

**KAPA CAPITAL INC.**

INTERIM CONDENSED FINANCIAL STATEMENTS

For the three months ended July 31, 2019 and 2018

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

**KAPA CAPITAL INC.**  
**INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION**  
**(EXPRESSED IN CANADIAN DOLLARS)**

|   | Note | July 31,<br>2019 | April 30,<br>2019 |
|---|------|------------------|-------------------|
|   |      | - \$ -           | - \$ -            |
| <b>ASSETS</b>                                     |      |                  |                   |
| Current Assets                                    |      |                  |                   |
| Cash  |      | 264,976          | 268,051           |
| <b>Total assets</b>                               |      | <b>264,976</b>   | <b>268,051</b>    |
| <b>LIABILITIES</b>                                |      |                  |                   |
| Current Liabilities                               |      |                  |                   |
| Accounts payables and accrued liabilities         |      | 5,087            | 4,097             |
| <b>Total liabilities</b>                          |      | <b>5,087</b>     | <b>4,097</b>      |
| <b>SHAREHOLDERS' EQUITY</b>                       |      |                  |                   |
| Share Capital                                     | 4    | 338,622          | 338,622           |
| Reserves  | 4    | 55,347           | 55,347            |
| Deficit   |      | (134,080)        | (130,015)         |
| <b>Total shareholders' equity</b>                 |      | <b>259,889</b>   | <b>263,954</b>    |
| <b>Total liabilities and shareholders' equity</b> |      | <b>264,976</b>   | <b>268,051</b>    |

Nature of business and continuance of operations (Note 1)  
Subsequent events (Note 8)

Approved and authorized for issuance by the Board of Directors on September 26, 2019:

*"Charalambos Katevatis"*

Charalambos Katevatis  
Director

*"Vivian Katsuris"*

Vivian Katsuris  
Director

(The accompanying notes are an integral part of these interim condensed financial statements)

**KAPA CAPITAL INC.****INTERIM CONDENSED STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS****(EXPRESSED IN CANADIAN DOLLARS)**

|   | Three months ended |           |
|---|--------------------|-----------|
|   | July 31,           | July 31,  |
|   | 2019               | 2018      |
| Note  | - \$ -             | - \$ -    |
| <b>EXPENSES</b>                               |                    |           |
| Professional fees                             | 2,134              | 14,464    |
| Transfer agent and filing fees                | 1,387              | 8,928     |
| General and administrative                    | 544                | 12        |
| Net loss and comprehensive loss               | (4,065)            | (23,404)  |
| Loss per share, basic and diluted             | (0.00)             | (0.01)    |
| Weighted average number of shares outstanding | 5,000,001          | 3,000,001 |

(The accompanying notes are an integral part of these interim condensed financial statements)

**KAPA CAPITAL INC.**

## INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

(EXPRESSED IN CANADIAN DOLLARS)

|                                | Share Capital       |                  | Reserves                     |   | Deficit<br>- \$ - | Total<br>- \$ - |
|--------------------------------|---------------------|------------------|------------------------------|---|-------------------|-----------------|
|                                | Number of<br>shares | Amount<br>- \$ - | Warrant<br>reserve<br>- \$ - | Share-based<br>payment<br>reserve<br>- \$ - |                   |                 |
| <b>Balance, April 30, 2018</b> | <b>3,000,001</b>    | <b>200,001</b>   | -                            | -   | <b>(234)</b>      | <b>199,767</b>  |
| Net loss for the period        | -                   | -                | -                            | -   | (23,404)          | (23,404)        |
| <b>Balance, July 31, 2018</b>  | <b>3,000,001</b>    | <b>200,001</b>   | -                            | -   | <b>(23,638)</b>   | <b>176,363</b>  |
| <b>Balance, April 30, 2019</b> | <b>5,000,001</b>    | <b>338,622</b>   | <b>10,438</b>                | <b>44,909</b>                               | <b>(130,015)</b>  | <b>263,954</b>  |
| Net loss for the period        | -                   | -                | -                            | -   | (4,065)           | (4,065)         |
| <b>Balance, July 31, 2019</b>  | <b>5,000,001</b>    | <b>338,622</b>   | <b>10,438</b>                | <b>44,909</b>                               | <b>(134,080)</b>  | <b>259,889</b>  |

(The accompanying notes are an integral part of these interim condensed financial statements)

