



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

Condensed Interim Consolidated Financial Statements

Three Months Ended March 31, 2019

(Unaudited - Expressed in Canadian Dollars)

**Notice of No Auditor Review of
Interim Consolidated Financial Statements**

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these interim consolidated financial statements they must be accompanied by a notice indicating that these interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

King's Bay Resources Corp.

Condensed Interim Consolidated Statements of Financial Position

Expressed in Canadian dollars

(Unaudited – prepared by management)

	March 31, 2019	December 31, 2018
Assets		
Current		
Cash	\$ 248,303	\$ 454,408
GST receivable	4,982	4,700
Other receivables	10,884	-
Prepaid expenses	16,181	-
	\$ 280,350	\$ 459,108
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 16,542	\$ 35,749
	16,542	35,749
Shareholders' Equity		
Share capital (Note 7)	19,866,545	19,866,545
Reserves (Note 8)	424,250	424,250
Deficit	(20,026,987)	(19,867,436)
	263,808	423,359
	\$ 280,350	\$ 459,108

Approved and authorized by the Board of Directors on May 15, 2019:

"Kevin Bottomley"

President, Director

"Dusan Berka"

Director

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

King's Bay Resources Corp.

Condensed Interim Consolidated Statements of Operations and Comprehensive Loss

For the three months ended March 31, 2019 and 2018

Expressed in Canadian dollars

(Unaudited – prepared by management)

	2019	2018
Expenses		
Administration fees (Note 11)	\$ 37,500	\$ 37,500
Advertising and promotion (Note 11)	7,383	12,256
Consulting fees and salaries (Note 9)	63,231	34,402
Filing fees	7,229	10,782
Investor relations	-	37,811
Legal expenses	24,375	10,426
Office and general expenses	1,635	709
Travel and meals	18,190	14,326
	159,543	158,212
Other Income (Expenses)		
Realized loss on sale of marketable securities (Note 5)	-	(640)
	-	(640)
Net loss and comprehensive loss for the period	159,551	158,852
Basic and diluted loss per share	\$ (0.01)	\$ (0.00)
Weighted average number of common shares outstanding		
– basic and diluted	68,810,214	45,559,149

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

King's Bay Resources Corp.

Condensed Interim Consolidated Statements of Changes in Equity

For the three months ended March 31, 2019 and 2018

Expressed in Canadian dollars

(Unaudited – prepared by management)

	Number of Shares	Share Capital \$	Reserves \$	Deficit \$	Total \$
Balance, December 31, 2017	48,376,423	18,735,365	424,250	(18,585,895)	573,720
Net loss for the period	-	-	-	(158,852)	(158,852)
Balance, March 31, 2018	8,376,423	18,735,365	424,250	(18,744,747)	414,868
	Number of Shares	Share Capital \$	Reserves \$	Deficit \$	Total \$
Balance, December 31, 2018	68,810,214	19,866,454	424,250	(19,867,436)	423,359
Net loss for the period	-	-	-	(159,551)	(159,551)
Balance, March 31, 2019	68,810,214	19,866,545	424,250	(20,026,987)	263,808

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

King's Bay Resources Corp.

Condensed Interim Consolidated Statements of Cash Flows

For the three months ended March 31, 2019 and 2018

Expressed in Canadian dollars

(Unaudited – prepared by management)

	2019	2018
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		
Net loss for the period	\$ (159,551)	\$ (158,852)
Adjustments for items not involving cash:		
Realized loss on sale of marketable securities	-	640
Changes in non-cash operating working capital:		
GST receivable	(282)	16,270
Other receivables	(10,884)	-
Prepaid expenses	(16,181)	41,562
Accounts payable and accrued liabilities	(19,207)	42,806
Net cash flows (used in) operating activities	(206,105)	(82,124)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
Proceeds from sale of marketable securities	-	3,360
Exploration and evaluation costs	-	(2,060)
Net cash flows from (used in) investing activities	-	1,300
INCREASE (DECREASE) IN CASH	(206,105)	(56,274)
Cash and cash equivalents, beginning of period	454,408	78,596
Cash and cash equivalents, end of period	\$ 248,303	\$ 22,322

