

## Quarterly Report for Fiscal Quarter ended July 31, 2011

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### **KMA Global Solutions International, Inc.** (a Nevada corporation)

438 Gibraltar Dr. No. 11  
Mississauga, ON L5T 2P2  
Canada  
Phone: (647) 478 8783  
Website: <http://www.kmaglobalsolutions.com>  
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The Quarterly Report for KMA Global Solutions International, Inc. has been prepared with OTC Markets alternative Reporting Standard. All financial data has been prepared as of July 31, 2011.

## Part A General Company Information

### **Item 1 The exact name of the Company and its predecessor (if any)**

The exact name of the Company is: KMA Global Solutions International, Inc.

The Company does not have a material predecessor.

### **The address of the Company's principal executive office**

438 Gibraltar Dr. No. 11  
Mississauga, ON L5T 2P2  
Canada

Telephone: (647) 478 8783  
Fax (647) 478 8785

URL: <http://www.kmaglobalsolutions.com>

The person responsible for issuer's investor relations is the Company's Chief Executive Officer, Chief Financial Officer, and sole director, Jeffrey D. Reid. Mr. Reid's phone number and mailing address are the same as listed above. The email address to reach Mr. Reid for investor relations is [investorrelations@kmaglobalsolutions.com](mailto:investorrelations@kmaglobalsolutions.com)

The Company's transfer agent is American Stock Transfer & Trust Company, LLC., 6201 15<sup>th</sup> Avenue, Brooklyn, NY, 11219 Tel: 718-921-8380 Fax 718-765-8711

### **Item2 The number of issued shares for each class of securities authorized**

#### Common Stock Par Value \$0.001

	<u>Fiscal year end 1</u>	<u>Fiscal year end 2</u>	<u>Quarter 2*</u>
Period end date	January 31, 2010	January 31, 2011	July 31, 2011
Number of shares authorized	175,000,000	175,000,000	1,000,000,000
Number of issued shares	150,671,184	175,000,000	609,420,100
Number of non-restricted shares	92,087,191	100,365,039	543,051,805
Number of Beneficial Shareholders**	-	-	-
Number of share holders of record shareholders	16	16	13

\* On April 8, 2011, the Company amended its Articles of Incorporation in order to increase the number of shares of capital stock authorized to 1,025,000,000 shares of capital stock, par value \$.001, consisting of 25,000,000 shares of preferred stock and 1,000,000,000 shares of common stock.

\*\* Management does not know the number of beneficial owners of the Company's shares as of the date hereof (as it has not been able to obtain a Non-Objecting Beneficial Owner List from Broadridge), but intends to obtain a NOBO List (or take other steps to ascertain the number of beneficial owners) as soon as it can reasonably do so.

Preferred Stock Par Value \$0.001

	<u>Fiscal year end 1</u>	<u>Fiscal year end 2</u>	<u>Quarter 1</u>
Period end date	January 31, 2010	January 31, 2011	July 31, 2011
Number of shares authorized	25,000,000	25,000,000	25,000,000
Number of shares issued	0	0	0
Number of non-restricted shares	0	0	0
Number of shareholders of record shareholders	0	0	0

**Item 3 Financial information for the Company's most recent fiscal period**

The Company's interim financial statements for the period ended July 31, 2011 will follow the end of this disclosure statement as an exhibit and is incorporated herein by reference.

**Item 4**

*This Management's Discussion and Analysis of Financial Condition and Results of Operations includes a number of forward-looking statements that reflect Management's current views with respect to future events and financial performance. You can identify these statements by forward-looking words such as "may", "will", "expect", "anticipate", "believe", "estimate" and "continue" or similar words. Those statements included statements regarding the intent, belief or current expectations of us or members of our management team as well as the assumptions of which such statements are based. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risk and uncertainties and that actual results may differ materially from those contemplated by such forward-looking statements.*

*Readers are urged to carefully review and consider the various disclosures made by us in this report. The following Management's Discussion and Analysis of Financial condition and Results of Operations of the Company should be read in conjunction with the Financial Statements and notes related thereto included in this Quarterly Report.*

**Management's Discussion and Analysis of Financial conditions and Results of Operations**

**Overview.**

KMA Global Solutions International, Inc. ("KMA" or the "Issuer") was incorporated on March 9, 2006 under the laws of the State of Nevada. The Company's fiscal year end is January 31. The Company has never been subject to bankruptcy, receivership or any similar proceeding. There are no current, past or pending trading suspensions by a securities regulator.