**KAPA CAPITAL INC.**  
**INTERIM CONDENSED STATEMENT OF CASH FLOWS**  
**(EXPRESSED IN CANADIAN DOLLARS)**

|  | Three months ended |                  |
|--|--------------------|------------------|
|  | July 31,<br>2019   | July 31,<br>2018 |
|  | - \$ -             | - \$ -           |
| <b>Operating Activities</b>                  |                    |                  |
| Net loss                                     | (4,065)            | (23,404)         |
| Changes in non-cash working capital:         |                    |                  |
| Prepaid expense                              | -                  | 9,550            |
| Accounts payable and accrued liabilities     | 990                | 4,363            |
| <b>Net cash used in operating activities</b> | <b>(3,075)</b>     | <b>(9,491)</b>   |
| <b>Decrease in cash</b>                      | <b>(3,075)</b>     | <b>(9,491)</b>   |
| <b>Cash, beginning of period</b>             | <b>268,051</b>     | <b>173,267</b>   |
| <b>Cash, end of period</b>                   | <b>264,976</b>     | <b>163,776</b>   |

Supplemental Cash Flow Information (Note 6)

(The accompanying notes are an integral part of these interim condensed financial statements)

## **KAPA CAPITAL INC.**

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED JULY 31, 2019  
(EXPRESSED IN CANADIAN DOLLARS)

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### **1. NATURE OF BUSINESS AND CONTINUANCE OF OPERATIONS**

Kapa Capital Inc. (the "Company") was incorporated under the British Columbia Business Corporations Act on January 29, 2018. The Company was formed for the primary purpose of completing an Initial Public Offering ("IPO") on the TSX Venture Exchange ("Exchange") as a Capital Pool Company ("CPC") as defined in Policy 2.4 of the Exchange. As a CPC, the Company's principal business would be to identify, evaluate and acquire assets, properties or businesses which would constitute a qualifying transaction in accordance with Policy 2.4 of the Exchange ("Qualifying Transaction"). A CPC has 24 months from when the shares are listed on the Exchange to complete a Qualifying Transaction. Such a transaction will be subject to shareholder and regulatory approval. Until completion of the Qualifying Transaction, the Company will not carry on any business other than the identification and evaluation of businesses or assets with a view to completing a potential Qualifying Transaction. The Company filed a CPC prospectus dated July 26, 2018 in connection with the IPO. On September 24, 2018, the Company completed its IPO of 2,000,000 common shares for gross proceeds of \$200,000 through an agent. The Company's common shares commence trading on the Exchange under the trading symbol "KAPA.P".

The proposed business of the Company involves a high degree of risk and there is no assurance that the Company will complete its Qualifying Transaction or identify an appropriate business for acquisition or investment, and even if so identified and warranted, it may not be able to finance such an acquisition or investment. Additional funds may be required to enable the Company to pursue such an initiative and the Company may be unable to obtain such financing on terms which are satisfactory to it, particularly in the current economic environment. Furthermore, there is no assurance that the business will be profitable. Those factors raise doubt as to the Company's ability to continue as a going concern.

#### Qualifying Transaction

The Company ("Kapa") entered into a binding agreement (the "Agreement") dated November 29, 2018 (and further amended on May 31, 2019) with PSI International, Inc. ("PSI"), a US private company incorporated under the laws of the state of Virginia. Kapa and PSI propose to complete an arrangement, amalgamation, share exchange or similar transaction and continue the business of PSI (the "Transaction"). The Transaction is expected to constitute Kapa's Qualifying Transaction under the Capital Pool Companies policy (the "CPC Policy") of the Exchange. Kapa, after completion of the Qualifying Transaction, is referred to in this news release as the "Resulting Issuer".

Prior to and/or concurrent with the completion of the Transaction, PSI may complete one or more private placements of subscription receipts or other form of security, in consultation with Kapa, for gross proceeds of approximately CAD\$10 million, or such other amount as may be determined by PSI (the "PSI Private Placement").

Upon completion of the Transaction, the parties anticipate that the Resulting Issuer will be listed as a Tier 2 Technology Issuer on the Exchange.

The Transaction is arm's length and is not a Non-Arm's Length Qualifying Transaction under the CPC Policy. Accordingly, the CPC Policy does not require Kapa to obtain shareholder approval of the Transaction.

The Agreement contemplates that Kapa, PSI and PSI's stockholders will complete a business combination by way of an amalgamation, share exchange, arrangement or other similar form of transaction whereby the holders of common stock of PSI will exchange such common stock in consideration for common shares of Kapa. Outstanding convertible securities in PSI will also be exchanged for equivalent convertible securities of Kapa on the basis of an exchange ratio to be definitively agreed upon by the parties.

