

**KAPA CAPITAL INC.**

Financial Statements

Years ended April 30, 2020 and 2019

(Expressed in Canadian Dollars)

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Kapa Capital Inc.

### Opinion

We have audited the accompanying financial statements of Kapa Capital Inc. which comprise the statements of financial position as at April 30, 2020 and 2019 and the statements of operations and comprehensive loss, changes in equity, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at April 30, 2020 and 2019, and its financial performance and its 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 Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the 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 1 in the financial statements, which indicates that the Company incurred a net loss of \$37,030 and used cash of \$32,370 for operating activities during the year ended April 30, 2020 and had an accumulated deficit of \$167,045 as at April 30, 2020. As stated in Note 1 of the financial statements, these events or conditions, along with other matters, 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.

### Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the 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 audit or otherwise appears to be materially misstated. If, based on the work we have performed, 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 Financial Statements

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

In preparing the 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.

### **Auditors' Responsibility for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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; and
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 auditors' report is Henry Chow.

A handwritten signature in black ink that reads "SATURNA GROUP LLP". The letters are stylized and cursive.

Saturna Group Chartered Professional Accountants LLP

Vancouver, Canada

July 21, 2020

**KAPA CAPITAL INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**(EXPRESSED IN CANADIAN DOLLARS)**

	April 30, 2020 \$	April 30, 2019 \$
<b>ASSETS</b>		
Current assets		
Cash	235,681	268,051
<b>Total assets</b>	<b>235,681</b>	<b>268,051</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	8,757	4,097
<b>Total liabilities</b>	<b>8,757</b>	<b>4,097</b>
<b>SHAREHOLDER'S EQUITY</b>		
Share capital	338,622	338,622
Share-based payment reserve	44,909	44,909
Warrant reserve	10,438	10,438
Deficit	(167,045)	(130,015)
<b>Total shareholders' equity</b>	<b>226,924</b>	<b>263,954</b>
<b>Total liabilities and shareholder's equity</b>	<b>235,681</b>	<b>268,051</b>

Nature of business and continuance of operations (Note 1)  
Proposed qualifying transaction (Note 6)

Approved and authorized for issuance by the Board of Directors on July 21, 2020:

*Signed "Charalambos Katevatis"*

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Charalambos Katevatis  
Director

*Signed "Vivian Katsuris"*

\_\_\_\_\_  
Vivian Katsuris  
Director

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

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

	Year ended April 30, 2020 \$	Year ended April 30, 2019 \$
EXPENSES		
General and administrative	1,477	3,331
Professional fees	24,065	49,503
Share-based compensation (Notes 4 and 5)	–	44,909
Transfer agent and filing fees	11,488	32,038
Net loss and comprehensive loss	(37,030)	(129,781)
Loss per share, basic and diluted	(0.01)	(0.03)
Weighted average number of shares outstanding	5,000,001	4,194,522

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

**KAPA CAPITAL INC.**  
**STATEMENTS OF CHANGES IN EQUITY**  
**(EXPRESSED IN CANADIAN DOLLARS)**

	Share Capital		Share-based payment reserve \$	Warrant reserve \$	Deficit \$	Total \$
	Number of shares	Amount \$				
Balance, April 30, 2018	3,000,001	200,001	–	–	(234)	199,767
Issuance of common shares for cash	2,000,000	200,000	–	–	–	200,000
Share issuance costs	–	(61,379)	–	10,438	–	(50,941)
Fair value of options granted	–	–	44,909	–	–	44,909
Net loss for the year	–	–	–	–	(129,781)	(129,781)
Balance, April 30, 2019	5,000,001	338,622	44,909	10,438	(130,015)	263,954
Net loss for the year	–	–	–	–	(37,030)	(37,030)
Balance, April 30, 2020	5,000,001	338,622	44,909	10,438	(167,045)	226,924