Over the past five years KMA has been engaged in the Electronic Articles Surveillance (EAS) industry. Shrinkage (the value of goods which are not paid for) is caused primarily by shoplifting and employee theft. EAS solutions are designed to act as a deterrent to control the problem of merchandise theft. To address this market opportunity, KMA built the necessary infrastructure to be a source for EAS solutions worldwide.

Our operations now include a baggage handling solution using KMAG's RFID application and process along with an unique IP for tracking baggage for both the airline and the baggage owner. KMAG is applying an RFID tag to baggage tickets in a bulk format allowing for in airport use. This will enable the owner of the luggage to track his or her own luggage from the moment the bag is checked in at the airport and confirm your luggage is located on the plane and once again upon your arrival at your destination and or transit. Certain airlines have agreed to unique pilot projects as well as a smart phone application for the baggage owner. Currently KMAG is producing labels for its primary partner in this market segment with a first phase rollout planned in third quarter of this current fiscal year.

KMAG has started to produce RFID contained tags for this market segment. Further development is in process by PI Innovations which KMAG has signed a Memorandum of Understanding dated August 23 2011 to supply RFID encapsulated tags and labels and to assist in the sourcing of Hardware required to implement PI Innovations process.

KMAG is also developing high speed packaging line equipment which is being tested and built that can apply, read and write a RFID tag in a variety of different tag configurations onto a variety of consumer packaging. Specifically we are working with a customer that will use this equipment in the start up phase for tracking merchandise from production through out distribution to the customers dock. The opportunity is based on applying RFID tags to different packaging containing liquids that allow for reading with 100% confidence. This closed loop start up phase will transition into point of purchase retail solution which will allow for third party use at retail. The potential for this project to spread to other users is viable.

Actual production using our labeling equipment has begun in this quarter and we are monitoring the results closely with our customers.

KMAG is the assignee of active patents issued by the U.S. Patent and Trademark Office (as well as corresponding foreign patents granted in Germany, Spain, France, Italy, Netherlands, United Kingdom and Mexico). These patents relate to a sew-on security label, which anticipates and incorporates RFID technology, improvements and manufacturing processes. KMAG also has patent applications pending in the U.S. (as well as corresponding foreign patent applications in Mexico, Germany, Spain, France, Italy, Netherlands, United Kingdom and Canada) relating to its dual technology EAS label and high speed process, which anticipates and incorporates RFID technology and improvements thereof.

On March 10, 2006, KMAG entered into a merger/reincorporation with Espo's Ltd. ("Espo's"), a corporation formed under the laws of the State of New York on September 7, 2001 and KMAG was the surviving corporation. Espo's had operated since its inception as a retail provider of sporting goods and athletic apparel, with a focus on aquatic sports products. Espo's shares traded on the Pink Sheets under the symbol "EPOL." As a result of the merger/reincorporation, shares of former Espo's common stock currently trade on the Pink Sheets under the symbol "KMAG."

On March 15, 2006, KMAG entered into an acquisition agreement with KMA Global Solutions, Inc., a corporation formed on April 1996 under the laws of the Province of Ontario, Canada ("KMA (Canada)") whereby KMAG purchased 314,400 shares of KMA (Canada) common stock in exchange for an equal number of shares of KMAG's common stock. KMA (Canada) was a multinational provider of diversified electronic article surveillance ("EAS") solutions for retail security applications in a variety of consumer industries, including apparel, multimedia, sporting goods, grocery and over-the-counter pharmaceuticals. Concurrent with the acquisition agreement, KMAG transferred its assets and liabilities acquired from ESPO's to other entities unaffiliated with KMAG.

