KING'S BAY GOLD
CORPORATION

# MANAGEMENT'S DISCUSSION and ANALYSIS

## For the Year Ended December 31, 2015

**April 18, 2016**

**HEAD OFFICE AND REGISTERED OFFICE ADDRESS:**

**Suite 1450 – 789 West Pender Street, Vancouver, BC, V6C 1H2**

**TELEPHONE: (604) 681-1568**
**EMAIL: info@kingsbaygold.com**
**WEBSITE: www.kingsbaygold.com**

## MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion and analysis of the financial position and results of operations for KING'S BAY GOLD CORPORATION (the "Company" or "King's Bay") should be read in conjunction with the audited financial statements for the year ended December 31, 2015, 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 Corporation'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 and on the Corporation's website at www.kingsbaygold.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 is a mineral resource exploration company which has been assembling, exploring and rationalizing a portfolio of precious metals exploration prospects over the last seventeen years.

The Company became a publicly traded entity on the TSX Venture Exchange ("TSX-V") in April 2002 (Symbol: "KBG"). 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.

During 2015, the Company had 100% ownership in a portfolio of five properties located in Northwest Ontario.

- Menary Gold Project
- Darkwater Gold Mine at Sturgeon Lake Claims
- Gold Hill - Blackjack Property
- Halkirk-Watten Property
- Brooks Lake Property aka Hook Bay of Helena Lake

For detailed property descriptions and proposed work programs, see the section herein entitled *Exploration and Evaluation Assets*, or visit the Company's website at www.kingsbaygold.com or public filings at www.sedar.com.

The Qualified Person as defined under National Instrument 43-101 for work performed at each property and / or project is Russell Crosby M.Sc., P.Geo.

## KEY DEVELOPMENTS – Year Ended December 31, 2015

March 11, 2015 - King's Bay Gold reached a settlement with Canada Revenue Agency following a May 2013 Employer Compliance Audit which, following the ruling against King's Bay, led to an appeal and subsequent application to Tax Court Canada for the income tax years of 2010 to July 31, 2014 for both Canada Pension Plan (CPP) and Employment Insurance (EI) remittances.

March 31, 2015 - The Company negotiated a revised third and fourth option payment to Rubicon Minerals Corporation on the two claim blocks that were acquired by option agreement in April 2012. The Company issued 250,000 common shares to Rubicon, and the third payment was removed from the agreement. The fourth and final payment due April 6, 2016 is now $41,000.

May 22, 2015 – The Corporation sold its remaining 285,000 shares of Mega Precious Metals (TSXV/MGP) for net proceeds of $27,050.

June 6, 2015 – The Corporation received a cheque in the amount of $66,615 from Canada Revenue Agency following an out of court settlement reached on March 11, 2015. See “Contingent Liability” section of this MD&A.

September 2015 _ Signed agreements to transfer debt of former directors and officers Ray Prefontaine, Kyle Picard and James Rogers; 7851235 Canada Ltd (a company owned by Peter Brooks, President, CEO and director), Crosby Consulting Services ( Russell Crosby M.Sc., P.Geo, Qualified Person for all projects), Taylor McCaffrey LLP (legal counsel) to Zimtu Capital Corp. (“Zimtu”).

December 15, 2015 - The Company’s 2015 Annual and Special Meeting (“Meeting”) of Shareholders scheduled and convened on December 14, 2015, was adjourned. This decision was made as a number of shareholders indicated to management that they had missed the opportunity to cast their vote due to delays in holiday mailings. As several significant items are proposed, a motion was made, approved and carried to adjourn the Meeting to give all shareholders additional time to cast their votes. The new meeting date is January 5, 2016.

## KEY DEVELOPMENTS – Subsequent to December 31, 2015

January 13, 2016 - The Company announced that the re-convened 2015 Annual and Special Meeting (“Meeting”) of Shareholders held on January 5, 2016, the final scrutineers report shows that 15,256,791 or 15.38% of the issued shares were voted with the following results:

- i. The number of Directors has been fixed at four;
- ii. Messrs, Peter Brooks, Douglas Bundy, Dusan Berka and Nicolas Rodway were elected Directors for the ensuing year;
- iii. The Company’s stock option plan was approved;
- iv. The proposed share consolidation was not approved by the shareholders (55% against); and
- v. The sale of the Menary Gold Project to former insiders of the Company was not approved by the shareholders (59% against).

