

KAIVAL BRANDS INNOVATIONS GROUP, INC.

FORM 10-Q (Quarterly Report)

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Address	4460 OLD DIXIE HIGHWAY GRANT-VALKARIA, FL, 32949
Telephone	(833) 452-4825
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Industry	Food Retail & Distribution
Sector	Consumer Non-Cyclicals
Fiscal Year	10/31

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended April 30, 2025

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 000-56016

KAIVAL BRANDS INNOVATIONS GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

83-3492907

(I.R.S. Employer
Identification No.)

4460 Old Dixie Highway

Grant-Valkaria, Florida 32949

(Address of principal executive offices, including zip code)

(833) 452-4825

(Registrant's telephone number, including area code)

N/A

(Former name, former address, and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	KAVL	The Nasdaq Stock Market, LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of June 9, 2025, there were 11,542,302 shares of common stock, \$0.001 par value, outstanding.

KAIVAL BRANDS INNOVATIONS GROUP, INC.
FORM 10-Q

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements and information included in this Quarterly Report on Form 10-Q for the quarter ended April 30, 2025 (this “Report”) contain or may contain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), Section 21 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the Private Securities Litigation Reform Act of 1995. We generally use the words “may,” “should,” “believe,” “expect,” “intend,” “plan,” “anticipate,” “likely,” “estimate,” “potential,” “continue,” “will,” and similar expressions to identify forward-looking statements. Forward-looking statements are not statements of historical facts, but rather reflect our current expectations concerning future events and results, including, without limitation, statements related to:

- the Merger and Share Exchange Agreement (the “Merger Agreement”) with Delta Corp Holdings Limited, a company incorporated in England and Wales (together with its successors and assigns, “Delta”), Delta Corp Holdings Limited, a Cayman Islands exempted company (“Pubco”), KAVL Merger Sub Inc., a Delaware corporation and a wholly owned subsidiary of Pubco (“Merger Sub”) and Delta Corp Cayman Limited (the “Sellers”), the closing of the transactions contemplated by the Merger Agreement and upon the closing of such transactions, the conduct of our continuing operations by our new management appointed by Pubco;
- our substantial reliance on, and efforts to diversify our business from, the business of our affiliate Bidi Vapor, LLC (“Bidi”);
- our inability to import and sell the Bidi Stick due to a patent infringement claim filed by R.J. Reynolds Vapor Company, R.J. Reynolds Tobacco Company, and RAI Services Company with the; International Trade Commission (the “ITC”) against Bidi, us, and forty (40) other respondents (the “ITC Complaint”) and the ongoing investigation of the ITC in connection with the ITC Complaint;
- our ability to raise required funding in the form of debt or equity both in the near and longer term;
- our ability to integrate and ultimately enter into licenses for or create products relating to the intellectual property assets we acquired from GoFire, Inc. on May 30, 2023;
- the impact of the FDA’s marketing denial order (“MDO”) in January 2024 regarding the Classic BIDI® Stick tobacco-flavored ENDS product, which has the potential to have a substantial adverse impact on our company;
- the outcome of Bidi Vapor’s petition with the 11th Circuit Court of Appeals regarding the January 2024 MDO related to Classic BIDI® Stick;
- our substantial reliance on our relationship with, and the results of marketing and sales activity by, Phillip Morris International, to whom we have licensed international rights to distribute Bidi products and from who we are entitled to receive royalty payments, which are currently our primary source of revenue;
- the impact of government regulation, laws or consumer preferences generally, or changes thereto, that could affect our business; and circumstances or developments that may make us unable to implement or realize the anticipated benefits, or that may increase the costs of, our current and planned business initiatives, including matters over which we have little or no control.

Forward-looking statements, including those concerning our expectations, involve significant risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance, or achievements, or industry results to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. See the “Management’s Discussion and Analysis of Financial Condition and Results of Operation” section contained in this Report and the section “Risk Factors” in our Annual Report on Form 10-K for the year ended October 31, 2024, for a listing of some of the factors that could cause the results anticipated by our forward-looking statements to differ from actual future results. Except as required by applicable law, including the securities laws of the United States, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this Report.

Potential investors should not place undue reliance on any forward-looking statements. Except as expressly required by the federal securities laws, there is no undertaking to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason.

The forward-looking statements in this Quarterly Report on Form 10-Q represent our views as of the date of this Quarterly Report on Form 10-Q. Such statements are presented only as a guide about future possibilities and do not represent assured events, and we anticipate that subsequent events and developments will cause our views to change. You should, therefore, not rely on these forward-looking statements as representing our views as of any date after the date of this Quarterly Report on Form 10-Q.

This Quarterly Report on Form 10-Q also contains estimates and other statistical data prepared by independent parties and by us relating to market size and growth and other data about our industry. These estimates and data involve a number of assumptions and limitations, and potential investors are cautioned not to give undue weight to these estimates and data. We have not independently verified the statistical and other industry data generated by independent parties and contained in this Quarterly Report on Form 10-Q. In addition, projections, assumptions and estimates of our future performance and the future performance of the industries in which we operate are necessarily subject to a high degree of uncertainty and risk.

Potential investors should not make an investment decision based solely on our projections, estimates or expectations.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Kaival Brands Innovations Group, Inc. Consolidated Balance Sheets (Unaudited)

	April 30, 2025	October 31, 2024
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,805,702	\$ 3,902,300
Accounts receivable, net	70,000	263,571
Prepaid expenses	65,492	344,312
Total current assets	1,941,194	4,510,183
Fixed assets, net	—	2,146
Intangible assets, net	10,288,707	10,681,911
Right of use asset - operating lease	—	810,036
TOTAL ASSETS	\$ 12,229,901	\$ 16,004,276
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 105,660	\$ 57,496
Accounts payable - related party	35,000	131,683
Loans payable, net	—	207,616
Accrued expenses	679,853	925,601
Operating lease obligation - short term	213,954	203,937
Total current liabilities	1,034,467	1,526,333
LONG TERM LIABILITIES		
Operating lease obligation, net of current portion	553,498	662,271
TOTAL LIABILITIES	1,587,965	2,188,604
STOCKHOLDERS' EQUITY		
Preferred stock; 5,000,000 shares authorized		
Series A Convertible Preferred stock (\$0.001 par value, 3,000,000 shares authorized, none issued and outstanding as of April 30, 2025 and October 31, 2024)	—	—
Series B Convertible Preferred stock (\$0.001 par value, 900,000 shares authorized, 900,000 issued and outstanding as of April 30, 2025 and October 31, 2024)	900	900
Common stock (\$0.001 par value, 1,000,000,000 shares authorized, 11,542,302 and 8,517,302 shares issued and outstanding as of April 30, 2025 and October 31, 2024, respectively)	11,542	8,517
Additional paid-in capital	54,151,457	51,269,485
Accumulated deficit	(43,521,963)	(37,463,230)
TOTAL STOCKHOLDERS' EQUITY	10,641,936	13,815,672
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 12,229,901	\$ 16,004,276

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

Kaival Brands Innovations Group, Inc.
Consolidated Statements of Operations
(Unaudited)

	For the Three Months Ended April 30,		For the Six Months Ended April 30,	
	2025	2024	2025	2024
Revenues				
Revenues, net	\$ 4,073	\$ 1,991,438	\$ 46,755	\$ 4,982,718
Revenues - related party	—	1,800	—	3,700
Royalty revenue	42,972	250,325	202,893	490,325
Excise tax on products	—	(17,249)	—	(38,856)
Total revenues, net	47,045	2,226,314	249,648	5,437,887
Cost of revenues				
Cost of revenue - related party	—	1,726,658	—	3,740,093
Total cost of revenue	—	1,726,658	—	3,740,093
Gross profit	47,045	499,656	249,648	1,697,794
Operating expenses				
Advertising and promotion	—	251,400	—	656,292
General and administrative expenses	1,331,183	1,503,968	5,609,716	4,011,836
Loss on ROU asset	707,626	—	707,626	—
Total operating expenses	2,083,809	1,755,368	6,317,342	4,668,128
Other expense				
Loss on extinguishment of Debt	—	—	—	(98,432)
Loss on disposal of furniture and equipment	(1,798)	—	(1,798)	—
Interest expense, net	(4,091)	(271,466)	(8,183)	(571,383)
Total other expense	(5,889)	(271,466)	(9,981)	(669,815)
Loss before income taxes provision	(1,997,653)	(1,527,178)	(6,077,675)	(3,640,149)
Benefit from (provision for) income taxes	—	—	18,942	(715)
Net loss	\$ (1,997,653)	\$ (1,527,178)	\$ (6,058,733)	\$ (3,640,864)
Preferred stock dividend	—	(67,500)	(22,500)	(135,000)
Net loss attributable to common shareholder	\$ (1,997,653)	\$ (1,594,678)	\$ (6,081,233)	\$ (3,775,864)
Net loss per common share - basic and diluted	\$ (0.17)	\$ (0.56)	\$ (0.58)	\$ (1.32)
Weighted average number of common shares outstanding - basic and diluted	11,542,302	2,863,002	10,506,114	2,858,881

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

Kaival Brands Innovations Group, Inc.
Consolidated Statements of Changes in Stockholders' Equity
For the Six Months Ended April 30, 2025
(Unaudited)

	Convertible Preferred Shares (Series B)	Par Value Convertible Preferred Shares (Series B)	Common Shares	Par Value Common Shares	Additional Paid-in Capital	Accumulated Deficit	Total
Balances, October 31, 2024	900,000	\$ 900	8,517,302	\$ 8,517	\$51,269,485	\$(37,463,230)	\$13,815,672
Common shares issued for services	—	—	3,025,000	3,025	2,870,725	—	2,873,750
Preferred stock dividend	—	—	—	—	(22,500)	—	(22,500)
Stock option expense	—	—	—	—	31,302	—	31,302
Net loss	—	—	—	—	—	(4,061,080)	(4,061,080)
Balances, January 31, 2025	900,000	\$ 900	11,542,302	\$ 11,542	\$54,149,012	\$(41,524,310)	\$12,637,144
Stock option expense	—	—	—	—	2,445	—	2,445
Net loss	—	—	—	—	—	(1,997,653)	(1,997,653)
Balances, April 30, 2025	<u>900,000</u>	<u>\$ 900</u>	<u>11,542,302</u>	<u>\$ 11,542</u>	<u>\$54,151,457</u>	<u>\$(43,521,963)</u>	<u>\$10,641,936</u>