## **KAPA CAPITAL INC.**

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE THREE MONTHS ENDED JULY 31, 2019  
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### **1. NATURE OF BUSINESS AND CONTINUANCE OF OPERATIONS** (continued)

Immediately before the closing of the Transaction, Kapa will (a) consolidate the issued and outstanding common shares and convertible securities of Kapa on the basis of an exchange ratio to be agreed upon by the parties (the "Consolidation"), and (b) change its name to a new name suitable to the business of PSI. The share exchange is expected to take place on a 1-for-1 basis, after completion of the Consolidation and the change of name. As of the date hereof PSI has 24,000,000 common shares outstanding, and accordingly Kapa expects to issue 24,000,000 post-Consolidation common shares in consideration of all the shares of PSI now-outstanding (the "Base Value"). In addition to the Base Value, Kapa expects to issue such number of Kapa shares as is equal to the shares of PSI issued under the PSI Private Placement (the "Placement Shares") to the holders of Placement Shares in consideration of 100% of the Placement Shares. Any convertible securities of PSI issued pursuant to the PSI Private Placement will be similarly exchanged. The exact ratio of the Consolidation will be determined by Kapa following completion of the PSI Private Placement, and will be calculated to imply a value of \$0.30 per Kapa common share (pre-Consolidation) immediately prior to completion of the Transaction.

Certain of the Resulting Issuer shares issued to the principals of PSI who will become management of the Resulting Issuer will be subject to escrow in accordance with Exchange policies.

#### Conditions of Closing

Completion of the Transaction will be subject to certain conditions, including but not limited to: (a) the parties' entry into a definitive agreement in furtherance to the Agreement (approved on November 30, 2018); (b) completion of the PSI Private Placement; (c) receipt of all necessary regulatory approval and the approval of the shareholders of Kapa and PSI; (d) receipt of all necessary third party consents; (e) approval of the Transaction by the Exchange as Kapa's Qualifying Transaction; and (f) Kapa satisfying the Initial Listing Requirements set by the Exchange for a Tier 2 Technology Issuer.

#### Sponsorship

Kapa intends to apply to the Exchange for a waiver of the Exchange's sponsorship requirements. There is no assurance that this waiver will be granted; however, Kapa anticipates that, considering the advanced stage of PSI's business and the size of the PSI Private Placement, there are reasonable expectations that the Exchange will grant the waiver.

#### Management and Board of Directors

Upon completion of the Qualifying Transaction, it is expected that all members of the Kapa board and certain of Kapa's senior officers will resign and the board of directors and management team of the Resulting Issuer will be reconstituted with nominees put forth by PSI. Kapa will provide further details regarding the proposed insiders of the Resulting Issuer in due course.

Trading in Kapa's shares has been halted, and the halt is expected to remain in place until the Transaction is completed.

**KAPA CAPITAL INC.**

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)  
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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****(a) Statement of Compliance and Basis of Presentation**

The Financial Statements of the Company have been prepared in accordance with IAS 34 Interim Financial Reporting.

The Financial Statements of the Company should be read in conjunction with the Company's unaudited interim condensed financial statements for the three months ended July 31, 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Financial Statements have been prepared using accounting policies consistent with those used in the Company's audited 2019 financial statements for the year ended April 30, 2019 except for income tax expense which is recognized and disclosed for the full financial year in the audited financial statements.

The Board of Directors approved these Financial Statements on September 26, 2019.

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is also the Company's functional currency.

**(b) Use of Estimates and Judgments**

The preparation of these financial statements in conformity with IFRS requires management to make certain 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 period. It also requires management to exercise its judgment in the processing of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The impacts of such estimates and judgments are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates and judgments are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. Actual results could differ from these estimates.

Significant areas requiring the use of estimates include unrecognized deferred income tax assets.

The Company's assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

**(c) Cash and Cash Equivalents**

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance, are readily convertible to a known amount of cash, and which are subject to insignificant risk of changes in value to be cash equivalents.

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(d) Financial Instruments

The Company does not have any derivative financial instruments.

Financial assets

The Company recognizes financial assets at fair value net of transaction costs directly attributable to the acquisition of the financial asset. After initial recognition, the Company classifies financial assets as either: (i) amortized cost; (ii) fair value through other comprehensive income; or (iii) fair value through profit or loss. The classification depends on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. Management determines the classification of financial assets at initial recognition.