In February 2010 KMAG licensed its intellectual property to r-pac International Hong Kong, which has distribution in numerous countries and an in depth customer list, and the financial resources to make the most of the technology. KMAG is currently receiving royalty payments from the license.

As of February 21, 2011 KMAG spun off its three subsidiaries to the KMAG shareholders. The three subsidiaries include KMA Global Solutions, Inc. a Canadian corporation through which the Company conducted its operations, KMA Global Solutions (Hong Kong), Inc. a Hong Kong corporation which was a manufacturing subsidiary, and KMA Global Solutions USA, Inc. which manufactured EAS products for the packaging industry.

KMAG distributed to its shareholders the shares of capital stock that it owned in each of those subsidiaries. Specifically, KMAG distributed to each of its shareholders of record as of February 21, 2011, one share of each such subsidiary's stock for each share of KMAG common stock owned by that shareholder as of that date. On February 21, 2011, KMAG owned 175,000,000 shares of stock of each of its subsidiaries. Accordingly, all of the 175,000,000 shares of stock KMAG owned of each of its subsidiaries were distributed to KMAG's shareholders as of that date. As a result, as of February 21, 2011, KMAG has no subsidiaries and they are not included in the financial statements at July 31, 2011.

KMAG continues to promote and sell EAS solutions and develop products used by its retail customers in both EAS and RFID. KMAG continues to promote the existing business and has augmenting its existing intellectual property and knowledge of the RFID industry.

Part of the Company's plans to continue to service its ongoing business in the baggage ticketing and consumer packaging markets with RFID active labels

Consumer packaging application equipment is built to fit the latest versions of packaging lines. These high speed packaging lines need RFID application and confirming antennae to be built into compact existing equipment. We offer the complete engineering services and design to match the packaging company demands.

Although there is no present agreement or understanding for KMAG to make any particular acquisition, it does intend to attempt to seek out, entertain and evaluate proposals for acquisition of other assets and/or business opportunities in exchange for shares of its common stock. There cannot, of course, be any assurance that any such acquisition proposals will be made to or located by KMAG, and it is probable that any which the board of directors might entertain may be on terms that would be deemed unfavorable to and have a dilutive effect on KMAG's existing shareholders.

KMA Global Solutions International Inc. is located at 438 Gibraltar Drive suite 11 Mississauga Ontario. We are located in a 4800 square foot facility where current operations and record keeping takes place.

## **Results of Operations**

The following discussion of the financial condition and results of operations should be read in conjunction with the financial statements included herewith. The discussion should not be construed to imply that the results discussed herein will necessarily continue in the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future.

*Due to the spin-off of our three subsidiaries, as discussed above, there is no comparable period for the three and six months ended July 31, 2010.*

### ***Three Months Ended July 31, 2011***

#### **Net Revenues**

The Company's sales were \$162,870 for the three months ended July 31, 2011. The revenue includes sales of EAS products, royalties from sales of EAS products and new RFID product sales in the baggage industry.

#### **Gross Profit**

The Company's gross profit was \$44,504 or 27.3% of sales for the three months ended July 31, 2011. This corresponds with planned margins for the market. Increased sales volume will result in lower costs as well as discounted sales pricing and we will endeavor to maintain this margin target. RFID product sales have lower margins due to the low volume orders to date.

## **Net Operation Expenses**

Net operating expenses were \$48,053 for the three months ended July 31, 2011. This was primarily due to (i) interest expense primarily on the convertible debenture, (ii) expenses associated with issuer's reporting obligations and (iii) travel and entertainment expense.

## **Net Income/(Loss)**

Net Loss was \$3,549 for the three months ended July 31, 2011.

## ***Six Months Ended July 31, 2011***

### Net Revenues

The Company's sales were \$284,632 for the six months ended July 31, 2011, which included revenues from continued sales of EAS products, royalties from sales of EAS products and sales of new RFID product developed in the baggage industry. The increase in sales for the second quarter is due to increase in sales to the baggage industry.