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

Kaival Brands Innovations Group, Inc.
Consolidated Statements of Changes in Stockholders' Equity
For the Six Months Ended April 30, 2024
(Unaudited)

	Convertible Preferred Shares (Series B)	Par Value Convertible Preferred Shares (Series B)	Common Shares	Par Value Common Shares	Additional Paid-in Capital	Accumulated Deficit	Total
Balances, October 31, 2023	900,000	\$ 900	2,793,386	\$ 2,793	\$44,317,266	\$(30,763,948)	\$13,557,011
Rounding from reverse split	—	—	52,949	53	(53)	—	—
Common shares issued for services	—	—	16,667	17	61,983	—	62,000
Preferred stock dividend	—	—	—	—	(67,500)	—	(67,500)
Stock option expense	—	—	—	—	309,958	—	309,958
Net loss	—	—	—	—	—	(2,113,686)	(2,113,686)
Balances, January 31, 2024	900,000	\$ 900	2,863,002	\$ 2,863	\$44,621,654	\$(32,877,634)	\$11,747,783
Preferred stock dividend	—	—	—	—	(67,500)	—	(67,500)
Stock option expense, net of forfeitures	—	—	—	—	(289,088)	—	(289,088)
Net loss	—	—	—	—	—	(1,527,178)	(1,527,178)
Balances, April 30, 2024	<u>900,000</u>	<u>\$ 900</u>	<u>2,863,002</u>	<u>\$ 2,863</u>	<u>\$44,265,066</u>	<u>\$(34,404,812)</u>	<u>\$ 9,864,017</u>

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

Kaival Brands Innovations Group, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

	For the Six Months Ended April 30, 2025	For the Six Months Ended April 30, 2024
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net loss	\$ (6,058,733)	\$ (3,640,864)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock based compensation	2,873,750	62,000
Depreciation and amortization	393,552	393,547
Make-whole provision	39,283	—
Amortization of debt discount	—	144,925
Loss on extinguishment of debt	—	98,432
Loss on ROU Asset	707,626	—
Loss on disposal of furniture and equipment	1,798	—
Stock options expense	33,747	20,870
Bad debt expense	—	1,925
Reserve for credit losses	—	133,062
ROU operating lease expense	102,410	98,168
Write-off of inventory	—	4,844
Changes in current assets and liabilities:		
Accounts receivable	193,571	1,083,170
Prepaid expenses	278,820	168,379
Inventory	—	3,468,819
Accounts payable	48,164	196,139
Accounts payable - related party	(96,683)	(1,121,126)
Accrued expenses	97,469	(246,769)
Customer refunds due	—	(60,947)
Operating lease obligations	(98,756)	(89,183)
Net cash (used in) provided by operating activities	<u>(1,483,982)</u>	<u>715,391</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Net cash used in investing activities	<u>—</u>	<u>—</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from loans payable	—	1,106,731
Payments on loans payable	(207,616)	(1,867,698)
Payment on preferred dividends	(405,000)	—
Net cash used in financing activities	<u>(612,616)</u>	<u>(760,967)</u>
Net change in cash	(2,096,598)	(45,576)
Beginning cash balance	3,902,300	533,659
Ending cash balance	<u>\$ 1,805,702</u>	<u>\$ 488,083</u>
<u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</u>		
Interest paid	<u>\$ 8,183</u>	<u>\$ 426,458</u>
Income taxes paid	<u>\$ —</u>	<u>\$ —</u>
<u>NON-CASH TRANSACTIONS</u>		
Preferred stock dividend	<u>\$ 22,500</u>	<u>\$ 135,000</u>

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

KAIVAL BRANDS INNOVATIONS GROUP, INC.
Notes to Unaudited Consolidated Financial Statements

Note 1 – Organization and Description of Business

Kaival Brands Innovations Group, Inc. (the “Company,” the “Registrant,” “we,” “us,” or “our”), formerly known as Quick Start Holdings, Inc., was incorporated on September 4, 2018, in the State of Delaware.

Description of Business

On March 9, 2020, the Company entered into an exclusive distribution agreement (the “Distribution Agreement”) of certain electronic nicotine delivery systems (“ENDS”) and related components (the “Products”) with Bidi Vapor, LLC, a Florida limited liability company (“Bidi”). The Distribution Agreement was amended and restated on May 21, 2020, again on April 20, 2021, again on June 10, 2022, and again on November 17, 2022 (collectively the “A&R Distribution Agreement”), in order to clarify some of the provisions and memorialize the Company’s current business relationship with Bidi. Pursuant to the A&R Distribution Agreement, Bidi granted the Company an exclusive worldwide right to distribute the Products for sale and resale to non-retail level customers. Currently, the Products consist primarily of the “Bidi Stick.”

On August 31, 2020, the Company formed Kaival Labs, Inc., a Delaware corporation (herein referred to as “Kaival Labs”), as a wholly owned subsidiary of the Company, for the purpose of developing Company-branded and white-label products and services. The Company has not yet launched any Kaival-branded product, nor has it begun to provide white label wholesale solutions for other product manufacturers. On March 11, 2022, the Company formed Kaival Brands International, LLC, a Delaware limited liability company (herein referred to as “KBI”), as a wholly owned subsidiary of the Company, for the purpose of entering into an international licensing agreement with Philip Morris Products S.A. (“PMPSA”), a wholly owned affiliate of Philip Morris International Inc. (“PMI”).

On June 13, 2022, the Company’s wholly owned subsidiary, KBI, entered into the PMI License Agreement with PMPSA, a wholly owned affiliate of PMI, for the development and distribution of ENDS products in certain markets outside of the United States, subject to market (or regulatory) assessment. The PMI License Agreement grants to PMPSA a license of certain intellectual property rights relating to Bidi’s ENDS device, known as the BIDI® Stick in the United States, as well as potentially newly developed devices, to permit PMPSA to manufacture, promote, sell, and distribute such ENDS device and newly developed devices, in international markets, outside of the United States.

International Trade Commission (ITC) claims against the Company

On June 11, 2024, the RJ Reynolds Entities filed the ITC Complaint. The ITC Complaint requests the ITC grant: (a) temporary and permanent limited exclusion orders pursuant to Section 337(e) of the Tariff Act of 1930, as amended, which would prohibit the importation of the Bidi Stick in the United States; and (b) issue temporary and permanent cease and desist orders pursuant to 337(f) of the Tariff Act of 1930, as amended, which would prohibit the sale and distribution of the Bidi Stick in the United States. No damages are recoverable in the proceedings before the ITC. If the Company or Bidi is prohibited from importing the Bidi Stick, then the Company’s business, operations, financial results, and reputation would be significantly adversely impacted.

As a result of the ITC Complaint and other factors, the Company does not expect any significant revenue from the sale of Bidi Sticks in the foreseeable future. The Company’s primary source of revenue is from KBI from royalties from PMI under the PMI License Agreement.

Impact of the FDA PMTA Decision and Subsequent Court Actions

In September 2021, in connection with the Bidi’s Premarket Tobacco Product Application (“PMTA”) process, the U.S. Food and Drug Administration’s (“FDA”) effectively “banned” flavored ENDS by denying nearly all then-pending PMTAs for such products. Following the issuance of Marketing Denial Orders (“MDO”), manufacturers are required to stop selling non-tobacco flavored ENDS products.

Bidi, along with nearly every other company in the ENDS industry, received a MDO for its non-tobacco flavored ENDS products. With respect to Bidi, the MDO covered all non-tobacco flavored BIDI® Sticks, including its Arctic (menthol) BIDI® Stick. As a result, beginning in September 2021, Bidi pursued multiple avenues to challenge the MDO. First, on September 21, 2021, separate from the judicial appeal of the MDO in its entirety, Bidi filed a 21 C.F.R. § 10.75 internal FDA supervisory review request specifically of the decision to include the Arctic (menthol) BIDI® Stick in the MDO. In May 2022, the FDA issued a determination that it views the Arctic BIDI® Stick as a non-tobacco flavored ENDS product, and not strictly a menthol flavored product.

On September 29, 2021, Bidi petitioned the U.S. Court of Appeals for the Eleventh Circuit (the “11th Circuit”) to review the FDA’s denial of the comprehensive PMTAs for its non-tobacco flavored BIDI® Stick ENDS, arguing that it was arbitrary and capricious under the Administrative Procedure Act (“APA”), as well as ultra vires, for the FDA not to conduct any scientific review of Bidi’s comprehensive applications, as required by the Tobacco Control Act (“TCA”), to determine whether the BIDI® Sticks are “appropriate for the protection of the public health”. Bidi further argued that the FDA violated due process and the APA by failing to provide fair notice of the FDA’s new requirement for ENDS companies to conduct long-term comparative smoking cessation studies for their flavored products, and that the FDA should have gone through the notice and comment rulemaking process for this requirement.

On October 14, 2021, Bidi requested that the FDA re-review the MDO and reconsider its position that Bidi did not include certain scientific data in its applications sufficient to allow the PMTAs to proceed to scientific review. In light of this request, on October 22, 2021, pursuant to 21 C.F.R. § 10.35(a), the FDA issued an administrative stay of Bidi’s MDO pending its re-review, permitting the Company to continue sales. Subsequently, the FDA decided not to rescind the MDO and lifted its administrative stay on December 17, 2021. Following the lifting of the FDA’s administrative stay, Bidi filed a renewed motion to stay the MDO with the 11th Circuit. On February 1, 2022, the appellate court granted Bidi’s motion to stay (i.e., put on hold) the MDO, again allowing the Company to continue sales pending the litigation on the merits. Oral arguments in the merits-based proceeding were held on May 17, 2022.

On August 23, 2022, the U.S. Court of Appeals for the Eleventh Circuit set aside the MDO issued to the non-tobacco flavored BIDI® Sticks and remanded Bidi’s back to the FDA for further review. Specifically, the Court held that the MDO was “arbitrary and capricious” in violation of the Administrative Procedure Act (“APA”) because FDA failed to consider the relevant evidence before it, specifically Bidi’s aggressive and comprehensive marketing and sales-access-restrictions plans designed to prevent youth appeal and access.

