31, 2019 of \$159,551, for a difference of \$62,498. The significant expenses include:

- Accretion expense (2020: \$8,580, 2019: \$nil) increased due to the convertible promissory notes issued during in Q3 2019;
- Administrative fees (2020: \$37,500, 2019: \$37,500);
- Advertising and promotions (2020: \$nil, 2019: \$7,383) decreased as the Company is currently not promoting any active projects;
- Filing fees (2020: \$616, 2019: \$7,229) decreased due to a reduction in business activities in the current period compared to the prior year's period;
- Legal fees (2020: \$4,904, 2019: \$24,375) were higher in the prior year's period due to work on the proposed transaction;
- Salaries and consulting fees (2020: \$43,500, 2019: \$63,231) decreased due to a reduction in staffing and consultant work in the current period; and

## King's Bay Resources Corp.

- Travel and meals (2020: \$1,544, 2019: \$18,190) decreased due to reduced travel for meetings and site visits subsequent to the cancellation of the Proposed Transaction.

### SUMMARY of QUARTERLY RESULTS

	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Revenues	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Income (loss) from continuing operations	(97,053)	(313,644)	(142,282)	(140,530)	(159,551)	(203,908)	(137,509)	(266,866)
Net income (loss) & comprehensive income (loss)	(97,053)	(313,644)	(142,282)	(140,530)	(159,551)	(718,314)	(137,509)	(266,866)
Basic and diluted net income (loss) per share	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)	(0.00)	(0.01)
Cash	-	-	20,050	7,286	248,303	454,408	608,553	734,735
Current assets	5,347	2,244	199,607	135,666	280,350	459,108	612,672	753,014
Working capital	(411,432)	(314,379)	19,802	123,278	263,808	423,359	594,103	731,612
Total assets	5,347	2,244	199,607	135,666	280,350	459,108	1,084,813	1,225,155
Current liabilities	416,779	316,623	179,805	12,388	16,542	35,749	18,569	21,402
Total liabilities	416,779	316,623	179,805	12,388	16,542	35,749	18,569	21,402
Share capital	19,865,083	19,865,083	19,865,083	19,866,545	19,866,545	19,866,545	19,791,116	19,791,116
Accumulated deficit	20,720,496	20,623,443	20,309,799	20,167,517	20,026,987	19,867,436	19,149,122	19,011,613

Over the course of the last two fiscal years, the Company's loss from continuing operations had been fairly consistent with the exception of impairment of mineral properties during the quarter ended December 31, 2018.

#### Capital Resources

The Company's present cash resources are not sufficient to meet all of its current liabilities and administrative and overhead expenses for the next eighteen months. The Company will need to raise the additional for general working capital requirements.

The Company will continue to require funds to acquire new properties or projects. As a result, the Company may have to continue to rely on equity and debt financing. There can be no assurance that financing, whether debt or equity, will always be available to the Company in the amount required at any particular time or for any particular period or, if available, that it can be obtained on terms satisfactory to the Company.

The Company's financial success will be dependent on the economic viability of its future resource properties and the extent to which it can discover and develop new mineral deposits. Such development may take several years to complete and the amount of resulting income, if any, is difficult to determine.

**TRANSACTIONS WITH RELATED PARTIES**

During the three months ended March 31, 2020 and 2019, the Company incurred the following transactions to officers or directors of the Company or companies with common directors:

	<b>2020</b>	<b>2019</b>
<b>Key management compensation</b>	<b>\$</b>	<b>\$</b>
Salaries and benefits	25,500	25,500

At March 31, 2020, \$56,290 (December 31, 2019 - \$23,770) is due to related parties which has been included in accounts payable.

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties. The amounts due are unsecured, non-interest bearing, and have no specific terms of repayment.

**MANAGEMENT SERVICES FEE**

On January 1, 2016, the Company signed a Management Services Agreement with Zimtu Capital Corp. (“Zimtu”) to provide management and administrative services at a rate of \$12,500 per month expiring November 30, 2016. The agreement was subsequently renewed each year until the agreement was terminated on April 1, 2019 by mutual consent. Subsequently, the Company paid \$1,500 per month for office space from May 1, 2019 to November 30, 2019.

On January 1, 2020, the Company signed a new Management Services Agreement with Zimtu to provide management and administrative services at a rate of \$12,500 per month, expiring December 31, 2020.

