



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

Consolidated Financial Statements

December 31, 2019 and 2018

(Expressed in Canadian Dollars)

Independent Auditor's Report

To the Shareholders of King's Bay Resources Corp.:

Opinion

We have audited the consolidated financial statements of King's Bay Resources Corp. and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$756,007 during the year ended December 31, 2019, has accumulated losses of \$20,623,443 since inception and has working capital deficiency of \$314,379 as at December 31, 2019. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

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

Vancouver, British Columbia

April 28, 2020

MNP LLP
Chartered Professional Accountants

King's Bay Resources Corp.

Consolidated Statements of Financial Position

As at December 31, 2019 and 2018

Expressed in Canadian dollars

	2019	2018
Assets		
Current		
Cash	\$ -	\$ 454,408
GST receivable	2,244	4,700
	\$ 2,244	\$ 459,108
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 155,182	\$ 35,749
Subscription received (Note 7e)	25,000	-
Convertible promissory notes payable (Note 7d)	136,441	-
	316,623	35,749
Shareholders' Equity		
Share capital (Note 7b)	19,865,083	19,866,545
Equity portion of convertible notes (Note 7d)	19,731	-
Reserves (Note 8)	424,250	424,250
Deficit	(20,623,443)	(19,867,436)
	(314,379)	423,359
	\$ 2,244	\$ 459,108

Note 2 – Going concern

Note 13 – Subsequent events

Approved and authorized by the Board of Directors on April 28, 2020:

“Kevin Bottomley”

President, Director

“Dusan Berka”

Director

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

King's Bay Resources Corp.

Consolidated Statements of Operations and Comprehensive Loss

For the years ended December 31, 2019 and 2018

Expressed in Canadian dollars

	2019	2018
Expenses		
Accounting and audit fees	\$ 14,750	\$ 19,300
Accretion (Note 7d)	13,672	-
Administrative fees (Note 11)	49,500	150,000
Advertising and promotions	20,546	65,090
Consulting fees and salaries (Note 9)	238,064	263,252
Filing fees	28,095	27,378
Investor relations	-	83,434
Legal fees	119,550	38,419
Office and general expenses	10,289	8,774
Professional fees	50,000	-
Travel and meals	64,202	110,848
	608,668	766,495
Other (Income) Expenses		
Foreign exchange losses	11	-
Impairment of exploration and evaluation assets (Note 6)	-	514,391
Interest income	-	(2)
Loss on sale of marketable securities	-	642
Unrealized loss on marketable securities	-	15
Write off of loan to S&S (Note 13)	147,328	-
	756,007	1,281,541
Net loss and comprehensive loss for the year	756,007	1,281,541
Basic and diluted loss per share	\$ (0.01)	\$ (0.02)
Weighted average number of common shares outstanding		
– basic and diluted	68,810,214	59,097,960

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

King's Bay Resources Corp.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2019 and 2018

Expressed in Canadian dollars

	Number of Shares	Share Capital \$	Reserves \$	Equity portion of convertible note \$	Deficit \$	Total \$
Balance, December 31, 2017	48,376,423	18,735,365	424,250	-	(18,585,895)	573,720
Shares issued for properties (Note 6)	2,000,000	86,000	-	-	-	86,000
Shares issued for cash (Note 7b)	18,341,791	1,100,507	-	-	-	1,100,507
Share issuance costs	92,000	(55,327)	-	-	-	(55,327)
Net loss for the year	-	-	-	-	(1,281,541)	(1,218,423)
Balance, December 31, 2018	68,810,214	19,866,545	424,250	-	(19,867,436)	423,359
Equity portion of convertible notes (Note 7d)	-	-	-	19,731	-	19,731
Share issuance costs	-	(1,462)	-	-	-	(1,462)
Net loss for the year	-	-	-	-	(756,007)	(756,041)
Balance, December 31, 2019	68,810,214	19,865,083	424,250	19,731	(20,623,443)	(314,379)

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

King's Bay Resources Corp.
Consolidated Statements of Cash Flows
For the years ended December 31, 2019 and 2018
Expressed in Canadian dollars