Management is currently evaluating its options going forward, and exploring all opportunities in regard to financing ongoing corporate and administrative costs, debt settlement, and assessing the value of its mineral properties.

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 for one year.

February 3, 2016 - The Company entered into an agreement, subject to TSX Venture Exchange approval, to sell 100% of its rights to the Goldhill-Blackjack claims, to Intact Gold Corporation. (TSX-V: ITG) for the consideration of:

- i. A one-time payment of $10,000 (received)
- ii. The issuance to King’s Bay of 100,000 common shares of Intact Gold Corporation
- iii. The issuance to King’s Bay of 100,000 purchase warrants of Intact Gold Corporation exercisable at $0.25 per share until February 9, 2018.

February 10, 2016 – Douglas Bundy and Peter Brooks resigned as directors of the Company and were replaced by Kevin Bottomley and Bradley Hoeppner.

## ANNUAL FINANCIAL INFORMATION

**Financial Data**

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

| | **Year Ended December 31, 2015** | **Year Ended December 31, 2014** | **Year Ended December 31, 2013** |
|---|---|---|---|
| Total Revenues | $0 | $5 | $5 |
| Income from Operations | | | |
| Total | Nil | Nil | Nil |
| Per Share | Nil | Nil | Nil |
| Per Share (fully diluted) | Nil | Nil | Nil |
| Net Income (Loss) | | | |
| Total before income taxes | -2,215,626 | -210,398 | -$1,012,161 |
| Stock Compensation Expense | $Nil | $Nil | $Nil |
| Class A Common Issued Shares | 99,157,051 | 98,976,914 | 98,976,914 |
| Loss per Share (basic & diluted) | -$0.02 | -$0.01 | -$0.01 |
| Total Assets | $165,631 | $2,344,942 | $2,441,224 |
| Total 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 on one or more of the Company’s properties or otherwise disposed of at a profit. The increased net loss in 2013 was due to the remittance of payroll taxes to the Canada Revenue Agency based on an assessment, increased consulting fees, and the loss on marketable securities. The increased net loss in 2015 was due to the impairment of exploration and evaluation assets.

## OPERATING RESULTS

Net loss for the year ended December 31, 2015, was $1,881,626, compared to a net loss during the year ended December 31, 2014 of $231,398, for a difference of $1,650,228. The significant expenses include:

- Amortization (2015: $nil; 2014: $3,865) decreased as the company impaired or sold the remaining capital assets;
- Filing fees and transfer agent costs (2015: $27,388, 2014: $29,015) were consistent from year to year;
- Interest and banking expense (2015: $212; 2014: $4,021) was lower due to reduced interest expenses;
- Office expenses (2015: $772, 2014: $16,835), Professional services (2015: $14,537, 2014: $57,988), Consulting fees and salaries (2015: $87,825, 2014: $181,423), and Travel and meals (2015: $509, 2014: $11,198) decreased as the Company’s activities were reduced due to cost saving initiatives;
- Other income (2015: $62,430; 2014: $nil) increased due to the settlement received from the Canada Revenue Agency (see Contingent Liability);
- Loss on sale of machinery and equipment (2015: $1,707, 2014: $4,027) decreased due to the value of assets sold;

- Impairment of capital assets (2015: $7,491, 2014: $nil) due to assets that were no longer in use by the Company;
- Gain on the sale of exploration assets (2015: $nil; 2014: $86,976) decreased as the Company did not sell any exploration assets in 2015;
- Gain on the sale of marketable securities (2015: $14,225, 2014: $25,243) decreased due to the reduced number of shares sold in 2015;
- Unrealized loss on marketable securities (2015: $nil, 2014: $14,250) decreased as the Company held fewer investments; and
- Impairment of exploration and evaluation assets (2015: $2,150,753; 2014: $nil) increased as the Company significantly impaired the Menary Property, and impaired the Halkirk-Watten and Darkwater at Sturgeon Lake Properties.