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

King's Bay Resources Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2019

Expressed in Canadian dollars

(Unaudited – prepared by management)

1. NATURE OF OPERATIONS

King's Bay Resources Corp. ("King's Bay" or the "Company") was incorporated in Canada pursuant to the *Canada Business Corporations Act* on March 20, 1998. The Company is a public company listed on Tier 1 of the TSX Venture Exchange in Canada with the symbol "KBG". The Company's name change from King's Bay Gold Corporation to King's Bay Resources Corp. was approved by the TSX Venture Exchange on August 14, 2017. The Company has been in the business of acquiring, exploring, developing and evaluating mineral resource properties since incorporation.

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

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 is subject to the approvals from shareholders and TSX Venture Exchange and if it is successfully completed, the Company will change its business focus from exploration and evaluation of mineral resources to production and extraction of cannabis. Please refer to Note 12. The Company's shares are currently halted.

The head office, principal address and registered and records office of the Company are located at Suite 1450 – 789 West Pender, Vancouver, BC, Canada, V6C 1H2.

2. GOING CONCERN

The Company has not generated any revenues and has incurred a net loss of \$159,551 during the three months ended March 31, 2019 (December 31, 2018 – \$1,281,541) and accumulated losses of \$20,026,987 (December 31, 2018 – \$19,867,436) since inception. As at March 31, 2019, the Company has working capital of \$263,808 (December 31, 2018 – \$423,359). These consolidated 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 continue operations, 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. 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.

3. BASIS OF PRESENTATION

Statement of Compliance

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

King's Bay Resources Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2019

Expressed in Canadian dollars

(Unaudited – prepared by management)

3. BASIS OF PRESENTATION – continued

Basis of Measurement

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Approval of the Financial Statements

The consolidated financial statements of King's Bay Resources Corp. for the three months ended March 31, 2019, were authorized for issue in accordance with a resolution of the directors on May 15, 2019.

Significant Accounting Judgments, Estimates and Assumptions

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 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 the Black-Scholes pricing model to calculate the fair value of share based payments;

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 financial statements are as follows:

- Economic recoverability of exploration and evaluation assets

The recoverability of the carrying value of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest;

- Going concern

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

King's Bay Resources Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2019

Expressed in Canadian dollars

(Unaudited – prepared by management)

4. SIGNIFICANT ACCOUNTING POLICIES

The policies applied in these condensed interim consolidated financial statements are consistent with policies disclosed in Note 4 of the financial statements for the year ended December 31, 2017. These condensed interim consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2017.

5. MARKETABLE SECURITIES

The Company received 20,000 post-consolidated common shares and 20,000 post-consolidated share purchase warrants of Intact Gold Corporation ("Intact") in accordance with the sale agreement of the Blackjack Property during the year ended December 31, 2016.

During the year ended December 31, 2018, the Company sold 20,000 shares of Intact for gross proceeds of \$3,360 and realized a loss on the sale of \$642. At March 31, 2019, there are nil shares remaining (December 31, 2018 - nil shares).

6. EXPLORATION AND EVALUATION ASSETS

Lynx Lake Copper-Cobalt Property

On October 27, 2016, the Company announced the acquisition of a 100% interest in the Lynx Lake Copper-Cobalt Property, consisting of 66 mineral claims encompassing 20 square kilometers, located in southern Labrador. In consideration, the Company will pay \$100,000 (\$40,000 paid in cash and \$30,000 paid with the issuance of 600,000 shares with a fair value of \$30,000 as noted below) and issue 900,000 common shares to the vendors (200,000 shares issued with a fair value of \$22,000, 300,000 shares issued with a fair value of \$28,500, and 400,000 shares issued with a fair value of \$16,000) in staged payments. There is a 1.5% Net Smelter Return ("NSR") on future production payable to original vendors. During December 2016, the Company increased the size of the property to 959 claims by staking additional property. As the newly staked claims are considered to be in the area of influence, these claims are also covered by the NSR. The acquisition was accepted by the TSX Venture Exchange on January 20, 2017.