	2019	2018
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:		
Net loss for the year	\$ (756,007)	\$ (1,281,541)
Adjustments for items not involving cash:		
Loss on sale of marketable securities	-	642
Write off of loan to S&S	147,328	-
Accretion expense	13,672	-
Impairment of exploration and evaluation assets	-	514,391
Unrealized loss on marketable securities	-	15
Changes in non-cash operating working capital:		
GST receivable	2,456	15,835
Loans to S&S	(147,328)	-
Prepaid expenses	-	99,059
Accounts payable and accrued liabilities	119,433	(136,520)
Net cash flows (used in) operating activities	(620,446)	(788,119)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:		
Exploration and evaluation costs	-	(3,545)
Government grants received	-	118,936
Sale of marketable securities	-	3,360
Net cash flows from (used in) investing activities	-	118,751
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:		
Proceeds from common shares issued for cash	-	1,100,507
Convertible promissory notes issued	142,500	-
Share subscriptions received	25,000	-
Share issuance costs	(1,462)	(55,327)
Net cash flows from financing activities	166,038	1,045,180
INCREASE (DECREASE) IN CASH	(454,408)	375,812
Cash, beginning of year	454,408	78,596
Cash, end of year	\$ -	\$ 454,408

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

King's Bay Resources Corp.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

Expressed in Canadian dollars

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. 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 inability of the Company to raise the necessary funds to complete the transaction, the transaction was terminated in March 2020 (see Note 13). 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.

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 \$756,007 during the year ended December 31, 2019 (2018 – \$1,281,541) and accumulated losses of \$20,623,443 (2018 – \$19,867,436) since inception. As at December 31, 2019, the Company has working capital deficiency of \$314,379 (2018 – \$423,359 surplus). 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. 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 indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

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.

King's Bay Resources Corp.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2019
Expressed in Canadian dollars

3. BASIS OF PRESENTATION

Statement of Compliance

The 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").

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.

Basis of Preparation

These consolidated financial statements include the accounts of its subsidiary, King's Bay Holdings (USA) Corp. All intercompany transactions and balances and unrealized gains and losses from intercompany transactions are eliminated upon consolidation.

Approval of the Consolidated Financial Statements

The consolidated financial statements of King's Bay Resources Corp. for the year ended December 31, 2019, were authorized for issue in accordance with a resolution of the directors on April 28, 2020.

4. 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 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.

King's Bay Resources Corp.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2019
Expressed in Canadian dollars

5. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Cash

Cash consists of cash on hand and deposits in banks.

Share-based payment transactions

The Company grants stock options to buy common shares of the Company to directors, officers and employees. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors and officers of the company.

The fair value of the options is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period of the options. The fair value is recognized as an expense with a corresponding increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest.

Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received.

Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income or loss.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, differences relating to investments in subsidiaries and associates to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Share capital

The Company records proceeds from share issuances net of issue costs and any tax effects. Common shares issued for consideration other than cash, are valued based on their market value at the date the common shares are issued.

King's Bay Resources Corp.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2019
Expressed in Canadian dollars

5. SIGNIFICANT ACCOUNTING POLICIES - continued

Warrants

Proceeds from issuances by the Company of units consisting of shares and warrants are allocated based on the residual method, whereby the carrying amount of the warrants is determined based on any difference between gross proceeds and the estimated fair market value of the shares. If the proceeds from the offering are less than or equal to the estimated fair market value of shares issued, a \$nil carrying amount is assigned to the warrants.

Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method for calculating diluted loss per share. Under this method the dilutive effect on loss per share is calculated on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to purchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Exploration and evaluation assets

Exploration and evaluation activities involve the search for minerals, the determination of technical feasibility, and the assessment of commercial viability of an identified resource.

Exploration and evaluation costs incurred prior to obtaining licenses are expensed in the period in which they are incurred. Once the legal right to explore has been acquired, exploration and evaluation costs incurred are capitalized. All capitalized exploration and evaluation costs are recorded at acquisition cost and are monitored for indications of impairment. Where there are indications of a potential impairment, an assessment is performed for recoverability. Capitalized costs are charged to the statement of comprehensive loss to the extent that they are not expected to be recovered.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets are tested for impairment and transferred to "Mines under construction". No amortization during the exploration and evaluation phase.