## SUMMARY of QUARTERLY RESULTS

| | **December 31, 2015** | **September 30, 2015** | **June 30, 2015** | **March 31, 2015** | **December 31, 2014** | **September 30, 2014** | **June 30, 2014** | **March 31, 2014** |
|---|---|---|---|---|---|---|---|---|
| Revenues | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| Income (loss) from continuing operations | (4,783) | (20,366) | (61,044) | (46,137) | (76,949) | (42,728) | (105,973) | (78,695) |
| Net income (loss) & comprehensive income (loss) | (1,832,761) | (22,519) | 21,216 | (47,562) | (75,466) | (64,834) | (148,520) | 78,422 |
| Basic and diluted net income (loss) per share | (0.02) | (0.01) | 0.01 | (0.01) | (0.01) | (0.01) | (0.01) | 0.01 |
| Cash | 1,971 | 4,398 | 3,014 | 4,264 | 9,127 | 10,685 | 9,905 | 11,916 |
| Current assets | 3,319 | 5,080 | 9,432 | 24,114 | 25,102 | 57,997 | 65,260 | 220,003 |
| Current liabilities | 767,782 | 760,770 | 745,211 | 779,290 | 732,717 | 688,620 | 634,717 | 639,123 |
| Working capital | (764,463) | (755,690) | (735,779) | (755,156) | (707,615) | (630,623) | (569,457) | (419,090) |
| Total assets | 165,631 | 2,323,938 | 2,330,898 | 2,343,954 | 2,344,942 | 2,376,831 | 2,387,242 | 2,540,168 |
| Total liabilities | 767,782 | 1,115,770 | 1,100,211 | 1,134,290 | 1,066,717 | 1,001,620 | 947,717 | 952,123 |
| Share capital | 16,103,286 | 16,102,036 | 16,102,036 | 16,102,036 | 16,102,036 | 16,102,036 | 16,102,036 | 16,102,036 |
| Accumulated deficit | 16,706,747 | 14,895,180 | 14,872,659 | 14,893,682 | 14,825,121 | 14,732,005 | 14,667,691 | 14,519,171 |

Over the course of the Company's previously completed eight quarters, the Company's loss from continuing operations has declining, with expenses falling due to reduced business activities. The net loss and comprehensive loss remained consistent with some notable exceptions. During the quarter ended March 31, 2014, the Company sold the Cameron Lake property and recorded realized and unrealized gains on marketable securities. During the quarter ended June 30, 2015, the Company recorded the recovery of the settlement from the Canada Revenue Agency for its 2013 audit and recorded gains on the sale of marketable securities. During the quarter ended December 31, 2015, the significant increase in net loss is due to the impairment of exploration and evaluation assets.

## LIQUIDITY & 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 further the exploration of its resource properties. 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 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.

All of the Company’s properties are in the exploration stage only. Development of each of the properties will only follow upon obtaining satisfactory results. Exploration and development of natural resources involve a high degree of risk and few properties which are explored are ultimately developed into producing properties. There is no assurance that the Company’s exploration and development activities will result in any discoveries of commercial bodies of ore. The long term profitability of the Company’s operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors.

As at December 31, 2015, the Company has total assets of $165,631 (2014: $2,344,942). The primary assets of the Company are exploration and evaluation assets of $162,312 (2014: $2,310,142), equipment of $nil (2014: $9,698), marketable securities $nil (2014: $12,825), prepaid expenses of $nil (2014: $673), GST/HST receivable of $1,348 (2014: $2,477), and cash and cash equivalents of $1,971 (2014: $9,127). The Company has no long-term liabilities and has working capital deficiency of $764,463 (2014: 707,615) as at December 31, 2015.

*Cash Used in Operating Activities:* Cash used in operating activities during the year ended December 31, 2015 was $33,033, compared with $178,299 of cash used in operating activities during the year ended December 31, 2014.