Sales in the EAS industry were primarily developed through the contractual arrangement with r-pac International with Royalties and profit sharing to KMA Global Solutions International Inc.

Baggage RFID solutions being developed for this unique portion of the industry to date have been mostly for test and trial programs resulting in minimum sales revenue. Sales in this segment have begun to develop as the baggage handling process develops. We have started with our early designed products and moving to build a variety of RFID products for this marketplace.

### Gross Profit

The Company's gross profit was \$91,650 or 32.2% of sales for the six months ending July 31, 2011. This corresponds with planned margins for the market. Increased sales volume will result in lower costs as well as discounted sales pricing and we will endeavor to maintain this margin target. RFID product sales have lower margins due to the low volume orders to date.

### Net Operating Expenses

Net operating expenses were \$99,840 for the six months ended July 31, 2011. This was primarily due to (i) legal and administrative expenses associated with the Company's convertible debentures and their associated conversion to equity (ii) interest expense primarily on the convertible debenture, (iii) travel and entertainment expense and expenses associated with the Company's reporting obligations.

### Net Income (Loss)

Net Loss was \$8,190 for the six month ending July 31, 2011.

## **Capital Resources**

The Company had, for the six months ended July 31, 2011, current liabilities of \$72,002 and current assets of \$201,737. Management believes that the Company will generate sufficient cash from its operating activities. For the six months ended July 31, 2011, the Company had a cash balance of \$31,900. The Company does not have any bank indebtedness and cash is achieved from the collection of receivables which average 60 days payment cycle.

Upon conversion of certain debentures in June, "Current Liabilities"- specifically "Debentures Payable"- was reduced by \$376,208 for the six months ended July 31, 2011. The outstanding debentures were converted on April 26 2011. The cancellation date of the debentures were June 30 2011. Shares were issued upon conversion of the debentures on July 19, 2011.

**Item 5 Legal Proceedings**

There are no current, past, pending or threatened legal proceedings or administrative actions either by or against K MAG that could have a material effect on K MAG's business, financial condition, or operations.

**Item 6 Defaults upon Senior Securities**

None.

**Item 7 Other Information**

On July 19, 2011, the Company issued 434,420,100 shares of its common stock upon conversion of a convertible debenture

**Item 8 Exhibits**

No Exhibits

**Item 9 Issuer's Certifications**

I, Jeffrey D. Reid, certify that:

1. I have reviewed this quarterly disclosure statement of KMA Global Solutions International, Inc.
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for the periods presented in this disclosure statement.

Date: September 14, 2011

  
\_\_\_\_\_  
Jeffrey D. Reid  
Chief Executive Officer

# KMA GLOBAL SOLUTIONS INTERNATIONAL INC.

## BALANCE SHEET (UNAUDITED)

	July 31, 2011 (unaudited)	January 31, 2011 (unaudited)
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 31,900	\$ 642
Accounts Receivable	169,837	
<b>Total Current Assets</b>	<b>201,737</b>	<b>642</b>
Other Receivables	1,556,059	1,739,041
Deposits on Equipment and Patents	36,664	36,664
Capital Assets	76,010	80,244
<b>Total Assets</b>	<b>\$ 1,870,470</b>	<b>\$ 1,856,591</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)</b>		
<b>CURRENT</b>		
Accounts Payable and Accrued Liabilities	\$ 72,002	\$ 65,276
Debentures Payable	-	304,133
Contributed Surplus	-	19,341
<b>Total Current Liabilities</b>	<b>72,002</b>	<b>388,750</b>
<b>LONG TERM DEBT</b>		
Shareholder Loan	328,015	328,015
<b>Total Liabilities</b>	<b>\$ 400,017</b>	<b>\$ 716,765</b>
<b>SHAREHOLDERS' EQUITY (DEFICIT)</b>		
Capital Stock	175,000	175,000
Additional Paid-In Capital	3,010,269	2,634,061
Cumulative Translation Adjustment	43,240	80,631
Retained Deficit	(1,758,056)	(1,749,866)
<b>Total Shareholders' Equity</b>	<b>\$ 1,470,453</b>	<b>\$ 1,139,826</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,870,470</b>	<b>\$ 1,856,591</b>