The FDA did not appeal to the 11th Circuit’s decision. The FDA had until October 7, 2022 (45 days from the August 23, 2022, decision) to either request a panel rehearing or a rehearing “en banc” (a review by the entire 11th Circuit, not just the 3-judge panel that issued the decision), and until November 21, 2022 (90 days after the decision) to seek review of the decision by the U.S. Supreme Court. No request for a rehearing was filed, and no petition for a writ of certiorari was made to the Supreme Court. On July 29, 2024, Bidi received a Recission of Marketing Denial letter from FDA formally rescinding the MDO for the non-tobacco flavored BIDI® Stick PMTAs and putting those applications back into the review process. The Company is able to market and sell the non-tobacco flavored BIDI® Sticks, subject to the FDA’s enforcement discretion, for the duration of the PMTA scientific review.

Separately, on or about May 13, 2022, the FDA placed the tobacco-flavored Classic BIDI® Stick into the final Phase III scientific review. In March 2023, FDA issued a deficiency letter regarding the Classic BIDI® Stick PMTA, to which Bidi submitted in June 2023. Subsequently, on January 22, 2024, FDA issued a MDO for the Classic BIDI® Stick. On January 26, 2024, Bidi filed a petition for review of the MDO with the 11th Circuit Court of Appeals, followed by a motion to stay the MDO. Bidi is arguing, among other things, that the MDO was arbitrary and capricious in violation of the Administrative Procedure Act. On February 2, 2024, Bidi filed a Time Sensitive Motion for a Stay Pending Review, which the court denied on February 18, 2024. Briefing on the merits proceeded, with Bidi filing the opening merits brief on April 15, 2024. FDA filed its response brief on June 7, 2024, and Bidi filed its reply brief on July 29, 2024. Oral arguments were held before a three-judge panel on the 11th Circuit on April 2, 2025. The Court issued a decision on April 24, 2025 upholding FDA’s denial order. Accordingly, at this time, the Classic BIDI® Stick is considered an adulterated tobacco product, the continued marketing and distribution of which is prohibited.

Risks and Uncertainties

The FDA has indicated that it is prioritizing enforcement of unauthorized ENDS against companies (1) that never submitted PMTAs, (2) whose PMTAs have been refused acceptance or filing by the FDA, (3) whose PMTAs remain subject to MDOs, and (4) that are continuing to market unauthorized synthetic nicotine products after the July 13, 2022, cutoff. Subject to FDA's enforcement discretion, until the scientific review process is complete on Bidi's PMTA the Company views the risk of FDA enforcement against Bidi as low and is no longer marketing the Classic BIDI® Stick per the MDO. The Company anticipates FDA will move forward with a review of Bidi's PMTA for the non-tobacco flavored BIDI® Sticks on remand, as directed by the Court; however, the Company cannot provide any assurances as to the timing or outcome.

Merger and Share Exchange Agreement

On September 23, 2024, we agreed with Delta Corp Holdings Limited, a company incorporated in England and Wales ("Delta") to effect a business combination between us and Delta by entering into a Merger and Share Exchange Agreement (the "Merger Agreement") among us, Delta, Delta Corp Holdings Limited, a Cayman Islands exempted company ("Pubco"), KAVL Merger Sub Inc., a Delaware corporation and a wholly owned subsidiary of Pubco ("Merger Sub"), and the shareholders of Delta. Pursuant to the Merger Agreement, we will effect a merger and share exchange involving the following transactions:

- (a) Pubco shall acquire all of the issued and outstanding shares of Delta from each holder of Delta shares in exchange for the issuance by Pubco of ordinary shares in the capital of Pubco (the "Share Exchange"); and
- (b) immediately following to the completion of the Share Exchange, Merger Sub shall merge with and into us (the "Merger"), with us continuing as the surviving entity in the Merger;

Upon consummation of the transactions contemplated by the Merger Agreement, including the Share Exchange and the Merger, each of us and Delta will become wholly owned subsidiaries of Pubco.

Note 2 – Basis of Presentation and Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the financial statements of the Company's wholly-owned subsidiaries, Kaival Labs and Kaival Brands International. Intercompany transactions are eliminated.

Basis of Presentation

The accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the rules of the Securities and Exchange Commission ("SEC") and should be read in conjunction with the audited financial statements and notes thereto contained in the Company's most recent audited financial statements contained within the Company's Annual Report on Form 10-K, filed with the SEC on February 7, 2025 (the "2024 Annual Report"). In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim period presented have been reflected herein. The results of operations for the interim period are not necessarily indicative of the results to be expected for the full fiscal year. Notes to the consolidated financial statements, which would substantially duplicate the disclosures contained in the audited financial statements for the most recent fiscal period as reported in the 2024 Annual Report, have been omitted.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In the opinion of management, all adjustments necessary in order to make the financial statements not misleading have been included. Actual results could differ from those estimates.

Cash

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. There were no cash equivalents as of April 30, 2025, and October 31, 2024.

The Federal Deposit Insurance Corporation (“FDIC”) insures deposits according to the ownership category in which the funds are insured and how the accounts are titled. The standard deposit insurance coverage limit is \$250,000 per depositor, per FDIC-insured bank, per ownership category. The Company had uninsured cash of \$1,555,702 and \$3,652,300 as of April 30, 2025, and October 31, 2024, respectively.

Advertising and Promotion

All advertising, promotion and marketing expenses, including commissions, are expensed when incurred.

Accounts Receivable and Reserve for Credit Loss

Accounts receivable pertain to contracts with customers who are granted credit by the Company in the ordinary course of business and are recorded at the invoiced amount. Accounts receivable does not bear interest. Accounts receivable presented on the consolidated balance sheet are adjusted for any write-offs and net of allowance for credit losses. The Company’s reserve for credit losses is developed by using relevant available information including historical collection and loss experience, current economic conditions, prevailing economic conditions, supportable forecasted economic conditions and evaluations of customer balances. Once a receivable is deemed uncollectible after collection efforts have been exhausted, it is written off against the reserve for credit losses. The Company closely monitors the credit quality of its customers and does not generally require collateral or other security on receivables. The reserve for credit losses is measured on a collective basis when similar risk characteristics exist.

Based upon management’s assessment of the accounts receivable aging and the customers’ payment history, the Company has determined that no reserve for credit losses is required as of April 30, 2025 and October 31, 2024.

On January 22, 2024, the FDA issued an MDO on Bidi Vapor’s “Classic” BIDI ® Stick PMTA, which was subsequently upheld by the 11th Circuit Court of Appeals. The Company evaluated the impact of this MDO to the financial statements and recorded an estimated accrual for potential customer returns of the “Classic” products of zero and \$46,775 as of April 30, 2025, and October 31, 2024, respectively, which is included in accrued expenses in the unaudited interim consolidated balance sheets.

Credit Risk

Financial instruments, which potentially subject us to concentrations of credit risk, consist primarily of purchases of inventories, accounts payable, accounts receivable, and revenue. The Company performs periodic credit evaluations of its customers and generally does not require collateral on trade receivables. Historically, the Company has not experienced significant credit losses.

Inventories

All product inventory is purchased from a related party, Bidi. Inventories are stated at the lower of cost and net realizable value. Cost includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. The Company determines cost based on the first-in, first-out (“FIFO”) method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

On January 22, 2024, the FDA issued an MDO on Bidi Vapor’s tobacco-flavored “Classic” BIDI ® Stick PMTA. The appeal of that denial order before the 11th Circuit Court of Appeals was unsuccessful. The Company evaluated the impact of this MDO to the financial statements and recognized a full reserve for all remaining “Classic” products on hand amounting to \$313,654 as of October 31, 2024. The Company has zero inventory as of April 30, 2025.

Leases

The Company determines if a contract contains a lease at commencement of the arrangement based on whether it has the right to obtain substantially all of the economic benefits from the use of an identified asset and whether it has the right to direct the use of an identified asset in exchange for consideration, which relates to an asset which the Company does not own. Right-of-use (“ROU”) assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. The Company recognizes lease liabilities at the present value of the future lease payments and a corresponding ROU asset at the lease commencement date. The interest rate used to determine the present value of the future lease payments is the rate implicit in the lease unless that rate cannot be readily determined. When the interest rate implicit in the lease is not readily determinable, the interest rate used to determine the present value of the future lease payments is the Company’s Incremental Borrowing Rate (“IBR”). The IBR is a hypothetical rate based on the Company’s understanding of what its credit rating would be to borrow and resulting interest the Company would pay to borrow an amount equal to the lease payments in a similar economic environment over the lease term on a collateralized basis. Periods covered by the Company’s option to extend or terminate the lease are included in the lease term when it is reasonably certain that the Company will exercise its option to extend or not exercise its option to terminate, as applicable.

Lease payments may be fixed or variable; however, only fixed payments or in-substance fixed payments are included in the Company’s lease liability calculation. Variable lease payments may include costs such as common area maintenance, utilities, real estate taxes or other costs. Variable lease payments are recognized in operating expenses in the period in which the obligations for those payments are incurred. The Company records rent expense for its operating lease, which has escalating rent payments, on a straight-line basis over the lease term. The Company does not have any financing leases.

The Company made a policy election not to separate non-lease components from lease components for all its leases; therefore, it accounts for lease and non-lease components as a single lease component. The Company also elected the short-term lease recognition exemption for all leases that qualify, such that leases with a term of 12 months or less are not recognized on the balance sheet.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets, which includes definite-lived intangibles, long-lived fixed assets and lease right-of-use assets, for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Factors that could trigger an impairment review include significant under-performance relative to expected historical or projected future operating results, significant changes in the manner of the Company’s use of the acquired assets or the strategy for the Company’s overall business or significant negative industry or economic trends. If this evaluation indicates that the value of the long-lived asset may be impaired, the Company makes an assessment of the recoverability of the net carrying value of the asset over its remaining useful life. If this assessment indicates that the long-lived asset is not recoverable, based on the estimated undiscounted future cash flows of the technology over the remaining useful life, the Company reduces the net carrying value of the related asset to fair value and may adjust the remaining useful life. An impairment analysis is subjective and assumptions regarding future growth rates and operating expense levels can have a significant impact on the expected future cash flows and impairment analysis.

No impairment was identified for the six months ended April 30, 2025 and 2024, respectively.