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

**KAPA CAPITAL INC.**  
**STATEMENTS OF CASH FLOWS**  
**(EXPRESSED IN CANADIAN DOLLARS)**

	Year ended April 30, 2020 \$	Year ended April 30, 2019 \$
Operating activities		
Net loss	(37,030)	(129,781)
Items not involving cash:		
Share-based compensation	–	44,909
Changes in non-cash operating working capital:		
Prepaid expenses	–	26,500
Accounts payable and accrued liabilities	4,660	4,097
<b>Net cash used by operating activities</b>	<b>(32,370)</b>	<b>(54,275)</b>
Financing activities		
Proceeds from issuance of common shares	–	200,000
Share issuance costs	–	(50,941)
<b>Net cash provided by financing activities</b>	<b>–</b>	<b>149,059</b>
Change in cash	(32,370)	94,784
Cash, beginning of year	268,051	173,267
<b>Cash, end of year</b>	<b>235,681</b>	<b>268,051</b>
Non-cash investing and financing activities:		
Fair value of agent's warrants issued	–	10,438

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

## **KAPA CAPITAL INC.**

NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED APRIL 30, 2020 AND 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. On July 26, 2018, the Company filed its prospectus. The Company’s registered office is located at 2475 Queens Avenue, West Vancouver, BC. The Company’s common shares are traded on the Exchange under the trading symbol “KAPA.P”.

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. This contagious disease outbreak and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, leading to an economic downturn. The impact on the Company is not currently determinable, but management continues to monitor the situation.

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at April 30, 2020, the Company has no business or revenues, and has an accumulated deficit of \$167,045. During the year ended April 30, 2020, the Company incurred a net loss of \$37,030 and used cash of \$32,370 for operating activities. The proposed business of the Company involves a high degree of risk and there is no assurance that the Company will complete its IPO 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.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

#### **(a) Statement of Compliance and Basis of Presentation**

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 the fair value of share-based compensation and unrecognized deferred income tax assets.

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

(b) Use of Estimates and Judgments (continued)

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.

(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 amortized cost. The Company does not have any financial assets classified as fair value through profit or loss 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.

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

(d) Financial Instruments (continued)

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.

The Company's accounts payable and accrued liabilities are classified as amortized cost.

*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 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.

**2. 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. As at April 30, 2020 and 2019, the Company had 700,000 potentially dilutive shares outstanding.

(g) Share-Based Payments

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 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.

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.

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

(h) 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 a 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 share-based payment reserve using the Black-Scholes option pricing model. If the warrants are exercised, the related amount is reclassified as share capital. If the warrants expire unexercised, the related amount remains in share-based payment reserve.

(i) 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.

(j) Accounting Standards Issued But Not Yet Effective

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended April 30, 2020, and have not been applied in preparing these financial statements. These new standards, and amendments to standards and interpretations are either not applicable or are not expected to have a significant impact on the Company's financial statements.

**3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

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

Fair value measurements are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of financial instruments, which includes cash, and accounts payable and accrued liabilities, approximates their carrying values due to the relatively short-term maturity of these instruments.

## KAPA CAPITAL INC.

NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED APRIL 30, 2020 AND 2019  
EXPRESSED IN CANADIAN DOLLARS

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### 3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (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

Authorized: unlimited common shares without par value

On September 24, 2018, the Company completed its initial public offering (“IPO”) of 2,000,000 common shares at \$0.10 per share for proceeds of \$200,000. In connection with the IPO, the Company paid finders fees of \$20,000, incurred legal and IPO fees of \$30,941, and granted 200,000 non-transferable agent warrants with an exercise price of \$0.10 per share until September 24, 2020. The fair value of the agent warrants of \$10,438 was calculated using the Black-Scholes option pricing model assuming an expected life of 2 years, volatility of 98%, risk-free rate of 2.19%, and no expected forfeitures or dividends.

#### Stock Options

The Company adopted a stock 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 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 stock options to its directors and officers, at an exercise price of \$0.10 per share expiring on September 24, 2023. The fair value of the stock options granted was \$44,909, calculated using the Black-Scholes pricing model assuming volatility of 143.7%, expected life of 5 years, risk-free rate of 2.34%, and no expected dividends or forfeitures. The weighted average fair value of stock options on the date of grant was \$0.09.