The accompanying notes are an integral part of the financial statements



# KMA GLOBAL SOLUTIONS INTERNATIONAL INC.

## STATEMENT OF INCOME AND DEFICIT (UNAUDITED)

FOR THE THREE & SIX MONTHS ENDED JULY 31, 2011 and 2010

	For the Three Months Ended July 31 2011 (unaudited)	For the Six Months Ended July 31 2011 (unaudited)
<b>SALES</b>	\$ 162,870	\$ 284,632
<b>COST OF SALES</b>	<u>118,366</u>	<u>192,982</u>
<b>GROSS MARGIN</b>	<u>44,504</u>	<u>91,650</u>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	<u>48,053</u>	<u>99,840</u>
Income (Loss) before income taxes	<u>(3,549)</u>	<u>(8,190)</u>
Income taxes		-
<b>NET LOSS</b>	<u>(3,549)</u>	<u>\$ (8,190)</u>

The accompanying notes are an integral part of the financial statements

# KMA GLOBAL SOLUTIONS INTERNATIONAL INC.

## CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) AS AT JULY 31, 2011

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Net loss for the year	\$ (8,190)
Adjustment to reconcile net income (loss) to net cash used in operating activities:	
Amortization	4,234
Foreign currency translation adjustment	(37,391)
Changes in assets and liabilities:	
Increase in accounts receivable	(169,837)
Increase in accounts payable and accrued liabilities	6,726
Decrease in Other Receivable	182,982
<b>Net cash used by operating activities</b>	<u>(21,476)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Increase/(Decrease) in advances to shareholders	-
<b>Net cash provided by investing activities</b>	<u>-</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Increase in Debentures Payable	(304,133)
Decrease in Contributed Surplus	(19,341)
Issuance of capital stock	376,208
<b>Net cash provided (used) by financing activities</b>	<u>52,734</u>
<b>NET INCREASE IN CASH</b>	\$ 31,258
<b>CASH, BEGINNING OF YEAR</b>	<u>642</u>
<b>CASH, END OF YEAR</b>	<u>\$ 31,900</u>

**KMA GLOBAL SOLUTIONS INTERNATIONAL INC.**
**SHAREHOLDERS' EQUITY  
FOR SIX MONTHS ENDED JULY 31, 2011**
**Continuity of Shareholders' Equity - KMA Canada prior to reverse merger**

	Common Shares	Par Value @ \$0.001	Additional Paid- In Capital	Subscriptions Receivable	Comp. Income	Accumulated Earnings
January 31, 2006	32,136,800	\$ -	\$ 461,901	\$ -	\$ 43,547	\$ 82,982
Issuance of shares for consulting services	408,000	-	52,173	-	-	-
Issuance of shares for finders fees	1,700,000	-	217,391	-	-	-
March 31, 2006	34,244,800	\$ -	\$ 731,465	\$ -	\$ 43,547	\$ 82,982