Revenue Recognition

The Company recognizes revenue in accordance with ASC Topic 606, “Revenue from Contracts with Customers” (“ASC 606”). The Company recognizes revenue when a customer obtains control of promised goods, in an amount that reflects the consideration that the Company expects to receive in exchange for the goods. To determine revenue recognition for arrangements within the scope of ASC 606, the Company performs the following five steps: (1) identify the contracts with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when or as the entity satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods it transfers to the customer. Under ASC 606, disaggregated revenue from contracts with customers depicts the nature, amount, timing, and uncertainty of revenue and cash flows affected by economic factors.

Products Revenue

The Company generates products revenue from the sale of the Products (as defined above) to non-retail customers. The Company recognizes revenue at a point in time based on management's evaluation of when performance obligations under the terms of a contract with the customer are satisfied and control of the Products has been transferred to the customer. In most situations, transfer of control is considered complete when the products have been shipped to the customer. The Company determined that a customer obtains control of the Product upon shipment when title of such product and risk of loss transfer to the customer. However, when the Company enters a consignment agreement with a new customer, once it ships and delivers the requested amount of ordered Products to its distribution center for its retail sales locations, the Company retains ownership of the delivered Products until they are delivered to the actual retail stores (as opposed to the Company's consignment customer). The Company's shipping and handling costs are fulfillment costs, and such amounts are classified as part of cost of sales. The Company offers credit sales arrangements to non-retail (or wholesale) customers and monitors the collectability of each credit sale routinely.

Revenue is measured by the transaction price, which is defined as the amount of consideration expected to be received in exchange for providing goods to customers. The transaction price is adjusted for estimates of known or expected variable consideration, which includes refunds and returns as well as incentive offers and promotional discounts on current orders. Estimates for sales returns are based on, among other things, an assessment of historical trends, information from customers, and anticipated returns related to current sales activity. These estimates are established in the period of sale and reduce revenue in the period of the sale. Variable consideration related to incentive offers and promotional programs are recorded as a reduction to revenue based on amounts the Company expects to collect. Estimates are regularly updated, and the impact of any adjustments are recognized in the period the adjustments are identified. In many cases, key sales terms such as pricing and quantities ordered are established at the time an order is placed and incentives have very short-term durations.

Amounts billed and due from customers are short term in nature and are classified as receivable since payments are unconditional and only the passage of time related to credit terms is required before payments are due. The Company does not grant payment financing terms greater than one year. Payments received in advance of revenue recognition are recorded as deferred revenue.

Royalty Revenue

On June 13, 2022, KBI entered into the PMI License Agreement with PMPSA, effective as of May 13, 2022 (the "PMI Commencement Date"). Pursuant to the PMI License Agreement, KBI granted PMPSA an exclusive irrevocable license to use its technology, documentation, and intellectual property to make, distribute, and sell disposable nicotine e-cigarettes Products based on the intellectual property in certain international markets set forth in the PMI License Agreement (the "PMI Markets"). The Company has the exclusive international distribution rights to the Products and, in order to allow KBI to fulfill its obligations set forth in the PMI License Agreement, has contributed the international distribution rights for the PMI Markets to KBI as set forth in a Capital Contribution Agreement, dated June 10, 2022. The sublicense granted to PMPSA is exclusive in the PMI Markets and neither KBI nor any of its affiliates can sell, promote, use, or distribute any competing products in the PMI Markets for the duration of the term of the PMI License Agreement and any Sell-Out Period (as defined in the PMI License Agreement). PMPSA will be responsible for any regulatory filings necessary to sell the Products in the PMI Markets. Both KBI and PMPSA agree to work together in the registration and maintenance of the Intellectual Property, but KBI will bear all cost and expense to implement the registration strategy. Finally, PMPSA has agreed to potential future development services with KBI in the PMI Markets and has been granted certain rights with respect to potential future products.

The initial term of the PMI License Agreement is five (5) years and automatically renews for an additional five-year period unless PMPSA has failed to meet the agreed upon minimum key performance indicators set forth in the PMI License Agreement, in which case the PMI License Agreement will automatically terminate at the end of the initial license term.

In consideration for the grant of the licensed rights, PMPSA agreed to pay to KBI a royalty equal to a percentage of the base price of the first sale of each unit of Product manufactured. In addition, before the launch of the first product in a market and each anniversary of such launch, PMPSA agrees to pre-pay to KBI a guaranteed minimum royalty based on the estimated royalties payable by PMPSA to KBI in relation to all markets in the twelve (12)-month period following the first launch or each successive anniversary of the first launch, subject to an aggregate maximum guaranteed royalty payment for all markets for each applicable twelve (12)-month period. PMPSA may require modification of certain products to be sold under the PMI Licensing Agreement to be modified for a PMI Market. Pursuant to the PMI Licensing Agreement, PMPSA has absolute discretion over sales, marketing, product branding and packaging pertaining to sales in the PMI Markets, as well as the right to select the specific PMI Markets in which to launch commercialization and determine what product types are to be promoted in each market, subject to sales and marketing plans and annual business plans set by PMPSA and certain expansion criteria agreed between PMPSA and KBI. Royalty revenue earned from the PMI License Agreement is recognized in the period the sales of the Product manufactured occurs.

The PMI License Agreement contains customary representations, warranties, covenants, and indemnification provisions; however, KBI's liability under the PMI License Agreement is capped at the greater of: (i) Ten Million Dollars (\$10,000,000); or (ii) an amount equal to the total of the royalties due to KBI (but not yet paid) plus the royalties (including the guaranteed royalty payment) paid to KBI pursuant to the PMI License Agreement during the immediately preceding twelve (12) consecutive months, provided that such amount shall not exceed Thirty Million Dollars (\$30,000,000).

On June 10, 2022, Bidi entered into a License Agreement (the "KBI License Agreement") with KBI, pursuant to which KBI has the exclusive irrevocable license to use Bidi's licensed intellectual property to the extent necessary for KBI to fulfill its obligations set forth in the PMI Licensing Agreement. Such irrevocable license includes: (i) the right of KBI to grant sub-licenses to PMPSA under the PMI License Agreement for the express purposes set forth in the PMI License Agreement, but for no other purpose; (ii) the right of KBI to grant to PMPSA the right to grant sub-sub-licenses in the manner set forth in the PMI License Agreement, but for no other purpose; and (iii) certain branding rights to the extent (but only to the extent) necessary to permit KBI to perform its obligations to PMPSA as set forth in the PMI License Agreement.

On August 12, 2023, the Company executed and entered into a Deed of Amendment No. 1 (the "PMI License Amendment") with PMPSA, Bidi and KBI. Pursuant to the PMI License Amendment (which has an effective date of June 30, 2023), the following material changes have been made to the PMI License Agreement:

1. **Royalty Rate.** The royalty paid by PMPSA to KBI will no longer be based on sales price of the Product being sold, but rather on the volume of liquid contained within Product being sold. The royalty will be on a sliding scale of between \$0.08 to \$0.16 per sale based on the volume of liquid contained in the Product, increasing to between \$0.10 to \$0.20 per sale upon meeting certain sales milestones. For purposes of determining aggregate sales threshold, all sales undertaken since commencement of the PMI Licensing Agreement will be counted.

2. **Elimination of Certain Potential Royalty Adjustments.** Certain potential adjustments to the royalties receivable by KBI as provided for in the PMI License Agreement have been eliminated.

3. **Guaranteed Royalty.** The guaranteed royalty payment owed to KBI under the PMI License Agreement has been eliminated. Instead, royalties will be paid on a quarterly basis going-forward based on actual sales. Any unpaid guaranteed royalty has been cancelled.

4. **Insurance Tail Requirements.** KBI's requirement to keep certain tail insurance after the expiration or termination of the PMI Licensing Agreement was reduced from 6 years to 2 years.

5. **Markets.** The identification of the PMI Markets that PMI may enter has been expanded to cover certain additional territories.

6. Net Reconciliation Payment to KBI. As a result of the changes to the PMI License Agreement described in paragraphs 1 through 3 above, the value of such changes was calculated and reconciled as of the date of commencement of the PMI Licensing Agreement through June 30, 2023. On September 8, 2023, the Company received the Net Reconciliation Payment from PMPSA of \$134,981 pursuant to this provision.

The KBI License Agreement provides that KBI shall pay Bidi license fees equivalent to 50% of the adjusted earned royalty payments, after any offsets due to jointly agreed costs such development costs incurred for entry to specific international markets. During the three months and six months ended April 30, 2025, the Company paid license fees of \$90,000 and \$198,215, respectively, to Bidi. As of April 30, 2025, \$35,000 of license fees are owed to Bidi. During the three months and six months ended April 30, 2024, the Company paid license fees of \$60,000 and \$60,000, respectively, to Bidi. As of October 31, 2024, \$131,683 of license fees are owed to Bidi.

As of April 30, 2025, amounts receivable from PMPSA in connection with the PMI License Agreement totaled \$70,000 of which \$70,000 and \$0 pertain to royalties and reimbursement of certain non-recurring engineering costs, respectively. As of October 31, 2024, amounts receivable from PMPSA in connection with the PMI License Agreement totaled \$263,367 of which \$263,367 and \$0 pertain to royalties and reimbursement of certain non-recurring engineering costs, respectively.

Net Loss Per Share

Basic net loss per share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the period, without consideration of potential common stock equivalents.

Diluted net loss per share is calculated by dividing net loss available to common stockholders by the weighted average number of common stock outstanding plus common share equivalents from conversion of dilutive stock options and warrants using the treasury method and preferred stock using the if-converted method, except when antidilutive. In the event of a net loss, the effects of all potentially dilutive shares are excluded from the diluted net loss per share calculation as their inclusion would be antidilutive.

Concentration of Revenues and Accounts Receivable

No revenue concentration from the sale of Products existed for the six months ended April 30, 2025.

For the six months ended April 30, 2024, (i) 20% or \$998,905 of the revenue from the sale of Products, solely consisting of the BIDI[®] Stick, was generated from QuikTrip Corporation, and (ii) 15% or \$763,562 of the revenue from the sale of the Products was generated from GPM Investments, LLC. Subsequent to April 30, 2024, QuikTrip Corporation terminated its consignment arrangement with the Company.

No accounts receivable concentration from the sale of Products existed as of April 30, 2025.

QuikTrip Corporation, with an outstanding balance of approximately \$205 accounted for 100% of the total accounts receivable from customers, as of October 31, 2024.