A financial asset is classified as amortized cost if the financial asset is 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 on specified dates to cash flows that are solely payments of principal and interest on the principal amounts outstanding.

A financial asset is classified as fair value through other comprehensive income if the financial asset is 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 on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is classified as fair value through profit or loss unless it is measured at amortized cost or as fair value through other comprehensive income. Upon initial recognition, a financial asset can be irrevocably designated as fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains or losses on the financial asset on different bases.

The Company's cash is classified as fair value through profit or loss. The Company does not have any financial assets classified as amortized cost or fair value through other comprehensive income.

Financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

(d) Financial Instruments (continued)

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the assets have been impacted. Factors that could indicate impairment of financial assets include significant financial difficulty, default or delinquency in payment, bankruptcy, or financial reorganization.

At each reporting date, the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. The Company will recognize a loss allowance for expected credit loss for a financial instrument equal to the lifetime expected credit loss if the credit risk on that financial instrument has increased significantly since initial recognition. Conversely, if the credit risk on a financial instrument has not increased significantly since initial recognition, the Company shall measure the loss allowance for that financial instrument at an amount equal to the expected credit losses for the next twelve months. The expected credit loss shall be measured in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions, and forecasts of future economic conditions.

(e) Income Taxes

*Current income tax*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in the statement of operations. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

*Deferred income tax*

Deferred income tax is provided using the statement of financial position method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(f) Loss Per Share**

Basic loss per share is computed by dividing the net income or loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period. Diluted loss per share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted. Potentially dilutive securities are excluded from the calculation of dilutive loss per share as they are anti-dilutive.

**(g) Comprehensive Income (Loss)**

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that are not included in the statement of operations. The Company does not have any items affecting comprehensive income or loss.

**(h) Share-based Payment Transactions**

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of operations and comprehensive loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted.

As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of operations and comprehensive loss over the remaining vesting period.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in comprehensive loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of operations and comprehensive loss except where these are issued to consultants directly involved in the sourcing of finance in which case they are measured at the fair value of the equity instruments granted. Options or warrants granted related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. All equity-settled share-based payments are reflected in share-based payments reserve, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in share-based payment reserve is credited to share capital, adjusted for any consideration paid.

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

## (i) Share-based Payment Transactions (continued)

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

## (j) Share capital

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the most easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placement is determined to be the more easily measurable component and are valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as warrant reserve. If the warrants are exercised, the related amount is reclassified as share capital.

If the warrants are issued as share issuance costs, the fair value will be recorded as warrant reserve using the Black-Scholes option pricing model. If the warrants are exercised, the related

## (k) Share capital (continued)

amount is reclassified as share capital. If the warrants expire unexercised, the related amount remains in warrant reserve.

## (l) Accounting Standards Issued but Not Yet Effective

A number of new standards, and amendments to standards and interpretations, have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

**3. FINANCIAL INSTRUMENTS AND RISKS**

The Company is exposed in varying degrees to a variety of financial instruments and related risks. Those risks and management's approach to mitigating those risks are as follows:

## (a) Fair Values

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's statement of financial position as at July 31, 2019 and April 30, 2019, as follows:

|      | Fair Value Measurements Using  |  |  | Balance,<br>July 31,<br>2019<br>\$ | Balance,<br>April 30,<br>2019<br>\$ |
|------|--|--|--|------------------------------------|-------------------------------------|
|      | Quoted prices in active<br>markets for identical<br>instruments<br>(Level 1)<br>\$ | Significant<br>other observable<br>inputs<br>(Level 2)<br>\$ | Significant<br>unobservable<br>inputs<br>(Level 3)<br>\$ |                                    |                                     |
| Cash | 264,976  | –  | –  | 264,976                            | 268,051                             |

## **KAPA CAPITAL INC.**

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### **3 FINANCIAL INSTRUMENTS AND RISKS** (continued)

#### (b) Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash. The Company limits its exposure of credit loss by placing its cash with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

#### (c) Foreign Exchange Rate and Interest Rate Risk

The Company is not exposed to any significant foreign exchange rate or interest rate risk.

#### (d) 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 plans on settling its financial obligations out of cash. The ability to do this relies on the Company raising debt and equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. There is no assurance that financing will be available or, if available, that such financing will be on terms acceptable to the Company.