**Continuity of Shareholders' Equity - KMA International**

	Common Shares	Par Value @ \$0.001	Additional Paid- In Capital	Subscriptions Receivable	Comp. Income	Accumulated Earnings
January 31, 2006	4,920,250	\$ 4,920	\$ 166,421	\$ -	\$ -	\$ (171,341)
Retired to treasury	(4,225,427)	(4,225)	4,225	-	-	-
17:1 share split	11,117,168	11,117	(11,117)	-	-	-
Issuance of shares in reverse merger	34,244,800	34,245	525,878	-	43,547	82,982
Accumulated deficit acquired in reverse merger	-	-	-	-	-	171,341
Retirement of shares	(5,344,800)	(5,345)	5,345	-	-	-
Issuance of replacement shares	1,179,000	1,179	(1,179)	-	-	-
Currency translation adjustment	-	-	-	-	4,601	-
Issuance of shares for investor relations services	25,000	25	11,025	-	-	-
Issuance of shares for consulting services	150,000	150	28,500	-	-	-
Net loss January 31, 2007	-	-	-	-	-	(736,403)
<b>January 31, 2007</b>	<b>42,065,991</b>	<b>42,066</b>	<b>729,098</b>	<b>-</b>	<b>48,148</b>	<b>(653,421)</b>
Issuance of shares for financing, net	10,000,000	10,000	965,000	-	2,883	-
Warrant valuation allocation	-	-	(346,000)	-	-	-
Issuance of shares for agent fees	1,000,000	1,000	-	-	-	-
Issuance of agent warrants on financing	-	-	(90,000)	-	-	-
Issuance of shares for consulting services	1,867,328	1,867	337,133	-	-	-
Warrants exercised	3,850,000	3,850	746,900	-	-	-
Warrant valuation allocation	-	-	188,610	-	-	-
Warrant valuation allocation	-	-	247,390	-	-	-
Warrants exercised	7,150,000	7,150	1,387,150	(930,000)	-	-
Issuance of Shares	8,000,000	8,000	1,942,000	(1,800,000)	-	-
Issuance of shares for agent fees	1,400,000	1,400	-	-	-	-
Warrant valuation allocation	-	-	(1,149,000)	-	-	-
Share issue costs	-	-	(113,252)	-	-	-
Currency translation adjustment	-	-	-	-	(62,261)	-
Net Loss January 31, 2008	-	-	-	-	-	(1,856,399)
<b>January 31, 2008</b>	<b>75,333,319</b>	<b>75,333</b>	<b>4,845,029</b>	<b>(2,730,000)</b>	<b>(11,230)</b>	<b>(2,509,820)</b>
Shares returned	(8,000,000)	(8,000)	(1,992,000)	1,800,000	-	-
Warrant valuation allocation	-	-	1,149,000	-	-	-
Shares issued for services	36,566,665	36,567	119,797	-	-	-
Shares issued for debt	46,771,200	46,771	177,731	-	-	-
Net Loss January 31, 2009	-	-	-	-	-	(1,196,649)
<b>January 31, 2009</b>	<b>150,671,184</b>	<b>150,671</b>	<b>4,299,557</b>	<b>(930,000)</b>	<b>(11,230)</b>	<b>(3,706,469)</b>
Cancellation of Warrants/Subscription	-	-	(930,000)	930,000	-	-
Currency translation adjustment	-	-	-	-	(104,047)	-
Net Loss January 31, 2010	-	-	-	-	-	(489,513)
<b>January 31, 2010</b>	<b>150,671,184</b>	<b>150,671</b>	<b>3,369,557</b>	<b>-</b>	<b>(115,277)</b>	<b>(4,195,982)</b>
Shares issued for consulting services	3,502,776	3,503	8,757	-	-	-
Issue of shares for consulting services	20,826,040	20,826	(12,788)	-	-	-
Currency translation adjustment	-	-	-	-	(114,976)	-
Net Loss January 31, 2011	-	-	-	-	-	(116,899)
<b>January 31, 2011</b>	<b>175,000,000</b>	<b>\$ 175,000</b>	<b>\$ 3,365,526</b>	<b>\$ -</b>	<b>\$ (230,253)</b>	<b>\$ (4,312,881)</b>
Adjustment to shareholder equity due to distribution of subsidiary companies to shareholders	-	-	(731,465)	-	310,884	2,563,015
Conversion of Debentures payable	434,420,100	-	376,208	-	-	-
Currency translation adjustment	-	-	-	-	(37,391)	-
Net Loss July 31, 2011	-	-	-	-	-	(8,190)
<b>July 31, 2011</b>	<b>609,420,100</b>	<b>175,000</b>	<b>3,010,269</b>	<b>-</b>	<b>43,240</b>	<b>(1,758,056)</b>

The accompanying notes are an integral part of the financial statements

## Note 1

### **Basis of Presentation**

The accompanying unaudited financial statements include the accounts of KMA Global Solutions International, Inc. ("KMAG" or the "Company") which is incorporated in the state of Nevada in the United States. Amounts that would have been previously eliminated on consolidation are now reflected as assets or liabilities in the financial statements of the Company.