**DISCLOSURE OF OUSTANDING SHARE DATA**

The following is a breakdown of the share capital of the Company, on an annual basis and the date of this report:

	<b>May 14, 2020</b>	<b>March 31, 2020</b>	<b>December 31, 2019</b>
Common Shares	68,810,214	68,810,214	68,810,214
Warrants	18,341,791	18,341,791	18,341,791
Stock Options	1,325,000	1,325,000	1,325,000
Fully Diluted Shares	88,477,005	88,477,005	88,477,005

For additional details of outstanding share capital, refer to Notes 7 and 8 of the condensed interim financial statements for the three months ended March 31, 2020.

**FINANCIAL RISK MANAGEMENT**

The Company is exposed in varying degrees to a variety of financial instrument-related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

(a) Credit risk

Credit risk is the risk of loss associated with a counter party’s inability to fulfill its payment obligations. The Company’s credit risk is primarily attributable to its cash balances. The Company manages its credit risk on bank deposits by holding deposits in high credit quality banking institutions in Canada.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the

Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

(c) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has cash balances and is not exposed to any significant interest rate risk.

(d) Capital management

Capital is comprised of the Company's shareholders' equity and any debt it may issue. As at March 31, 2020, the Company's shareholders' equity deficit was \$411,432 (December 31, 2019 - \$314,379). The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support its operations and business development. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company has not generated any revenues and cash flows since its inception; therefore, the Company is dependent on external financing to fund its future intended business plan. The capital structure of the Company currently consists of working capital and shareholders' equity. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

(e) Fair value

The fair value of the Company's financial assets and liabilities approximates the carrying amount.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The level in the fair value hierarchy within which the financial asset is categorized in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The cash is grouped into level 1 and convertible promissory notes payable is grouped into level 2 as at March 31, 2020 and December 31, 2019. The principal portion of the convertible debenture is carried at amortized cost.

Financial instruments that are not measured at fair value on the balance sheet are represented by accounts payable and accrued liabilities and subscription received. The fair value of these financial instruments approximates their carrying value due to their short-term nature.

## **FORWARD LOOKING STATEMENT**

Certain information set forth in this Management Discussion and Analysis (“MD&A”), including management’s assessment of the Corporation’s future plans and operations, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond these parties’ control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. The Corporation’s actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that the Corporation will derive there from. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## **RISKS AND UNCERTAINTIES**

### **Going Concern**

The Company has not generated any revenues and has incurred accumulated losses of \$20,720,496 (December 31, 2019 – \$20,623,443) since inception. As at March 31, 2020, the Company has working capital deficit of \$411,432 (December 31, 2019 – \$314,379). These financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The application of the going concern concept is dependent upon the Company’s ability to satisfy its liabilities as they become due and to obtain the necessary financing to complete the exploration and development of its diamond and fluorspar mineral property interests, the attainment of profitable mining operations or the receipt of proceeds from the disposition of its mineral property interests. Management is actively engaged in the review and due diligence on opportunities of merit in the mining sector and is seeking to raise the necessary capital to meet its funding requirements. There is, primarily as a result of the conditions described above, cast significant doubt as to the appropriateness of the use of the going concern assumption.

The Company is not expected to be profitable during the ensuing twelve months and therefore must rely on securing additional funds from either debt or equity financings for cash consideration. While the Company is expanding its best efforts to achieve the continued financing, there is no assurance that any such activity will generate sufficient funds for future operations.

### **Raising Capital Funding and Dilution**

The profitability of the Corporation is affected by business risks including the price of gold, the normal risks associated with open pit and underground mining, which affects production rates and costs, and the exchange rate between the Canadian dollar and United States dollar. Once the Corporation commences production, outside financing will be required. While the Corporation has been successful in the past, there is no assurance that funding will be available under terms that are satisfactory to management. The ability of the Corporation to achieve its operational objectives is dependent in large measure on the results of the exploration activities and the ability to raise capital funding for continued exploration. The Corporation frequently issues Common Shares to finance its operations and for working capital purposes. It is possible that the Corporation will enter into more agreements to issue Common Shares and warrants and options to purchase Common Shares. The impact of the issuance of a significant amount of Common Shares, along with warrant and option exercises, could place downward pressure on the market price of the Common Shares and at a minimum such issuances will dilute the existing shareholders’ interests in the Corporation

### **Dependence on Management**

The Company is dependent on a relatively small number of key personnel, the loss of any of whom could have an adverse effect on the Company. The Corporation does not maintain any key man insurance on any of its employees.