Cash was mostly spent on consulting fees and salaries, general office expenses, and professional fees, and adjusted for items not involving cash.

*Cash Used in Investing Activities:* Total cash provided by investing activities during the year ended December 31, 2015 was $25,877, compared to $154,837 of cash provided by investing activities during the year ended December 31, 2014. During the year ended December 31, 2015, the Company:

- spent $1,673 (2014 – $28,908) on the exploration and development of its mineral properties,
- received $27,050 (2014 - $83,745) from the sale of marketable securities, and
- received $500 (2014 - $100,000) from the proceeds of a resource property.

## TRANSACTIONS WITH RELATED PARTIES

(a) Key management personnel compensation

The company did not pay employment based remuneration to directors, officers and other members of key management for the years ended December 31, 2015 and 2014. However, the company did pay contract based remuneration to directors, officers and other members of key management as disclosed in below.

(b) Other related party transactions

Included in these financial statements are the following related party transactions, which have been determined by negotiation amongst the related parties. These transactions are in the normal course of operations and are measured at the same value as if the transactions had occurred with non-related parties. Certain expenditures relating to exploration have been capitalized to exploration and evaluation assets.

The Company incurred the following fees and expenses in the normal course of operations:

| | | Years ended December 31, | |
|---|---|---|---|
| **Related parties** | **Type of Service** | **2015** | **2014** |
| Raymond L. Préfontaine (a) | Consulting services | - | 70,678 |
| 7851235 Canada Ltd (b) | Consulting services | 85,260 | 123,560 |
| Robert Gagne (c) | Consulting services | - | 1,998 |

During the years ended December 31, 2015 and 2014 there were no amounts due to related parties.

a) Raymond L. Préfontaine Advisory Services, a business owned by a director and an officer for consulting services relating to a position of office for the company.

b) 7851235 Canada Ltd., a business owned by a director, for consulting services relating to marketing and administrative support.

c) Robert Gagne, a former director for consulting services relating to information technology and website support.

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 to related parties are unsecured, non-interest bearing, and have no specific terms of repayment.

## EXPLORATION AND EVALUATION ASSETS

Menary Gold Project

(i) The Company entered into an agreement to acquire an option for a number of claim units in a property known as Menary Gold Project. Between 2011 and April 2013, the Company has paid $72,000 cash and issued 200,000 common shares under this option agreement.

The vendors will retain a 4.5% NSR interest in the property. The Company has the right to purchase one half of the NSR for $1,500,000 at any time.

(ii) The Company entered into an agreement to acquire an option for 44 claim units located in the Menary and Claxton townships commonly known as Menary Gold Project. Between August 2011 and August 2013, the Company paid $20,000 and issued 1,100,000 common shares for the property.

The vendor will retain a 2.0% NSR interest in the property. The Company has the right to purchase one half of the NSR for $1,000,000 at any time.

(iii) On April 23, 2012, the Company entered into an agreement to acquire a 100% interest in a number of mining claim units in the townships of Menary and Senn in the District of Kenora in the Province of Ontario. Between July 2012 and March 2014, the company paid $22,000 and issued 500,000 common shares. During the year ended December 31, 2015, the Company issued 250,000 shares with a fair value of $1,250. The Company has agreed to pay additional consideration for these options as follows:

| | |
|---|---|
| 2015 | $16,000 |
| 2016 | $25,000 |

The vendor will retain a 2.0% NSR interest in the property. The Company has the right to purchase one half of the NSR for $1,000,000 at any time.

Blackjack Property

On January 20, 2013, the Company entered into an agreement to acquire an option in a number of claim units known as the Gold Hill - Blackjack Property in the townships of Kirkup and Manross in the Kenora Mining District in the Province of Ontario. The Company can earn a 100% interest in the property by making a one-time payment of $18,100 and issuing 500,000 common shares. In December 2012, the Company made an advance of $1,000 and in January 2013 made an additional payment of $1,000. In March 2013, the Company issued the 500,000 common shares and in April 2013 made a payment of $15,875.

The vendor will retain a 2.0% NSR interest in the property. The Company has the right to purchase one half of the NSR for $1,000,000 at any time.