Share-Based Compensation

The Company measures the cost of services received in exchange for an award of equity instruments (share-based payments, referred to herein as “SBP”) based on the grant-date fair value of the award. That cost is recognized over the period during which a recipient is required to provide service in exchange for the SBP award—the requisite service period (vesting period). For SBP awards subject to performance conditions, compensation is not recognized until the performance condition is probable of occurrence. The grant-date fair value of share options is estimated using the Black-Scholes-Merton option-pricing model.

Fair Value of Financial Instruments

The Company's balance sheet includes certain financial instruments. The carrying amounts of current assets and current liabilities approximate their fair value because of the relatively short period of time between the origination of these instruments and their expected realization.

ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"), defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – Inputs that are both significant to the fair value measurement and unobservable.

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of April 30, 2025 and October 31, 2024. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values due to the short-term nature of these instruments. These financial instruments include cash, accounts receivable, accounts payable, accrued expenses and loans payable. As of April 30, 2025 and October 31, 2024, the Company did not have any financial assets or liabilities measured and recorded at fair value on a recurring basis.

Recent Accounting Pronouncements – Not Yet Adopted

In December 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2023-09, Income Taxes (Topic 740) - Improvements to Income Tax Disclosures ("ASU 2023-09"). ASU 2023-09 requires additional disclosures reconciling the rates of different categories of income tax (i.e. federal, state, foreign, etc.) and a disaggregation of taxes paid and refunded. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024, and for interim periods in fiscal years beginning after December 15, 2025, although early adoption is permitted. The Company is currently evaluating the impact of adopting this standard on its income tax disclosures.

In November 2023, the FASB issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures," which is intended to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The purpose of the amendment is to enable investors to better understand an entity's overall performance and assess potential future cash flows. The guidance is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The guidance is to be applied retrospectively to all prior periods presented in the financial statements. The Company is continuing to evaluate the impact of adopting this new guidance but does not expect it to have a material impact on the Company's financial statements.

Note 3 – Going Concern

The accompanying unaudited interim consolidated financial statements of the Company are prepared in accordance with U.S. GAAP applicable to a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business within one year after the date the consolidated financial statements are issued. In accordance with Financial Accounting Standards Board (or FASB), Accounting Standards Update (or ASU) No. 2014-15, *Presentation of Financial Statements – Going Concern* (Subtopic 205-40), the Company’s management evaluates whether there are conditions or events, considered in aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date that the financial statements are issued.

The Company has incurred recurring losses and negative cash flows from operations for six months ended April 30, 2025. The Company will need significant additional funds to satisfy its outstanding payables, fund its working capital, and fully implement its business plan. In addition, the Company’s ability to continue as a going concern is adversely affected by the uncertainty surrounding Bidi’s PMTA process with the FDA for its non-tobacco flavored Bidi® Stick as well as the uncertainty in the Company’s ability to continue to sell the Bidi Stick given the patent infringements claim filed by RJ Reynolds. Likewise, in April 2025 the 11th Circuit upheld FDA’s MDO for the Classic BIDI® Stick. All of these factors raise substantial doubt regarding the Company’s ability to continue as a going concern.

Management plans to continue developing strategies for similar or expanded operations for the Company’s business to help the Company’s ability to determine where its business will be viable going forward. Until such time, if ever, the Company can generate substantial product revenues, management plans to finance its cash needs through public or private equity offerings or debt financing.

However, there is no assurance that the Company will be able to raise additional capital, generate revenues or achieve profitability due to the factors listed above as well as the regulation and public perception of ENDS products and the various other risks faced by the Company. The accompanying unaudited interim consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of these or other risks or uncertainties.

Note 4 – Intangible Assets

The Company’s intangible assets include patents and technology that were acquired pursuant to the GoFire Asset Purchase Agreement (“GoFire APA”). The cost and accumulated amortization of the intangible assets amounted to \$11,795,975 and \$1,507,268 as of April 30, 2025, respectively and \$11,795,975 and \$1,114,064 as of October 31, 2024, respectively. Amortizable patents and technology have a useful life of 15.0 years with a weighted average remaining useful life of 12.9 years and 13.7 years as of April 30, 2025 and October 31, 2024, respectively.

The Company recognized amortization expenses of \$393,204 and \$393,199 for the six months ended April 30, 2025, and 2024, respectively. Amortization expense is included under general and administrative expenses in the unaudited interim consolidated statements of operations.

Future amortization expense of intangible assets is as follows:

Remaining period in 2025 (six months)	\$	393,194
Year ending October 31, 2026		786,398
Year ending October 31, 2027		786,398
Year ending October 31, 2028		786,398
Year ending October 31, 2029		786,398
Thereafter		6,749,921
Total	\$	<u>10,288,707</u>

Note 5 – Loans Payable

Insurance Loans

On May 10, 2024, the Company obtained two insurance loans. The first loan is a nine-month loan from First Insurance Bank to finance the annual D&O insurance, with the principal amount of \$381,077 and subject to an effective interest rate of 7.45%. The second loan is a nine-month loan from IPFS Corporation to finance the annual D&O insurance, with the principal amount of \$94,404 and subject to an effective interest rate of 11.15%. As of April 30, 2025 and October 31, 2024, the outstanding balance of the Insurance loans amounted to zero and \$207,616, respectively.

Loan Agreements

On November 29, 2023, the Company entered into two loan agreements which are collateralized by all assets of the Company until the loans are repaid in full. Under the terms of these agreements, the Company received the disclosed Purchase Price and agreed to repay the disclosed Purchase Amount, which is collected by the lenders at the disclosed weekly payment rate. The Company's former Chief Executive Officer, Eric Mosser personally guarantees the performance of these loans. These loans were fully paid on June 13, 2024, upon their maturity.

On August 9, 2023, the Company entered into a Securities Purchase Agreement (the "SPA") with AJB Capital Investments, LLC ("AJB"), pursuant to which the Company sold a Promissory Note in the principal amount of \$650,000 (the "Note") to AJB in a private transaction for a purchase price of \$585,000 (giving effect to original issue discount of \$65,000). The Note matured on February 8, 2024 (the "Maturity Date") and had interest at the rate of 10% per annum. Interest was payable on a monthly basis beginning on the date one month following the date of issuance of the Note. Pursuant to the terms of the SPA, the Company paid a commitment fee to AJB in the form of 19,048 shares of Common Stock (the "Commitment Fee Shares") with a relative fair value of \$130,478 which was recognized as discount to the note. The debt discount and issuance costs were amortized over the term of the note. Amortization expense amounted to zero and \$38,273 for the six months ended April 30, 2025, and 2024, respectively.

Under the SPA, the Company had the right to repurchase half of the Commitment Fee Shares if the Note was repaid in full prior to maturity. On December 1, 2023, the Company fully paid the loan balance in advance of the maturity date. In connection with the repayment of the Note, the Company agreed that AJB would be permitted to retain all of the Commitment Fee Shares. The Company recognized \$98,432 as loss on extinguishment of debt in the six months ended April 30, 2024. As of April 30, 2025 and October 31, 2024, the carrying value of the Note was zero.

Note 6 – Leases

The Company does not have financing leases and only one operating lease for office space and inventory storage space with Just Pick, LLC ("Just Pick"), a related party that was owned and controlled by Nirajkumar Patel, the former Chief Executive Officer and a director of the Company. Certain of the Company's leases, have and may in the future, include renewal options, which have been and might be in the future, included in the calculation of the lease liabilities and right of use assets when the Company is reasonably certain to exercise the option.

Cash flow information related to leases was as follows:

	<u>April 30, 2025</u>	<u>April 30, 2024</u>
Other Lease Information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ (98,756)	\$ (89,183)

The following table provides the maturities of lease liabilities as of April 30, 2025:

	Operating Leases
Remaining period in 2025 (six months)	\$ 121,476
Year ending October 31, 2026	253,614
Year ending October 31, 2027	274,946
Year ending October 31, 2028	175,989
Total future undiscounted lease payments	\$ 826,025
Less: Interest	(58,573)
Present value of lease liabilities	\$ 767,452

At April 30, 2025, the Company had no additional leases which had not yet commenced.

On April 23, 2025, the Company received a letter of demand from Just Pick, LLC. noting that the Company was in breach of the lease as base rent and operating expenses have not been paid since January 8, 2025. On April 30, 2025, the Company responded and provided Just Pick, LLC with a termination notice. As of April 30, 2025, the Company determined that it would no longer be using the leased office space in its business and recorded a loss on the ROU assets of \$707,626, accordingly. As of April 30, 2025, there is ongoing negotiation between Just Pick, LLC and the Company regarding the settlement of the remaining reported office lease liability. In May 2025, the Company paid the total unpaid lease payments through May 2025 amounting to \$78,217.

Note 7 – Stockholders’ Equity

Series B Convertible Preferred Stock

On May 30, 2023, the Company issued 900,000 shares of the Series B Preferred Stock as consideration for the GoFire asset purchase. The Series B Preferred Stock carries no voting rights except: (i) with respect to the ability of the holders of a majority of the then outstanding Series B Preferred Stock (the “Majority Holders”), to nominate a director to the Company’s board of directors, and (ii) that the vote of the Majority Holders is necessary for effecting any amendment to the Company’s Certificate of Incorporation or Certificate of Designation that affects the Series B Preferred Stock. The Series B Preferred Stock is redeemable at the option of the Company at a redemption price of \$15 per share, subject to potential downward adjustments based on the trading price of the Common Stock. Subject to additional limitations in the GoFire APA, the Series B Preferred Stock holds seniority over the Common Stock and each other class of series of securities now existing or hereafter authorized with respect to dividend rights, the distribution of assets upon liquidation, and dissolution and redemption rights. Upon a liquidation and winding up of the Company, the holders of Series B Preferred Stock are entitled to a liquidation preference of \$15 per share (the “Liquidation Preference”), though the redemption may be adjusted downward based on the trading price of the Common Stock at the time of liquidation. The holders of Series B Preferred Stock are entitled to receive a dividend equal to 2% of the Liquidation Preference, accruing from the Closing Date and payable on the eighteen-month anniversary of the Closing Date. Amounts payable in respect of the Series B Dividend shall begin to accrue on a daily basis, be cumulative from and including the Original Issue Date, whether or not the Corporation has funds legally available for such dividends or such dividends are declared, shall compound on each six month anniversary of the Original Issue Date and shall be payable in arrears on the 18-month anniversary of the Original Issue Date. No preemptive rights are granted to the holders of Series B Preferred Stock. The Majority Holders have the ability to cause a voluntary conversion of the Series B Preferred Stock into Common Stock at a conversion rate of 0.3968 shares of Common Stock per share of Series B Preferred Stock which may only occur on or after the following dates 18-month, 24 month, 36 month, 48 month, and 60 month anniversary of the original issuance date; and only up to 180,000 shares of Series B Preferred Stock on each of these dates. All shares of Series B Preferred Stock will automatically convert to Common Stock upon the occurrence of a Change of Control (as defined in the GoFire APA). On December 3, 2024, the Company paid accrued dividends of \$405,000 to Series B shareholders. As of April 30, 2025, the Company had zero accrued dividend payable to Series B shareholders and no further dividends will be accrued or paid.