The recoverability of the Exploration and Evaluation assets is dependent upon the determination of economically recoverable ore reserves, confirmation of the Company's interest in the underlying mineral claims, the ability to option its resource properties, the ability to obtain the necessary financing to complete their development and future profitable production or proceeds from the disposition thereof. The Company performs impairment tests on exploration and evaluation assets when events or circumstances occur which indicate the assets may not be recoverable. Impairment assessments are carried out on a project by project basis with each project representing a single cash generating unit. When impairment indicators are identified, an impairment loss is recognized for any amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of disposal and its value in use.

King's Bay Resources Corp.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2019
Expressed in Canadian dollars

5. SIGNIFICANT ACCOUNTING POLICIES - continued

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and from its ultimate disposal.

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

Government grants

Government grants related to exploration and evaluation costs are deducted from the exploration and evaluation costs during the year on which subsidy is received or there is reasonable assurance that the grants will be received.

Financial instruments

The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). Financial assets are initially measured at fair value and are subsequently measured at either (i) amortized cost; (ii) fair value through other comprehensive income, or (iii) at fair value through profit or loss.

- Amortized cost

Financial assets classified and measured at amortized cost are those assets that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of the financial asset give rise to cash flows that are SPPI. Financial assets classified at amortized cost are measured using the effective interest method.

- Fair value through other comprehensive income ("FVTOCI")

Financial assets classified and measured at FVTOCI are those assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise to cash flows that are SPPI. This classification includes certain equity instruments where IFRS 9 allows an entity to make an irrevocable election to classify the equity instruments, on an instrument-by-instrument basis, that would otherwise be measured at fair value through profit or loss ("FVTPL") to present subsequent changes in FVTOCI.

- Fair value through profit or loss ("FVTPL")

Financial assets classified and measured at FVTPL are those assets that do not meet the criteria to be classified at amortized cost or at FVTOCI. This category includes debt instruments whose cash flow characteristics are not SPPI or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell the financial asset.

Financial liabilities are generally classified and measured at fair value at initial recognition and subsequently measured at amortized cost.

The following table summarizes the classification of the Company's financial instruments:

King's Bay Resources Corp.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2019
Expressed in Canadian dollars

5. SIGNIFICANT ACCOUNTING POLICIES - continued

	Classification
Financial Assets	
Cash	FVTPL
Financial Liabilities	
Accounts payable and accruals	Amortized cost
Subscription received	Amortized cost
Convertible promissory notes payable	FVTPL

The financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. Financial liabilities are derecognized when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Newly adopted accounting standards

The following accounting standards were adopted by the Company for the year ended December 31, 2019.

IFRS 16 Leases

On January 13, 2016, the International Accounting Standards Board published a new standard, IFRS 16, Leases, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted.

The Company adopted IFRS 16 effective from January 1, 2019 using modified retrospective approach. The adoption does not have impact on the Company's consolidated financial statements.

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 7b).

King's Bay Resources Corp.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

Expressed in Canadian dollars

6. EXPLORATION AND EVALUATION ASSETS - continued

Lynx Lake Copper-Cobalt Property – continued

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 7b). 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.

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 Consolidated Financial Statements
For the year ended December 31, 2019
Expressed in Canadian dollars

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 December 31, 2019, the Company had 68,810,214 (2018 – 68,810,214) shares issued and outstanding. No shares were issued during the year ended December 31, 2019.

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).

c) Warrants

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

	2019		2018	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance, beginning of year	36,148,491	\$ 0.11	17,840,300	\$ 0.13
Issued	-	-	18,341,791	0.10
Expired	(17,806,700)	0.13	(33,600)	0.12
Balance, end of year	18,341,791	\$ 0.10	36,148,491	\$ 0.11

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

	2019	
Expiry Date	Exercise Price	Number of Warrants Outstanding and Exercisable
June 8, 2020	\$0.10	18,341,791

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7. SHARE CAPITAL - continued

d) Convertible Promissory Notes Payable

On August 8, 2019, the Company closed its private placement offering of unsecured convertible notes for gross proceeds of \$142,500 from several parties, including a director and another insider of the Company. The loans are unsecured, carries an interest rate of 12% and is due in 1 year. The loans are convertible into units at a price of \$0.20 per unit. Each unit consists of one common share and one share purchase warrant exercisable for 2 years. Each warrant may be exercised for one common share at a price of \$0.35 per share if exercised in the first year and \$0.60 per share if exercised in the second year. The Company requires these funds for working capital and to pay its expenses of the proposed S&S acquisition.