See Key Developments – Subsequent to December 31, 2015

Cameron Lake Property

In April 2014 the company sold its 20% ownership stake in the Meston and Sullivan Prospects property at Cameron Lake (formerly known as the Nucanolan property) in Northwestern Ontario to Cameron Gold Operations Limited, a wholly owned subsidiary of Chalice Gold Mines Limited of Perth, Western Australia for consideration of $100,000.

Halkirk-Watten Claims

In 2004, the Company staked 4 claims, totaling 672 hectares, in an area where microdiamonds had been found. The Company has determined it will not complete any further exploration and has impaired the property in 2015.

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 current property covers 560 hectares.

Darkwater at Sturgeon Lake

In 2010, the Company staked 3 claims totaling 752 hectares, in the pursuit of exploring for gold. The Company has determined it will not complete any further exploration and has impaired the property in 2015.

The following schedule shows the property costs for the years ended December 31, 2015 and 2014:

| | **Menary Gold** | **Halkirk-Watten** | **Blackjack** | **Hook Bay of Helena Lake** | **Darkwater at Sturgeon Lake** | **Cameron Lake** | **Total** |
|---|---|---|---|---|---|---|---|
| **Balance, January 1, 2014** | $1,428,155 | $640,362 | $34,855 | $88,354 | $89,508 | $13,024 | $2,294,258 |
| Additions during the year | | | | | | | |
| Exploration | 27,167 | 228 | 1,113 | 400 | - | - | 28,908 |
| Total additions during the year | 27,167 | 228 | 1,113 | 400 | - | - | 28,908 |
| Sale of property | - | - | - | - | - | (13,024) | (13,024) |
| **Balance, December 31, 2014** | $1,455,322 | $640,590 | $35,968 | $88,754 | $89,508 | $ - | $2,310,142 |
| Additions during the year | | | | | | | |
| Shares issued | 1,250 | - | - | - | - | - | 1,250 |
| Exploration | 1,580 | - | 67 | 26 | - | - | 1,673 |
| Total additions during the year | 2,830 | - | 67 | 26 | - | - | 2,923 |
| Impairment | (1,341,901) | (640,590) | - | (78,754) | (89,508) | - | (2,150,753) |
| **Balance, December 31, 2015** | $116,251 | $ - | $36,035 | $10,026 | $ - | $ - | $162,312 |

## 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:

| | **April 15, 2016** | **December 31, 2015** | **December 31, 2014** | **December 31, 2013** |
|---|---|---|---|---|
| Common Shares | 99,226,914 | 99,226,914 | 98,976,914 | 98,976,914 |
| Stock Options | 800,000 | 800,000 | 800,000 | 5,150,000 |
| Fully Diluted Shares | 100,026,914 | 100,026,914 | 99,776,914 | 104,126,914 |

For additional details of outstanding share capital, refer to Notes 8 and 9 of the audited financial statements for the year ended December 31, 2015.

## 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 December 31, 2015, the Company’s shareholders’ equity was a $602,151 deficiency (2014 - $1,278,225 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 following is an analysis of the Company’s financial assets measured at fair value as at December 31, 2015 and 2014:

| | As at December 31, 2015 | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** |
| Cash and cash equivalents | $ 1,971 | $ - | $ - |
| Total | $ 1,971 | $ - | $ - |
| | **As at December 31, 2014** | | |
| | **Level 1** | **Level 2** | **Level 3** |
| Cash and cash equivalents | $ 9,127 | $ - | $ - |
| Marketable securities | $ 12,825 | $ - | $ - |
| Total | $ 21,952 | $ - | $ - |

## 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, 2015.

## 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 $16,706,747 (2014 – $14,825,121) since inception. As at December 31, 2015, the Company has working capital deficiency of $764,463 (2014 – $707,615). 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 ensuring 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