Pursuant to the GoFire APA, the Company is required to use commercially reasonable efforts to register the APA Shares and Warrant Shares with the SEC for distribution to GoFire’s stockholders and/or public resale by such stockholders within 180 days of the Closing Date. In addition, if any Series B Preferred Stock remains outstanding nineteen (19) months after the Closing Date, the Company shall use commercially reasonable efforts to file with the SEC a subsequent registration statement registering the distribution to GoFire’s stockholders and/or public resale Series B Conversion Shares by such stockholders. If such subsequent registration statement is required, the Company will use its commercially reasonable efforts to obtain effectiveness of such subsequent registration statement within nineteen (19) months of the Closing Date, and if the Company does not so register the Series B Conversion Shares within nineteen (19) months of the Closing Date, the Company will issue to GoFire or its designee an additional ten percent (10%) of all of the Series B Conversion Shares underlying the then outstanding shares of Series B Preferred Stock. All of the securities issued as consideration for the Purchased Assets are subject to a lock-up agreement that terminates one hundred eighty (180) days from the Closing Date. As of April 30, 2025, the Company made an accrual for the additional ten percent (10%) of all of the Series B Conversion Shares of \$39,283.

Common Stock

During the three and six months ended April 30, 2025, the Company issued zero and 3,025,000 fully vested shares of common stock, respectively, to directors, officers and an employee pursuant to grants under the Company's Amended and Restated 2020 Stock and Incentive Compensation Plan. During the three and six months ended April 30, 2025, the Company recognized stock compensation cost of zero and \$2,873,750, respectively.

Stock Options

Summary of stock options information is as follows:

	Aggregate Number	Aggregate Exercise Price	Exercise Price Range	WA Exercise Price
Outstanding, October 31, 2024	189,590	\$ 6,847,736	\$ 3.64-602.28	\$ 36.12
Granted	—	—	—	—
Exercised	—	—	—	—
Cancelled, forfeited, or expired	(69,637)	(3,494,717)	\$ 15.33-602.28	50.18
Outstanding, April 30, 2025	119,953	3,353,019	\$ 3.64-59.85	27.95
Exercisable, April 30, 2025	118,167	\$ 3,323,447	\$ 3.64-59.85	\$ 28.12

During the three months ended April 30, 2025, and 2024, the Company recognized \$2,445 and (\$289,088), respectively, of stock option expense related to outstanding stock options. During the six months ended April 30, 2025, and 2024, the Company recognized \$33,747 and \$20,870, respectively, of stock option expense related to outstanding stock options. No options were granted during the three and six months ended April 30, 2025.

As of April 30, 2025, the Company had \$21,188 of unrecognized expenses related to options, which is expected to be recognized over a weighted-average period of approximately 2.2 years. The weighted average remaining contractual life is approximately 4.34 years for stock options outstanding as of April 30, 2025. The aggregate intrinsic value of these outstanding options as of April 30, 2025, was zero.

Warrants

Warrant information as of the periods indicated is as follows:

	Aggregate Number	Aggregate Exercise Price	Exercise Price Range	Weighted Average Exercise Price
Outstanding, October 31, 2024	5,754,686	\$ 19,826,116	\$ 1.16-126.00	\$ 3.45
Granted	—	—	—	—
Exercised	—	—	—	—
Cancelled, forfeited, or expired	—	—	—	—
Outstanding, April 30, 2025	5,754,686	\$ 19,826,116	\$ 1.16-126.00	\$ 3.45
Exercisable, April 30, 2025	5,754,686	\$ 19,826,116	\$ 1.16-126.00	\$ 3.45

The weighted average remaining contractual life is approximately 4.07 years for common stock warrants outstanding as of April 30, 2025. As of April 30, 2025, there was no intrinsic value of outstanding stock warrants.

Note 8 – Related-Party Transactions

In March 2020, the Company commenced business operations as a result of becoming the exclusive distributor of certain ENDS and related components (the “Products”) manufactured by Bidi, a related party company that was also owned by Nirajkumar Patel, the former Chief Executive Officer and Director of the Company.

Revenue and Accounts Receivable

During the six months ended April 30, 2025, and 2024, the Company recognized revenue of zero and \$3,700, respectively, from one company owned by Nirajkumar Patel, the former Chief Executive Officer and Director of the Company, and/or his wife. There was no accounts receivable balance for these transactions as of April 30, 2025 and October 31, 2024.

Purchases and Accounts Payable

During the six months ended April 30, 2024, 100% of the inventories of Products, consisting solely of the BIDI® Stick, were purchased from Bidi, a related party controlled by Nirajkumar Patel, the former Chief Executive Officer and Director of the Company, in the amount of \$273,060.

There were no purchases of inventory from Bidi for the six months ended April 30, 2025 and no amounts owed to Bidi for inventory purchases as of April 30, 2025.

The KBI License agreement provides that KBI shall pay Bidi license fees equivalent to 50% of the adjusted earned royalty payments, after any offsets due to jointly agreed costs such development costs incurred for entry to specific international markets.

During the three and six months ended April 30, 2025, the Company paid license fees of approximately \$90,000 and \$198,215, respectively to Bidi. As of April 30, 2025, the Company had a payable to Bidi of \$35,000 related to the PMI License Agreement.

During the three and six months ended April 30, 2024, the Company paid license fees of \$60,000 and \$60,000, respectively, to Bidi. As of October 31, 2024, the Company had a payable to Bidi of \$131,683 related to the PMI License Agreement.

Leased Office Space and Storage Space

On June 10, 2022, the Company entered into the 2022 Lease with Just Pick, owned and controlled by Nirajkumar Patel, the former Chief Executive Officer and Director of the Company. The Company had \$70,051 and \$120,979 in operating lease expenses for the three and six months ended April 30, 2025, respectively, and \$49,335 and \$98,168 for the three and six months ended April 30, 2024, respectively.

On April 23, 2025, the Company received a letter of demand from Just Pick, LLC. noting that the Company was in breach of the lease as base rent and operating expenses have not been paid since January 8, 2025. On April 30, 2025, the Company responded and provided Just Pick, LLC with a termination notice. As of April 30, 2025, the Company determined that it would no longer be using the leased office space in its business and recorded a loss on the ROU assets of \$707,626, accordingly. As of April 30, 2025, there is ongoing negotiation between Just Pick, LLC and the Company regarding the settlement of the remaining reported office lease liability. In May 2025, the Company paid the total unpaid lease payments through May 2025 amounting to \$78,217.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Management's Discussion and Analysis of Financial Condition and Results of Operations is designed to provide a reader of the financial statements with a narrative report on our financial condition, results of operations, and liquidity. This discussion and analysis should be read in conjunction with the unaudited financial statements and notes thereto for the six months ended April 30, 2025, included under Item 1 – Financial Statements in this Report and our audited financial statements and notes thereto for the year ended October 31, 2024, contained in the 2024 Annual Report. The following discussion contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations, and intentions. Our actual results could differ materially from those discussed in the forward-looking statements. Please also see the cautionary language at the beginning of this Report regarding forward-looking statements.

Overview

We are engaged in the sale, marketing and distribution of electronic nicotine delivery system (“ENDS”) products, also known as “e-cigarettes”, in a variety of flavors. Until October of 2024, our primary source of revenue has been the Bidi Stick as we sold our inventory on hand. However, on June 11, 2024, RAI Strategic Holdings, Inc., R.J. Reynolds Vapor Company, R.J. Reynolds Tobacco Company, and RAI Services Company (collectively, the “RJ Reynolds Entities”) filed a patent infringement complaint with the International Trade Commission (the “ITC”) against Bidi, us, and forty (40) other respondents (the “ITC Complaint”) pursuant to Section 337 of the Tariff Act of 1930, as amended. Specifically, the ITC Complaint alleges that one or more components or elements of the Bidi Stick infringe U.S. Patent No. 11,925,202, which is owned by one of the RJ Reynolds Entities. The ITC Complaint requests the ITC grant: (a) temporary and permanent limited exclusion orders pursuant to Section 337(e) of the Tariff Act of 1930, as amended, which would prohibit the importation of the Bidi Stick in the United States; and (b) issue temporary and permanent cease and desist orders pursuant to 337(f) of the Tariff Act of 1930, as amended, which would prohibit the sale and distribution of the Bidi Stick in the United States. No damages are recoverable in the proceedings before the ITC. Since the initiation of the ITC Complaint, we have not imported any Bidi Sticks and currently do not generate any revenue from the sale of Bidi Sticks. Our current primary source of revenue is through an international licensing agreement with Philip Morris Products S.A. (“PMPSA”), a wholly owned affiliate of Philip Morris International Inc. (“PMI”).

We have also entered into a Merger and Share Exchange Agreement (the “Merger Agreement”) with Delta Corp Holdings Limited, a company incorporated in England and Wales (together with its successors and assigns, “Delta”), Delta Corp Holdings Limited, a Cayman Islands exempted company (“Pubco”), KAVL Merger Sub Inc., a Delaware corporation and a wholly owned subsidiary of Pubco (“Merger Sub”) and Delta Corp Cayman Limited (the “Sellers”). If the Merger Agreement is consummated, Pubco will become our parent and all new officers and directors will be appointed by Pubco, except that pursuant to the Merger Agreement we have the right to appoint one director to the Pubco board of directors and we have agreed to appoint any family member of Ankitaben Patel (the widow of our former CEO, Nirajkumar Patel) and/or Nirajkumar Patel who is qualified and identified by Bidi for this role prior to the closing of the Merger Agreement. While we expect the transactions contemplated by the Merger Agreement to close (the “Closing”) in June of this year, no assurances can be made that such transactions will close by then or ever.

Material Items, Trends and Risks Impacting Our Business

We believe that the following items and trends may be useful in better understanding our results of operations.