The initial fair value of the principal portion of the Convertible Debenture was determined using a market interest rate for an equivalent non-convertible instrument at the issue date. The principal portion is subsequently recognized on an amortized cost basis until extinguished on conversion or maturity. The remainder of the proceeds are allocated to the conversion option.

On initial recognition, the unsecured convertible notes of \$142,500 were broken down into the following financial components: a financial liability of \$122,769 and an equity instrument of \$19,731. During the year ended December 31, 2019, the Company recorded the accretion expense on the liability component of \$13,672 which brings the total convertible promissory notes payable as at December 31, 2019 to \$136,441.

e) Subscription Received

During the year ended December 31, 2019, the Company received share subscriptions but as of the date of this report, the shares have not yet been issued. As a result, the Company has classified the cash received as a liability.

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 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.

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 years ended December 31, 2019 and 2018:

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

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8. SHARE-BASED PAYMENTS - continued

Options – continued

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

Expiry Date	Exercise Price	2019
		Number of Options Outstanding and Exercisable
September 27, 2022	\$0.10	1,325,000

9. RELATED PARTY TRANSACTIONS

During the years ended December 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	102,000	109,000

At December 31, 2019, \$23,770 (2018 - \$nil) 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.

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.

(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.

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10. FINANCIAL RISK MANAGEMENT - continued

(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 December 31, 2019, the Company's shareholders' equity was a deficit of \$314,379 (2018 – \$423,359 surplus). 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 December 31, 2019 and 2018. 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.

King's Bay Resources Corp.

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11. MANAGEMENT SERVICE 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.

12. DEFERRED TAXES

The following table reconciles the expected income tax expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of operations and comprehensive loss for the years ended December 31, 2019 and 2018:

	2019	2018
	\$	\$
Net loss before tax	(756,007)	(1,281,541)
Statutory tax rate	27%	27%
Expected income tax (recovery)	(204,122)	(346,016)
Non-deductible and other items	31,789	(25,569)
Change in deferred tax asset not recognized	172,333	371,585
Total income tax expense (recovery)	-	-

The net deferred tax assets (liabilities) as at December 31, 2019 and 2018 are comprised of the following:

	2019	2018
	\$	\$
Non-capital loss carryforwards	1,636	-
Convertible promissory notes payable	(1,636)	-
Total deferred tax assets (liabilities)	-	-

The unrecognized deductible temporary differences as at December 31, 2019 and 2018 are comprised of the following:

	2019	2018
Exploration and evaluation assets	\$ 335,164	\$ 335,164
Mineral properties	1,122,169	1,010,170
Marketable securities	107,801	107,801
Financing costs	99,044	85,375
Capital losses	291,962	218,332
Non-capital losses	7,156,423	6,682,966
Unrecognized deductible temporary differences	\$ 9,112,563	\$ 8,439,808

The Company has non-capital loss carry forwards of approximately \$7,156,423 (2018: \$6,682,966) which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

King's Bay Resources Corp.

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12. DEFERRED TAXES – continued

Expiry	Total
2026	542,910
2027	638,118
2028	582,143
2029	495,912
2030	377,922
2031	538,049
2032	424,562
2033	629,007
2034	329,093
2035	106,924
2036	431,085
2037	817,164
2038	764,018
2039	479,516
Total	\$7,156,423

The Company has capital loss carry forwards of approximately \$291,962 (2018: \$218,332) which may be carried forward indefinitely to apply against future year capital gains for Canadian income tax purposes, subject to the final determination by taxation authorities.

13. SUBSEQUENT EVENTS

- a) At the Annual and Special Meeting of Shareholders held October 10, 2019 to approve its reverse takeover through the acquisition of all of the issued and outstanding equity of S&S Company, LLC ("S&S"), among other matters, all resolutions presented passed with at least 99% of the votes cast. The final conditions included the completion of the King's Bay Financing and the conditional listing of the Company on the CSE. Due to the downturn in the Cannabis markets, it was not possible to secure the 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.
- b) Subsequent to year-end, 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.
- c) 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.