### Gold and Mineral Commodities Price Volatility

The Corporation's business is continuing to be affected by the world market prices of gold and mineral commodities. The prices of gold and mineral commodities are subject to volatile price movements over short periods of time and are affected by numerous factors, all of which are beyond the Corporation's control. These include industry factors such as: demand; speculative trading; and costs of and levels of global production by producers of gold and mineral commodities. Gold and mineral commodities prices may also be affected by macroeconomic factors, including: expectations of the future rate of inflation; the strength of, and confidence in, the US dollar, the currency in which the price of gold and mineral commodities are generally quoted, and other currencies; interest rates; and global or regional, political or economic uncertainties. A decline in the world market price of gold and mineral commodities could affect the Corporation’s ability to raise additional financing and could make exploration and / or development of the Corporation’s mineral properties uneconomical.

**Mining Risks and Insurance Risks**

The operations of the Corporation are subject to significant risks and hazards, incidental to the exploration, development and production of gold including environmental hazards, industrial accidents, unusual or unexpected rock formations, pressures, cave-ins and flooding, most of which are beyond the Corporation's control. These risks and hazards could result in: damage to, or destruction of, mineral properties or producing facilities; personal injury or death; environmental damage; delays in production; and monetary losses and possible legal liability for such damage.

**Competition Risk**

The mineral exploration and mining business is competitive in all of its phases. The Corporation competes with other mining companies and individuals, including competitors with greater financial, technical and other resources than the Corporation for mining claims and leases on exploration properties, acquisition of mineral assets, capital and qualified employees. Competition could adversely affect the Corporation’s ability to raise capital, acquire suitable properties, sufficient equipment and qualified personnel for exploration in the future. The Corporation cannot assure that it will continue to be able to compete successfully with its competitors in acquiring such properties, capital and employees or terms it considers acceptable, if at all.

**Environmental, Health and Safety Regulations**

The Corporation's operations and exploration activities are subject to extensive laws and regulations governing the protection of the environment, waste disposal, worker safety, mine development and protection of endangered and protected species. Environmental legislation is evolving in a manner that may require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that existing or future environmental regulation will not materially adversely affect the Corporation's business, financial condition and results of operations. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. In addition, certain types of operations require the submission and approval of environmental impact assessments. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Corporation’s operations. Environmental hazards may exist on the properties on which the Corporation holds interests that are unknown to the Corporation at present and that have been caused by previous existing owners or operators of the properties. There may be costs and / or delays associated with compliance with these laws and regulations. The unknown nature of possible future additional regulatory requirements creates uncertainties related to future environmental, health and safety costs. Any amendment to current laws and regulations governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Corporation's financial condition and results of operations.

**Exploration**

Mineral exploration is highly speculative in nature. The Corporation's exploration work involves many risks and may be unsuccessful. Substantial expenditures are required to establish proven and probable reserves and to complete the related mine development. It may take several years from the initial phases of exploration until drilling and / or production is possible. As a result of these uncertainties, there is no assurance that current or future exploration programs will be successful and result in production or result in the discovery of new ore bodies.

**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.

**Title to Properties**

The validity of unpatented and patented mining claims, which constitute the Corporation's property holdings, can be uncertain and may be contested. Although the Corporation has attempted to acquire satisfactory title to its properties, some risk exists that some titles, particularly title to undeveloped properties, may be subject to prior unregistered agreements, transfers and / or First Nations land claims the Corporation's title to its property holdings may be affected by other undetected defects and may be defective.

**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 20th, 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 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 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;
- 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;

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 and probability of future economic benefits of exploration, evaluation and development costs

  Management has determined that exploratory drilling, evaluation, development and related costs incurred which have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic information, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

- 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.

## 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.

## CONTINGENT LIABILITY

During the months of May through September 2013, the Corporation was subjected to an Employer Compliance Audit by the Canada Revenue Agency (“CRA”) for certain contractor transactions that occurred during the calendar and taxation years of 2010 and 2011. The CRA determined through the Audit and the Rulings process that the Corporation was responsible for employer and employee remittances for the Canada Pension Plan (CPP) and Employment Insurance (EI) for certain individuals operating as self-employed independent contractors, the great majority of whom were no longer engaged by the Corporation. The quantified monetary outcome of the Audit and Rulings, inclusive of interest and penalties, was determined to be $121,340 as per a Statement of Account issued on and dated October 4, 2013. This amount of $121,340 was fully expensed as *Government remittances* during the three months ended September 30, 2013.