### **4. SHARE CAPITAL**

#### **Issuance of share capital**

Authorized: unlimited common shares without par value

- (a) On January 29, 2018 the Company issued 1 common share for proceeds of \$1 to the Chief Executive Officer of the Company.
- (b) On March 29, 2018, the Company issued 2,000,000 common shares at \$0.05 per share for proceeds of \$100,000. Included in the issuance was 1,100,000 common shares to the Chief Executive Officer of the Company, 800,000 common shares to a company controlled by a director of the Company, and 100,000 common shares to a company controlled by the Chief Financial Officer of the Company.
- (c) On March 29, 2018, the Company issued 1,000,000 common shares at \$0.10 per share for proceeds of \$100,000.
- (d) On September 24, 2018, the Company completed its initial public offering (the "Offering") of 2,000,000 common shares for gross proceeds of \$200,000 through an agent. In connection with the Offering, the agent received a cash commission equal to 10% of the gross proceeds of the Offering. In addition, the Company granted to the agent a non-transferable warrant to purchase up to 200,000 common shares at a price of \$0.10 per share, which may be exercised for a period of 24 months from the day the shares are listed on the Exchange.

#### **Share options**

The Company adopted a share option plan (the "Share Option Plan") under which it may grant options to employees, officers, directors, or consultants for up to 10% of the issued and outstanding common shares. In connection with the foregoing, the number of common shares reserved for issuance to any one optionee in a twelve-month period is limited to 5% of the issued shares of the Company. Under the plan, the exercise price of an option may not be less than the discounted market

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**4 SHARE CAPITAL** (continued)**Share options** (continued)

price. The options can be granted for a maximum term of 5 years and vest at the discretion of the board of directors.

On September 24, 2018, the Company granted 500,000 share options to its directors and officers, which are exercisable for a period of five years, at a price of \$0.10 per share. The fair value of \$44,909 was estimated using the Black-Scholes pricing model with the following assumptions: stock price of \$0.10, volatility 143.73%, risk-free rate 2.34%, dividend yield 0%, and expected life of 5 years.

**Warrants**

The Company applied the fair value method using the Black-Scholes pricing model in accounting for its agent's warrants granted with the assumptions.

On September 24, 2018, the Company granted 200,000 warrants to the agent pursuant to the Offering completed on September 24, 2018. The warrants have an estimated fair value of \$10,438, which has been included in reserve. The fair value of the warrants was estimated using the Black-Scholes pricing model with the following assumptions: stock price of \$0.10, expected life 2 years, volatility 97.84%, risk-free rate 2.19%, dividend yield 0%.

**5. RELATED PARTY TRANSACTIONS**

The Company has identified its directors and officers as its key management personnel. The remuneration of key management was as follows:

During the period ended April 30, 2018, the Company issued 1,100,001 shares to the CEO of the Company for the total proceeds of \$55,001.

During the period ended April 30, 2018, the Company issued 100,000 shares to a company controlled by the CFO of the Company for the total proceeds of \$5,000.

During the period ended April 30, 2018, the Company issued 800,000 shares to a company controlled by a director of the Company for the total proceeds of \$40,000.

On September 24, 2018, the Company granted 200,000 options to the CEO, 100,000 options to the CFO, and 200,000 options to a director of the Company.

During the year ended April 30, 2019, the Company granted 500,000 options to the CEO, CFO and a director of the Company.

As at July 31, 2019, following are the detail of options granted and outstanding:

|          | Three months ended on July 31, 2019 |                     |
|----------|-------------------------------------|---------------------|
|          | Number of options                   | Share-based payment |
|          |                                     | - \$ -              |
| CEO      | 200,000                             | 17,964              |
| CFO      | 100,000                             | 8,981               |
| Director | 200,000                             | 17,964              |
|          | 500,000                             | 44,909              |

**KAPA CAPITAL INC.**

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE THREE MONTHS ENDED JULY 31, 2019  
(EXPRESSED IN CANADIAN DOLLARS)

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**5 RELATED PARTY TRANSACTIONS** (continued)

As at July 31, 2019, no amount is due to or from any other of the Company's directors, officers and related entities.

**6 SUPPLEMENTAL CASH FLOW INFORMATION**

During the three months ended July 31, 2019, the Company did not incur any non-cash financing activities.

**7 CAPITAL MANAGEMENT**

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and share capital.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances. The Company is not subject to externally imposed capital requirements.

**8 SUBSEQUENT EVENT**

No subsequent event has been observed.