On September 21, 2018, the Company amended the agreement pursuant to which the Company agreed to issue 600,000 common shares in lieu of the making a cash payment of \$30,000, increasing the shares issued on the second anniversary of the agreement to 1,000,000 common shares (see Note 7(b)).

On November 16, 2018, the Company signed a debt settlement agreement with the vendors of the Lynx Lake Property to pay maintenance on all claims staked after October 27, 2016. In lieu of paying maintenance costs, the vendors agreed to settle the amount owing by receiving 1,000,000 common shares of the Company (issued December 3, 2018 with a fair value of \$40,000, see Note 7(b)).

During the year ended December 31, 2018, the Company fully impaired the property.

Quebec Cobalt Properties

Ninuk Lake Project:

The Ninuk Lake Project is located approximately 175 kilometres northeast of Umiujag, Quebec and consists of 19 mineral claims encompassing 2,164 acres. The property was acquired from Zimtu Capital Corp. ("Zimtu") for \$17,000 (paid). During the year ended December 31, 2018, the Company fully impaired the property.

King's Bay Resources Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2019

Expressed in Canadian dollars

(Unaudited – prepared by management)

6. EXPLORATION AND EVALUATION ASSETS - continued

Quebec Cobalt Properties - continued

Broadback River Cobalt Property

The Broadback River Project is located 24 kilometres northwest of the Nuinsco Discovery zone and consists of 9 mineral claims encompassing 1,035 acres. The property was acquired from Zimtu for \$14,000 (paid). During the year ended December 31, 2018, the Company fully impaired the property.

Roberge Cobalt Property

The Roberge Project is located 2.1 kilometres southeast of Chesterville, Quebec and consists of 3 mineral claims encompassing 443 acres. The property was acquired from Zimtu for \$8,000 (paid). During the year ended December 31, 2018, the Company fully impaired the property.

Trump Island Property

On February 16, 2017, the Company acquired a 100% interest in the Trump Island Property, consisting of 8 mineral claims covering an area of 2 square kilometres, located in north-central Newfoundland. In consideration, the Company will pay \$7,000 (paid) and issue the vendors 200,000 common shares (issued with a fair value of \$38,000). The Property is subject to a 2.0% net smelter return royalty payable by the Company to the Vendors, of which 50% can be repurchased for \$1,000,000. The agreement was accepted by the TSX Venture Exchange on February 21, 2017. During the year ended December 31, 2018, the Company fully impaired the property.

Hook Bay of Helena Lake

In 2003, the Company staked 2 claims to explore for gold. In 2005, the Company staked one claim and in 2014, the Company staked one additional claim. The property covers 560 hectares. During the year ended December 31, 2018, the Company fully impaired the property.

King's Bay Resources Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2019

Expressed in Canadian dollars

(Unaudited – prepared by management)

7. SHARE CAPITAL

- a) Authorized: Unlimited Class A common voting shares with no par value, and
Unlimited Class B common non-voting shares with no par value
- b) Issued and Outstanding:

As at March 31, 2019, the Company had 68,810,214 (December 31, 2018 – 68,810,214) shares issued and outstanding.

During the year ended December 31, 2018:

On June 8, 2018, the Company closed a non-brokered private placement financing consisting of 18,341,791 units (each, a "Unit") at a price of \$0.06 per Unit for gross proceeds of \$1,100,507. Each Unit consists of one common share (each, a "Share") and one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant is exercisable into one common share at a price of \$0.10 per Share until June 8, 2020. The fair value of the common share component of the Units at the date of issuance was \$0.06 being equal to market price therefore the Company allocated the entire proceeds to common shares and \$nil to warrants. The Company paid cash finder's fees of an aggregate of \$34,080 to certain finders and issued an aggregate of 92,000 finder's shares to certain finder's in connection with the Financing.