### **Conflicts of Interest**

Certain of the directors and officers of Corporation are also directors and / or officers of other companies, and may be shareholders of those companies. Such associations or relationships may give rise to conflicts of interest from time to time. The Corporation's directors are required by law to act honestly and in good faith with a view to the best interests of the Corporation and to disclose any interest, which they may have in any project or opportunity of the Corporation. If a conflict of interest arises at a meeting of the Board of Directors, any director in a conflict must disclose his interest and abstain from voting on such matters in accordance with applicable corporate laws, and may be required to resign as a director of one of the companies.

### **Payment Obligations**

The Corporation is, or may in the future become, a party to certain contractual agreements pursuant to which the Corporation is or may become subject to payments and be required to comply with other obligations. If such obligations are not complied with when due, in addition to any other remedies that may be available to the other parties, this could result in dilution or forfeiture of interests held by the Corporation. The Corporation may not have, or be able to obtain, financing for all such obligations as they arise.

### **Future Capital Requirements**

The Corporation may encounter significant unanticipated liabilities or expenses. The Corporation's ability to continue its planned exploration activities depends in part on its ability to obtain additional financing in the future to fund exploration and development activities or acquisitions of additional projects. Since incorporation on March 20, 1998, the Corporation has raised capital primarily through equity financing and in the future may raise capital through equity or debt financing, joint ventures or other means. There can be no assurance that the Corporation will be able to obtain the necessary financing in a timely manner, on acceptable terms or at all.

### **Dividends**

No dividends on the Common Shares have been paid to date. The Corporation does not intend to declare or pay any cash dividends in the foreseeable future. Payment of any future dividends will be at the discretion of the Corporation's Board of Directors, after taking into account many factors, including the Corporation's operating results, financial condition and current and anticipated cash needs.

### **Estimates and Assumptions employed in the preparation of financial statements**

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

#### **Estimates and assumptions**

In particular, information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements includes:

- The inputs used in assessing the recoverability of deferred tax assets to the extent that the deductible temporary differences will reverse in the foreseeable future and that the Company will have future taxable income;



- The assumptions and inputs used in calculating the fair value of the liability portion of the convertible promissory notes payable;

### Management Judgments

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies from those involving estimations that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

- **Going concern**  
Significant judgments used in the preparation of these consolidated financial statements include, but are not limited to those relating to the assessment of the Company's ability to continue as a going concern.

## **CAPITAL MANAGEMENT**

As the company is in the exploration stage, its principal source of capital is from the issuance of common shares. The company's capital management objective is to obtain sufficient capital to maintain its exploration programs for the benefit of its stakeholders. To meet the objectives, management monitors the company's ongoing capital requirements against unrestricted net working capital and assesses additional capital requirements on specific exploration properties on a case by case basis. The company is not subject to externally imposed capital requirements or restrictions. Management is of the opinion that the amounts and changes in the company's capital are readily determinable from information provided in its financial statements.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Corporation does not have any off-balance sheet arrangements.

## **STOCK-BASED COMPENSATION PLAN**

The Company has a Stock Option Plan (the "Plan") under which it is authorized to grant options to directors, officers, consultants or employees of the Company. At the Company's Annual and Special General Meeting on October 10, 2019, the shareholders approved the "2019 Stock Option Plan", and set the number of options granted under the Plan to not exceed 10% of the issued and outstanding shares. Options granted to employees vest fully on grant. Options issued to investor relations consultants vest in stages over 12 months with one quarter of the options vesting in any three month period.

## **FUTURE ACCOUNTING STANDARDS**

For details of the Company's New Accounting Standards Adopted and New Accounting Pronouncements, please refer to Note 4 of the Company's audited financial statements for the year ended December 31, 2019.

## **CORPORATE GOVERNANCE**

The Board of Directors is currently comprised of the four individuals as appointed, elected or re-elected and as noted below. The Corporations by-laws provide that each director is elected to serve until the next Annual and Special Meeting of Shareholders or until a successor is elected or appointed. The Board of Directors has established two committees: the Audit Committee and the Compensation Committee. Directors, Officers and Committee Members are identified as follows:

- Kevin Bottomley\*\* – Director, President, CEO
- Dusan Berka\*\* – Director
- Nicholas Rodway – Director
- Jody Bellefleur\*\* – Director, CFO

\*\* member of the audit committee