	Number of options	Weighted average exercise price \$
Outstanding, April 30, 2018	–	–
Granted	500,000	0.10
Outstanding, April 30, 2019 and 2020	500,000	0.10

**KAPA CAPITAL INC.**  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED APRIL 30, 2020 AND 2019  
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**4. SHARE CAPITAL** (continued)

*Stock Options* (continued)

Additional information regarding stock options outstanding as at April 30, 2020, is as follows:

Range of exercise prices \$	Stock options outstanding and exercisable	Weighted average remaining contracted life (years)
0.10	500,000	3.4

*Agent's Warrants*

	Number of warrants	Weighted average exercise price \$
Outstanding, April 30, 2018	—	—
Issued	200,000	0.10
Outstanding, April 30, 2019 and 2020	200,000	0.10

As at April 30, 2020, the outstanding agent's warrants expire on September 24, 2020.

**5. RELATED PARTY TRANSACTIONS**

On September 24, 2018, the Company granted 200,000 stock options to the Chief Executive Officer, 100,000 stock options to the Chief Financial Officer, and 200,000 stock options to a director of the Company with a fair value of \$44,909.

**6. 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, share capital, and share-based payment reserve.

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.

The Company is subject to externally imposed capital requirements under Policy 2.4 of the TSX-V for Capital Pool Companies and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended April 30, 2019.

**7. PROPOSED QUALIFYING TRANSACTION**

On May 4, 2020, the Company entered into a binding letter of intent with Quantus Resources Corp. ("Quantus") pursuant to which the Company would acquire all of the outstanding common shares of Quantus by way of a plan of arrangement (the "Arrangement").

Quantus holds an option to earn a 100% interest, subject to certain royalties, in the Blackhawk Property, a natural resource exploration and development project targeting gold and other metals and minerals located near the Lucerne Valley in San Bernardino County, California. Under the Arrangement, Quantus shall make a final option payment of the issuance of 750,000 Quantus common shares to earn its 100% interest in the Blackhawk Property subject to certain royalties upon production. In addition, Quantus intends to complete a private placement for gross proceeds of up to \$2,800,000 (the "Quantus Financing") on terms to be determined.

**KAPA CAPITAL INC.**  
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**7. PROPOSED QUALIFYING TRANSACTION** (continued)

Upon completion of the Quantus Financing and the terms of the Arrangement, the Company will issue 44,000,000 common shares to Quantus shareholders to acquire a 100% interest of Quantus. In addition, up to 4,500,000 common shares of the Company shall be issued or issuable pursuant to the settlement of outstanding debt of Quantus.

*Conditions of Closing*

The closing of the Arrangement will be subject to completion of several conditions, including:

- completion of due diligence satisfactory to each party;
- approval by the shareholders of Quantus at a general meeting of shareholders; and
- receipt of all necessary approvals to the Arrangement, including from the Exchange, and the approval of the Supreme Court of British Columbia after a hearing upon the fairness of the Arrangement.

**8. INCOME TAXES**

The tax effect (computed by applying the Canadian federal and provincial statutory rate) of the significant temporary differences, which comprise deferred income tax assets and liabilities, are as follows:

	2020 \$	2019 \$
Canadian statutory income tax rate	27%	27%
Income tax recovery at statutory rate	(9,997)	(35,041)
Tax effect of:		
Permanent differences and other	–	(1,629)
Change in unrecognized deferred income tax assets	9,997	36,670
Income tax provision	–	–

The significant components of deferred income tax assets and liabilities are as follows:

	2020 \$	2019 \$
Deferred income tax assets:		
Non-capital losses carried forward	38,478	25,730
Share issuance costs	8,252	11,003
Unrecognized deferred income tax assets	(46,730)	(36,733)
Net deferred income tax asset	–	–

As at April 30, 2020, the Company has non-capital losses carried forward of \$142,510, which are available to offset future years' taxable income. These losses expire as follows:

	\$
2038	234
2039	95,058
2040	47,218
	142,510