On October 24, 2013, the Corporation filed an Appeal of the Rulings and Assessments with the Chief of Appeals, CPP & EI Section, in Edmonton, AB. The Corporation also opened a file with the Prairie Region Taxpayer Relief Centre (the “PRTRC”) in Winnipeg, MB on November 5, 2013 in order to have the $21,300 assessed in interest and penalties, plus the future accruals thereof, reversed in the event that Appeal of the Rulings and Assessments of October 24, 2013 is unsuccessful. In both cases, the Corporation has been advised by the CRA that the combined Appeals and Relief processes could take anywhere from up to 18 to 24 months given the large number of Employer Compliance Audit cases presently being handled at the CRA. A letter was received on December 24, 2013 from the PRTRC acknowledging receipt of the company’s request for penalties and interest relief and that a file was now open with them.

In the interim, and given that the assessed amount of $121,340 is considered to be a “trust debt” pending the outcomes of the Appeal of the Rulings and Assessments, the Corporation made repayment arrangements with the CRA for instalment payments of $25,000 per month on the first business day of each and every month from November 2013 forward. These payment arrangements were subsequently postponed and modified in January 2014.

The Company made the following installment payments: two instalment payments of $25,000 on November 1 and December 1, 2013, one instalment payments of $22,000 on April 15, 2014, and one instalment payment of $22,000 on May 15, 2014. In addition, the CRA applied the following GST refunds to the balance owing: Q4 2013 GST / HST Input Tax Credit Refund of $6,917 on January 10, 2014, the Q1 2014 GST / HST Input Tax Credit Refund of $5,332 as was applied towards the balance on April 28, 2014, the application of Q4 GST/HST ITC refund of $2,522 was applied towards the balance on November16, 2014, the Q1 2015 GST/HST ITC refund was applied on June 23, 2015.

The Trust Audit now has been completed, a claim was filed with Tax Court Canada, and a favourable ruling was reached one week before the scheduled court date of March 18 2015. The settlement check of $66,615 was received June 6, 2015.

There are no other contingent liabilities or other such claims, including environmental, health or safety, against the Corporation that management is aware of as at the date of this Management Discussion & Analysis.

## 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 September 5, 2015, the shareholders approved the “2015 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.

## 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:

- Dusan Berka** – Director, President, CEO
- Kevin Bottomley** – Director
- Bradley Hoeppner** - Directors
- Nicholas Rodway – Director
- Jody Bellefleur - CFO
- Frances Petryshen – Corporate Secretary

** member of the audit committee

## AUDIT COMMITTEE AND ITS CHARTER

At its June 5th, 2005 Board Meeting, the Directors of the Corporation adopted a comprehensive Audit Committee Charter. The overall purpose and objectives of, and key excerpts from, the Charter are as follows:

> "The Audit Committee will assist the Board of Directors in fulfilling its responsibilities. The Audit Committee will review the financial reporting process, the system of internal control and management of financial risks, the audit process, and King's Bay Gold Corporation's process for monitoring compliance with laws and regulations and its own code of business conduct.
>
> In performing its duties, the Committee will maintain effective working relationships with the Board of Directors, Management, and the External Auditors and monitor the independence of those auditors. To perform his or her role effectively, each committee member will obtain an understanding of the responsibilities of committee membership as well as the Corporation's business, operations and risks.
> The Board authorizes the Audit Committee, within the scope of its responsibilities, to seek information it requires from any employee and external parties, to obtain outside legal and professional advice and to ensure attendance of the Corporation's officers at meetings as appropriate.
>
> The Audit Committee will be comprised of at least three members, a majority of which are not officers or employees of the Corporation.
>
> Meetings shall not be held less than two times per year. Special meetings shall be convened as required. The External Auditors may convene a meeting if they consider that to be necessary.
>
> The proceedings of all meetings will be recorded as minutes."