On October 4, 2018, 400,000 common shares with a fair value of \$16,000 were issued pursuant to the Lynx Lake property agreement. In addition, 600,000 common shares with a fair value of \$30,000 were issued pursuant to the amended agreement in lieu of a cash payment (see Note 6).

On December 3, 2018, 1,000,000 common shares with a fair value of \$40,000 were issued to the vendors of the Lynx Lake Property pursuant to a debt settlement agreement to pay maintenance costs on all claims staked subsequent to the original agreement (see Note 6).

Warrants

A summary of the Company's outstanding warrants as at March 31, 2019 and December 31, 2018 are as follows:

	March 31, 2019		December 31, 2018	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance, beginning of period	36,148,491	\$ 0.11	17,840,300	\$ 0.13
Issued	-	-	18,341,791	0.10
Expired	-	-	(33,600)	0.12
Balance, end of period	36,148,491	\$ 0.11	36,148,491	\$ 0.11

King's Bay Resources Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2019

Expressed in Canadian dollars

(Unaudited – prepared by management)

7. SHARE CAPITAL

Warrants - continued

The following share purchase warrants were outstanding and exercisable as at March 31, 2019 and December 31, 2018:

Expiry Date	Exercise Price	March 31, 2019	December 31, 2018
		Number of Warrants	Number of Warrants
December 30, 2019**	\$0.12	12,516,700	12,516,700
July 14, 2019	\$0.15	2,500,000	2,500,000
August 30, 2019	\$0.15	615,000	615,000
September 18, 2019	\$0.15	2,175,000	2,175,000
June 8, 2020	\$0.10	18,341,791	18,341,791
Total Outstanding and exercisable		36,148,491	36,148,491

**The expiry date for these share purchase warrants was extended by one year from December 30, 2018 to December 30, 2019.

8. SHARE-BASED PAYMENTS

Options

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 17, 2018, the shareholders approved the “2018 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.

The following is a summary of movements in the number of share options outstanding and their related weighted average exercise prices under the Company’s stock option plan for the three months ended March 31, 2019 and the year ended December 31, 2018:

	March 31, 2019		December 31, 2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of period	1,941,128	\$ 0.11	3,541,128	\$ 0.09
Cancelled/Expired	(616,128)	0.135	(1,600,000)	0.075
Balance, end of period	1,325,000	0.10	1,941,128	0.11

King's Bay Resources Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2019

Expressed in Canadian dollars

(Unaudited – prepared by management)

8. SHARE-BASED PAYMENTS - continued

Options – continued

The following stock options were outstanding and exercisable as at March 31, 2019 and December 31, 2018:

Expiry Date	Exercise Price	March 31,	December 31,
		2019	2018
		Number	Number
		of Options	of Options
February 2, 2019	\$0.135	-	616,128
September 27, 2022	\$0.10	1,325,000	1,325,000
Total Outstanding and exercisable		1,325,000	1,941,128

The Company recorded \$nil (March 31, 2018 - \$nil) of share-based payments during the three months ended March 31, 2019.

9. RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2019 and 2018, the Company incurred the following transactions to officers or directors of the Company or companies with common directors:

	2019	2018
	\$	\$
Key management compensation		
Salaries and benefits	25,500	15,000
Total	25,500	15,000

At March 31, 2019, \$nil (December 1, 2018 - \$nil) is due to/from related parties.

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.

10. 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.

King's Bay Resources Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2019

Expressed in Canadian dollars

(Unaudited – prepared by management)

10. FINANCIAL RISK MANAGEMENT - continued

(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.

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.

(b) 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.

(c) Capital management

Capital is comprised of the Company's shareholders' equity and any debt it may issue. As at March 31, 2019, the Company's shareholders' equity was \$263,808 (December 31, 2018 – \$423,359). 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.

(d) 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.