In February 2011, the company distributed the shares of its wholly owned subsidiaries, KMA Global Solutions (US) Inc, a company incorporated in the United States, KMA Global Solutions Inc., a company incorporated in Canada under the Ontario Business Corporations Act and KMA Global Solutions (Hong Kong) Ltd., which is incorporated in Hong Kong. These subsidiaries are not included in the statements of July 31, 2011.

## Note 2

### **Accounts Receivable and Patents**

Accounts receivable relate to the amounts owed from the sale of products to the Company's customers. These amounts will be collected in the normal course of business.

KMAG is the assignee of active patents issued by the U.S. Patent and Trademark Office (as well as corresponding foreign patents granted in Germany, Spain, France, Italy, Netherlands, United Kingdom and Mexico. These patents relate to a sew-on security label, which anticipates and incorporates RFID technology, improvements and manufacturing process thereof. KMAG also has patent applications pending in the U.S. (as well as corresponding foreign patent applications in Mexico, Germany, Spain, France, Italy, Netherlands, United Kingdom and Canada) relating to its dual technology EAS label and high speed process, which anticipates and incorporates RFID technology, and improvements thereof. The amounts reflected in the financial statements represent the capitalized costs of the patents.

## Note 3

### **Other Receivables.**

In February 2011, when the Company distributed the shares of its wholly owned subsidiaries, loans were outstanding payable to KMA Global Solutions International Inc. KMA Global Solutions Inc has an outstanding loan of \$1,409,056 and KMA Global Solutions (Hong Kong) Inc has an outstanding loan of \$147,003 at July 31, 2011. These loans are non-interest bearing, are unsecured and have no fixed term of payment. Payment from KMA (HK) was due to the supply of goods that KMAG was able to resell. KMAG was able to reduce its outstanding receivable by the amount supplied by KMA(HK)..

## Note 4

### **Advances from Shareholders**

Advances from the shareholder Mr. Jeffrey D. Reid, the Company's Chief Executive Officer and sole director, are non-interest bearing, are unsecured and have no fixed term of payment. This loan is convertible into Preferred Shares of the Company at the option of Mr. Reid at a 50%

discount to the market price. Mr. Reid served notice to the company of his intention to convert on August 23, 2011 and anticipates to receive issued Preferred shares by the company before the end of October, 2011.

#### Note 5

##### **Convertible Debentures**

On February 8, 2010 the Company converted certain Accounts Payable in the amount of \$294,067 into Convertible Debentures of the Company. The Convertible Debentures expire on June 30, 2011 and have an interest rate of 10% per annum. The interest shall be added to the principal and shall be payable on the expiry date. The holders, at their option, may convert the Convertible Debentures in common shares of the Company at a price equal to 66.67% of the quoted share price on the trading day immediately preceding the day on which the Notice of Conversion is delivered to the Company.

The Company has used the discounted cash flow method of valuing the convertible notes. The Company used a normal rate of interest of 18% representing an estimate of the interest rate that would have been required had the Debentures not been convertible. The difference in the discounted value has been allocated to Contributed Surplus. The Contributed Surplus is amortized and provides an accretion in the value of the Convertible Debentures over the term. The accrued interest has been expensed monthly over the term of the Convertible Debentures.

In the Financial Statement for the period ending April 30, 2011 the balance of the Convertible Debentures has been shown as a Current Liability as the expiry of the Convertible Debentures is less than 12 months. The debentures were converted and 434,420,100 shares issued on July 19, 2011.

#### Note 6

##### **Shareholder Equity**

After the distribution of the shares of the subsidiary companies, an adjustment was required to reflect the changes to the Shareholders' equity. The resulting Shareholders' equity reflects these adjustments on the Shareholders' equity of KMAG. .