On June 11, 2024, the RJ Reynolds Entities filed the ITC Complaint. The ITC Complaint requests the ITC grant: (a) temporary and permanent limited exclusion orders pursuant to Section 337(e) of the Tariff Act of 1930, as amended, which would prohibit the importation of the Bidi Stick in the United States; and (b) issue temporary and permanent cease and desist orders pursuant to 337(f) of the Tariff Act of 1930, as amended, which would prohibit the sale and distribution of the Bidi Stick in the United States. No damages are recoverable in the proceedings before the ITC. If the Company or Bidi is prohibited from importing the Bidi Stick, then our business, operations, financial results, and reputation would be significantly adversely impacted. Although Bidi disputes the patent infringement claims set forth in the ITC Complaint by the RJ Reynolds Entities, in December 2024 Bidi entered into a consent order agreeing to cease all importation and distribution of the Bidi Stick until the RJ Reynolds Entities' patent expires in October 2026. In November 2024, the ITC Administrative Law Judge (ALJ) denied temporary relief to the Reynolds Entities and the case proceeded on the merits. A trial was held in April 2025. A decision from the ALJ is expected on July 21, 2025. The ALJ's initial determination (ID) will be reviewed by the Commission and the Commission deadline is November 24, 2025, subject to potential extensions. The asserted patent expires in October 2026 as would any exclusion order that the ITC enters as a result of the ITC Complaint, as well as the Bidi consent order.

As a result of the ITC Complaint and other factors, we do not expect any significant revenue from the sale of Bidi Sticks in the foreseeable future. Our primary source of revenue is from KBI from royalties from PMI under the PMI License Agreement.

PMI Licensing Agreement and International Distribution

On June 13, 2022, we, through our wholly owned subsidiary, KBI, entered into the PMI License Agreement with PMPSA, a wholly owned affiliate of PMI, for the development and distribution of ENDS products in certain markets outside of the United States, subject to market (or regulatory assessment). The PMI License Agreement grants to PMPSA a license of certain intellectual property rights relating to Bidi's ENDS device, known as the BIDI® Stick in the United States, as well as potentially newly developed devices, to permit PMPSA to manufacture, promote, sell, and distribute such ENDS device and newly developed devices, in international markets, outside of the United States.

On July 25, 2022, we announced the launch of PMPSA's custom-branded self-contained e-vapor product, pursuant to the licensing agreement. The product, a self-contained e-vapor device initially called VEEBA and more recently rebranded as VEEV NOW, has been custom developed and was initially distributed in Canada. VEEV NOW was then commercially launched by PMPSA in Europe in February 2023, with additional market launches planned this year. On August 12, 2023, we executed and entered into a Deed of Amendment No. 1 (the "PMI License Amendment") with PMPSA, Bidi and KBI. Pursuant to the PMI License Amendment (which was effective on June 30, 2023), resulting in a Net Reconciliation Payment to KBI and ongoing quarterly royalty payments.

The ability of PMPSA to generate sales of its licensed products is important to our results of operations since we derive royalty revenue from PMPSA sales. Should our relationship with PMPSA deteriorate or terminate, or if PMPSA is unable to generate meaningful sales of its licensed products, our business and results of operations would be materially harmed.

Ability to Develop and Monetize the GoFire Intellectual Property

We purchased certain vaporizer and inhalation-related technology from GoFire in May 2023 with the goal of diversifying our business and lessening our dependence on BIDI Vapor. We do not expect that the acquired assets will generate immediate revenue for us, and while we believe this to be a transformative acquisition for us and we are already seeking to develop and monetize the acquired assets, we can give no assurances at this time that either (i) the patent applications we acquired will eventuate in issued patents or (ii) we will be able to enter into successful monetizing arrangements with respect to these assets.

Inflation

Consumer purchases of tobacco products are historically affected by economic conditions, such as changes in employment, salary and wage levels, the availability of consumer credit, inflation, interest rates, fuel prices, sales taxes, and the level of consumer confidence in prevailing and future economic conditions. The U.S. has been experiencing an environment of material inflation in recent quarters, and this condition may impact discretionary consumer purchases, such as the BIDI® Stick. Demand for our Products may also decline during recessionary periods or at other times when disposable income is lower, and taxes may be higher.

Corporate History

We were incorporated on September 4, 2018, in the State of Delaware. Effective July 12, 2019, we changed our corporate name from Quick Start Holdings, Inc. to Kaival Brands Innovations Group, Inc. The name change was effected through a parent/subsidiary short-form merger of Kaival Brands Innovations Group, Inc., our wholly-owned Delaware subsidiary formed solely for the purpose of the name change, with and into us. We were the surviving entity.

Change of Control

On February 6, 2019, we entered into a Share Purchase Agreement (the “Share Purchase Agreement”), by and among us, GMRZ Holdings LLC, a Nevada limited liability company (“GMRZ”), our then-controlling stockholder, and Kaival Holdings, LLC, a Delaware limited liability company (“KH”), pursuant to which, on February 20, 2019, GMRZ sold 24,000,000 shares of our restricted common stock, representing approximately 88.06% of our then issued and outstanding shares of common stock, to KH, and KH paid GMRZ consideration in the amount set forth in the Share Purchase Agreement. The consummation of the transactions contemplated by the Share Purchase Agreement resulted in a change in control, with KH becoming our largest controlling stockholder. KDMM Trust I, the trustee of which is the widow of Kaival’s former Chief Executive Officer and director, Nirajkumar Patel, is the sole voting member of KH.

Other Potential Product Offerings & Opportunities

In May 2023, we acquired 19 existing and 47 pending patents with novel technologies related to vaporization and inhalation technologies from GoFire. The GoFire patent portfolio includes novel technologies across extrusion dose control, product preservation, tracking and tracing usage, multiple modalities (i.e., different methods of vaporizing) and child safety. The patents and patent applications cover territories including the United States, Australia, Canada, China, the EPO (European Patent Organization), Israel, Japan, Mexico, New Zealand and South Korea. The portfolio also includes a proprietary mobile device software application that is used in conjunction with certain patents in the portfolio.

We expect to continue seeking third-party licensing opportunities in the cannabis, hemp/CBD, nicotine, nutraceutical and pharmaceutical markets, as a means of monetizing our patents. Longer term, we believe we can utilize the acquired patents to create innovative and market-disruptive products for its growing base of adult consumers, including patent protected vaporizer devices and related hardware and software applications.

As described above, we hope to generate revenue from this acquired intellectual property via licensing and product development activities. However, there can be no assurance that we will be able to implement this strategy.

Going Concern

The accompanying unaudited interim consolidated financial statements of the Company are prepared in accordance with U.S. GAAP applicable to a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business within one year after the date the consolidated financial statements are issued.

In accordance with Financial Accounting Standards Board (“FASB”), Accounting Standards Update (“ASU”) No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40), the Company’s management evaluates whether there are conditions or events, considered in aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date that the accompanying financial statements are issued.

The Company has incurred recurring losses and negative cash flows from operations for six months ended April 30, 2025. The Company will need significant additional funds to satisfy its outstanding payables, fund its working capital, and fully implement its business plan. In addition, the Company’s ability to continue as a going concern is adversely affected by the uncertainty surrounding Bidi’s PMTA process with the FDA for its non-tobacco flavored Bidi® Stick as well as the uncertainty in the Company’s ability to continue to sell the Bidi Stick given the patent infringements claim filed by RJ Reynolds. Likewise, in April 2025 the 11th Circuit upheld FDA’s MDO for the Classic BIDI® Stick. All of these factors raise substantial doubt regarding the Company’s ability to continue as a going concern.

Management plans to continue developing strategies for similar or expanded operations for the Company’s business to help the Company’s ability to determine where its business will be viable going forward. Until such time, if ever, the Company can generate substantial product revenues, management plans to finance its cash needs through public or private equity offerings or debt financing.

However, there is no assurance that the Company will be able to raise additional capital, generate revenues or achieve profitability due to the factors listed above as well as the regulation and public perception of ENDS products and the various other risks faced by the Company. The accompanying unaudited interim consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of these or other risks or uncertainties.

Liquidity and Capital Resources

We believe we will not have sufficient cash on hand to support our operations for at least twelve months. As of April 30, 2025, we had working capital of \$906,727 and total cash of \$1,805,702. As discussed above, this condition and other factors raise substantial doubt regarding our ability to continue as a going concern.

We intend to generally rely on cash from operations and equity and debt offerings to the extent necessary and available, to satisfy our liquidity needs. There are several factors that could result in the need to raise additional funds, including a decline in revenue, a lack of anticipated sales growth, and increased costs. Our efforts are directed toward generating positive cash flow and, ultimately, profitability. As our efforts during our fiscal 2024 and since have not generated positive cash flows, we will need to raise additional capital. Should capital not be available to us at reasonable terms, other actions will become necessary, including implementing cost control measures and additional efforts to generate sales. We may also be required to take more strategic actions such as exploring strategic options for the sale of our company, the creation of joint ventures or strategic alliances under which we will pursue business opportunities, or other alternatives. We believe we have, or have access to, the financial resources to weather the impacts of the FDA's PMTA process and Bidi's receipt of MDOs from the FDA in 2021 and 2024, which are subject to additional FDA action. However, we will require further financing for the next twelve months, given our operating results and our inability to sell Bidi sticks as a result of the ITC complaint filed by RJ Reynolds.

Cash Flows:

Net cash flows used in operations was approximately \$1.5 million for the first six months of fiscal year 2025, compared to \$0.7 million cash flows provided by operations for the first six months of fiscal year 2024. The decrease in cash flows provided by operations for the first six months of fiscal year 2025 compared to the first six months of fiscal year 2024 was primarily due to the increase of stock-based compensation, loss on ROU asset and lower sales revenue.

Net cash flows used in financing activities was approximately \$0.6 million for the first six months of fiscal year 2025, compared to cash flows used in financing activities of approximately \$0.8 for the first six months of fiscal year 2024. The cash used in financing activities for the first six months of fiscal year 2025 consisted primarily of payments on preferred dividends and payments on loans payables.

Results of Operations

Three months ended April 30, 2025, compared to three months ended April 30, 2024

Revenues:

Revenues for the second quarter of fiscal year 2025 were approximately \$47 thousand, compared to approximately \$2.2 million in the same period of the prior fiscal year. Revenues decreased in the second quarter of 2025, primarily due to a decrease in product sales to customers.