King's Bay Resources Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2019

Expressed in Canadian dollars

(Unaudited – prepared by management)

10. FINANCIAL RISK MANAGEMENT - continued

The following is an analysis of the Company's financial assets measured at fair value as at March 31, 2019 and December 31, 2018:

	As at March 31, 2019		
	Level 1	Level 2	Level 3
Cash	\$ 248,303	\$ -	\$ -

	As at December 31, 2018		
	Level 1	Level 2	Level 3
Cash	\$ 454,408	\$ -	\$ -

11. COMMITMENTS

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, and then renewed on December 1, 2016, for an additional twelve months. The agreement was subsequently renewed on December 1, 2017 and 2018, each for a further twelve months. On April 1, 2019, the agreement was terminated by mutual consent.

12. SUBSEQUENT EVENTS

On March 29, 2019, the Company entered into an arm's length agreement with Mr. Joshua Stimmel and others 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, with immediate plans for expansion with high-capacity extraction and distillation under the brand name *Elicit Labs*.

The Proposed Transaction is a Change of Business and a Fundamental Acquisition under TSX Venture Exchange policies. The agreement between the Company and S&S includes the following terms:

- In conjunction with a 5:1 consolidation of its share capital (the "**King's Bay Consolidation**"), the Company shall raise funds pursuant to a private placement offering (the "**Financing**"), which on closing will be invested through the Company's subsidiary in the S&S business.
- The Company will reserve an aggregate of up to 23,000,000 common shares of the Company ("**Consideration Shares**") for issuance to the members of S&S upon the exercise of the Redemption-Exchange Right described below and in exchange for all the issued and outstanding securities of S&S. The value of the Consideration Shares for the purpose of the Proposed Transaction is \$0.04 per share. The 23,000,000 shares are expected to represent 46.27% of the total issued and outstanding share capital of the Company after completion of the Proposed Transaction, including the Financing discussed below.

In order to ensure that the S&S members don't have adverse tax consequences prior to taking possession of their Consideration Shares, the Company's wholly owned US subsidiary ("SubCo") which is purchasing S&S will create a new share class non-economic, non-voting Preferred Shares, each of which shares will be convertible into 1000 Consideration Shares.

King's Bay Resources Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2019

Expressed in Canadian dollars

(Unaudited – prepared by management)

14. SUBSEQUENT EVENTS – continued

- Members of S&S shall purchase special voting shares in the Company for a nominal price, each of which shall entitle the holder to exercise 1000 voting rights as compared to an existing common share. The number of these special voting shares are reduced in the same proportion as the Redemption-Exchange Right is exercised, so that 1000 Consideration Shares are issued whenever 1 SubCo Preferred Share and 1 special voting share are cancelled.

The Consideration Shares may be required to be escrowed pursuant to applicable stock exchange requirements. A finder's fee of 3,000,000 shares is payable in connection with the acquisition of S&S to an unrelated party.

The Proposed Transaction is expected to close in July, 2019 and is subject to the conditions set out in the purchase agreement between the Company and the S&S Members, including the completion of the Financing (described below), it is also the intention of the parties that the Company delist its common shares from trading on TSX Venture Exchange and list on the Canadian Securities Exchange ("CSE").

The King's Bay Financing

Prior to closing the acquisition of S&S, King's Bay will complete a financing (the "**Financing**") to raise proceeds to fund the operation of the purchased business and its further growth and development, including the capitalization of SubCo and S&S. The Financing shall be in an amount and at a price to be determined by the parties, acting reasonably and having regard to market conditions and the anticipated capital requirements of the Company and its business after Closing. Finder's fees may be payable in connection with the Financing.

The common shares of the Company issued pursuant to the Financing will be subject to resale hold periods under applicable Canadian and United States securities laws.

New Management

On Closing, the existing board and management of the Company shall resign, and subject to their acceptability to the CSE, the new board of directors shall include four of Joshua Stimmel, Joshua Hartsel, Tage Stimmel, David Hwang and other persons to be determined prior to Closing. Joshua Stimmel shall also serve as the Company's President and Chief Executive Officer. Current directors of the Company will be entitled to nominate one director to the board on behalf of current shareholders.

Name Change

In conjunction with the Consolidation, the Company intends to change its name from "King's Bay Resources Corp." to "Merced Holdings Corp." or such other name as may be selected by the Company's board of directors.