Cost of Revenue, Net and Gross Profit:

Gross profit in the second quarter of fiscal year 2025 was approximately \$47 thousand, or approximately 100.0% of revenues, net, compared to approximately \$0.5 million gross profit or approximately 22.4%, of revenues, net, for the second quarter of fiscal year 2024. Total cost of revenue, net was zero for the second quarter of fiscal year 2025, compared to approximately \$1.7 million, or approximately 77.6% of revenue, net for the second quarter of fiscal year 2024. The decrease is due to the reduction of product sales to customers during the three months ended April 30, 2025.

Operating Expenses:

Total operating expenses were approximately \$2.0 million for the second quarter of fiscal year 2025, compared to approximately \$1.8 million for the second quarter of fiscal year 2024. The increase is primarily from the loss on the ROU asset of \$0.7 million offset by reduced advertising and promotions expenses, as well as a decrease in stock compensation expense for share-based awards to management and members of the board of directors. For the second quarter of fiscal year 2025, operating expenses consisted primarily of a loss on ROU asset of \$0.7 million, professional fees of approximately \$0.7 million, and all other general and administrative expenses of approximately \$0.6 million. General and administrative expenses in the second quarter of fiscal year 2025 consisted primarily of salaries and wages, insurance, lease expense, project expenses, banking fees, business fees and state and franchise taxes.

For the second quarter of fiscal year 2024, operating expenses consisted primarily of advertising and promotion fees of approximately \$0.3 million, stock option expense of approximately (\$0.3) million, professional fees of approximately \$0.5 million, and all other general and administrative expenses of approximately \$1.3 million. General and administrative expenses in the first quarter of fiscal year 2024 consisted primarily of salaries and wages, insurance, lease expense, project expenses, banking fees, business fees and state and franchise taxes.

Income Taxes:

During the second quarter of fiscal year 2025, we did not accrue a provision for income taxes, due to the pre-tax loss of approximately \$2.0 million. Similarly, we did not accrue a provision for income taxes, due to the pre-tax loss of approximately \$1.5 million for the second quarter of fiscal year 2024.

Net Loss:

As a result of the items noted above, the net loss for the second quarter of fiscal year 2025 was approximately \$2.0 million, or \$0.17 basic and diluted net loss per share, compared to a net loss of approximately \$1.5 million, or \$0.56 basic and diluted net loss per share, for the second quarter of fiscal year 2024. The increase in the net loss for the second quarter of fiscal year 2025, as compared to the second quarter of fiscal year 2024, is primarily attributable to the increase of stock-based compensation, loss on ROU asset and lower sales revenue.

Six months ended April 30, 2025, compared to six months ended April 30, 2024***Revenues:***

Revenues for the six months ended April 30, 2025, were approximately \$0.2 million, compared to \$5.4 million for the six months ended April 30, 2024. Revenues decreased during the six months ended April 30, 2025, compared to the six months ended April 30, 2024, primarily due to a decrease in product sales to customers.

Cost of Revenue and Gross Profit:

Gross profit for the six months ended April 30, 2025, was approximately \$0.2 million, compared to gross profit of approximately \$1.7 million for the six months ended April 30, 2024. Total cost of revenue was approximately zero million for the six months ended April 30, 2025, compared to \$3.7 million for the six months ended April 30, 2024. The decrease in gross profit of approximately \$1.5 million for the six months ended April 30, 2025 compared to the six months ended April 30, 2024 is due to the reduction of product sales to customers during the six months April 30, 2025.

Operating Expenses:

Total operating expenses were approximately \$6.3 million for the six months ended April 30, 2025, compared to approximately \$4.7 million for the six months ended April 30, 2024. For the six months ended April 30, 2025, operating expenses consisted primarily of stock option expense of \$34 thousand, professional fees totaling approximately \$4.1 million, loss on ROU asset of \$0.7 million, and all other general and administrative expenses of approximately \$1.5 million. General and administrative expenses during the six months ended April 30, 2025, consisted primarily of salaries and wages, insurance, lease expense, project expenses, banking fees, business fees and state and franchise taxes.

For the six months ended April 30, 2024, operating expenses were approximately \$4.7 million, consisting primarily of advertising and promotion fees of approximately \$0.7 million, stock option expense of \$21 thousand, professional fees totaling approximately \$1.3 million, and all other general and administrative expenses of approximately \$2.7 million. General and administrative expenses during the six months ended April 30, 2024, consisted primarily of salaries and wages, insurance, banking fees, business fees, and other service fees.

Income Taxes:

During the six months ended April 30, 2025, we did not accrue a tax provision for income taxes, due to the pre-tax loss of approximately \$6.1 million for the six months ended April 30, 2025. Similarly, we did not accrue a tax provision for income taxes during the six months ended April 30, 2024, due to the pre-tax loss of approximately \$3.6 million for the six months ended April 30, 2024.

Net Loss:

The net loss for the first six months ended April 30, 2025, was approximately \$6.1 million, or \$0.58 basic and diluted net loss per share, compared to net loss for the six months ended April 30, 2024, which was approximately \$3.6 million, or \$1.32 basic and diluted net loss per share. The increase in the net loss for the six months ended April 30, 2025, as compared to the six months ended April 30, 2024, is primarily attributable to the increase of stock based compensation, loss on ROU asset and lower sales revenue.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on information available as of the date of the financial statements; therefore actual results could differ from those estimates. There have been no material changes to our critical accounting policies and estimates during the six months ended April 30, 2025 from those disclosed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our 2024 Annual Report for the year ended October 31, 2024.

Recent Accounting Pronouncements

Refer to Item 1, Financial Statements, Note 2, *Basis of Presentation and Significant Accounting Policies*.

Emerging Growth Company

We are an "emerging growth company," that is exempt from certain financial disclosure and governance requirements for up to five years as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). The JOBS Act eases restrictions on the sale of securities and increases the number of stockholders a company must have before becoming subject to the SEC's reporting and disclosure rules. We have not elected to use the extended transition period for complying with new or revised accounting standards under Section 102(b)(2) of the JOBS Act, that allows us to delay the adoption of new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As a "smaller reporting company" as defined by Item 10 of Regulation S-K, the Company is not required to provide the information required by this Item.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain “disclosure controls and procedures,” as such term is defined in Rule 13a-15e and Rule 15d-15(e) under the Exchange Act that are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our President & Chief Operating Officer and our Interim Chief Financial Officer to allow for timely decisions regarding required disclosure.

As of April 30, 2025, the end of the period covered by this Report, we carried out an evaluation under the supervision and with the participation of members of our management, including our President & Chief Operating Officer and our Interim Chief Financial Officer, of the effectiveness of the design and the operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) of the Exchange Act. Our management has concluded, based on their evaluation, that the disclosure controls and procedures were not effective as of the end of the period covered by this Report due to material weaknesses in our internal control over financial reporting as disclosed in our Annual Report on Form 10K for the year ended October 31, 2024.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as that term is defined in Rules 13(a)-15(f) and 15(d)-15(f) of the Exchange Act) that have occurred during the quarter ended April 30, 2025 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may become party to litigation or other legal proceedings that we consider to be a part of the ordinary course of our business. We are not currently involved in legal proceedings that could reasonably be expected to have a material adverse effect on our business, prospects, financial condition, or results of operations. To the best of our knowledge, no adverse legal activity is anticipated or threatened.

While we are not a party to the legal or regulatory proceedings involving Bidi, the outcome of those or related proceedings could have a material adverse or positive impact on our ability to operate our business given our reliance on Bidi.

Item 1A. Risk Factors.

As a smaller reporting company, we are not required to provide the information required by this item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

The following exhibits are filed herewith as a part of this Quarterly Report.

Exhibit Number	Description
31.1	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934*</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934*</u>
32.1	<u>Chief Executive Officer pursuant to 18 U.S.C. Section 1350 of Chapter 63 of Title 18 of the United States Code*</u>
32.2	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 of Chapter 63 of Title 18 of the United States Code*</u>
101.INS	Inline XBRL Instance Document*
101.SCH	Inline XBRL Taxonomy Extension Schema Document*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)*
(1)	Schedules and Exhibits omitted pursuant to Item 601(b) (10) (iv) of Regulation S-K. The Company agrees to furnish supplementally a copy of any omitted schedule to the Securities and Exchange Commission upon request; <i>provided, however</i> , that the Company may request confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, for any Schedule or Exhibit so furnished

*filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KAIVAL BRANDS INNOVATIONS GROUP, INC.

Date: June 10, 2025

A /s/ Mark Thoenes
Mark Thoenes
Chief Executive Officer

Date: June 10, 2025

By: /s/ Eric Morris
Eric Morris
Interim Chief Financial Officer

**Certification of Chief Executive Officer
Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934**

I, Mark Thoenes , certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Kaival Brands Innovations Group, Inc.;
2. Based on my knowledge, this report 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 10, 2025

By: /s/ Mark Thoenes
Mark Thoenes
Chief Executive Officer

Certification of Chief Financial Officer
Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934

I, Eric Morris, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Kaival Brands Innovations Group, Inc.;
2. Based on my knowledge, this report 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 10, 2025

By: /s/ Eric Morris
Eric Morris
Interim Chief Financial Officer

Certification of Chief Executive Officer
Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code

Pursuant to U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Executive Officer of Kaival Brands Innovations Group, Inc. (the “Company”) does hereby certify, to the best of such officer’s knowledge, that:

1. The Quarterly Report on Form 10-Q of the Company for the quarterly period ended April 30, 2025 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 10, 2025

By: /s/ Mark Thoenes
Mark Thoenes
Chief Executive Officer

The certifications set forth above are being furnished as an exhibit solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall they be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Kaival Brands Innovations Group, Inc. and will be retained by Kaival Brands Innovations Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Certification of Chief Financial Officer
Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code

Pursuant to U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Financial Officer of Kaival Brands Innovations Group, Inc. (the “Company”) does hereby certify, to the best of such officer’s knowledge, that:

1. The Quarterly Report on Form 10-Q of the Company for the quarterly period ended April 30, 2025 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 10, 2025

By: /s/ Eric Morris

Eric Morris

Interim Chief Financial Officer

The certifications set forth above are being furnished as an exhibit solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall they be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Kaival Brands Innovations Group, Inc. and will be retained by Kaival Brands Innovations Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.
