

Management Discussion and Analysis of



For the three months and
the twelve months ended
July 31, 2017 and 2016

The following management's discussion and analysis (the "**MD&A**") objective is to help the reader better understand the activities of KDA Group Inc., formerly AlliancePharma Inc., ("**KDA**" or the "**Corporation**"), and the highlights of its consolidated financial situation. It explains the consolidated financial situation and the results of its operations for the three-month period (the "**Fourth quarter**") and for the year ended July 31, 2017 and the comparison of the Corporation's consolidated statement of financial position as at July 31, 2016.

The MD&A has been prepared in accordance with Regulation 51-102 and should be read in conjunction with the audited consolidated financial statements of the Corporation for the fiscal year ended July 31, 2017 and the related notes thereto.

The audited consolidated financial statements and this MD&A have been reviewed by the Audit Committee and approved by the Corporation's Board of Directors on November 28, 2017. Unless otherwise indicated, all the amounts in this MD&A are in Canadian dollars.

The context otherwise required, all references to "KDA", "Corporation", "our", "us", "we" refers to KDA Group Inc. as consolidated with its subsidiaries. Further information about the Corporation, projects, annual and quarterly reports are available for consultation on the website of SEDAR at the following address: www.sedar.com.

FORWARD-LOOKING STATEMENTS

Some statements contained in this MD&A, specially the opinions, the projects, the objectives, the strategies, the estimates, the intent and the expectations of the Corporation that are not historical data, are forward-looking statements. Such statements can be recognized by the terms "forecast", "anticipate", "consider", "foresee" and other terms and similar expressions. The statements are based on information available at the time they are made, on assumptions established by the management and on the management expectation, acting in good faith, concerning future events and concerning, by their nature, known and unknown risks and uncertainties mentioned herein (see the section Risks and uncertainties). The real results for the Corporation could differ materially. Consequently, it is recommended not to rely upon unduly these forward-looking statements. The forward-looking statements do not reflect the potential incidence of special events which could be announced or take place after the date of this MD&A. Except if the applicable legislation requires it, the Corporation does not intend to update these prospective statements to reflect new information or future events, and it is by no means committed doing so.

REPORTING ENTITY, NATURE OF OPERATIONS AND SCOPE OF ACTIVITIES

The Corporation is domiciled in Canada, and incorporated under the *Business Corporations Act (Québec)*. Its shares are listed for trading on the TSX Venture Stock Exchange under the symbol KDA.

The Corporation started as a provider of pharmacy personnel replacement and vocational training services and then evolved, using an acquisition strategy, to become a leading solution and services provider to pharmacies and pharmaceutical companies in Canada.

HIGHLIGHTS FOR THE FOURTH QUARTER ENDED JULY 31, 2017

REGULATORY CHANGES

On July 19, 2017, the Quebec Government announced having reached an agreement in Principle with the *Association québécoise des pharmaciens propriétaires ("AQPP")* in order to determine various components of their compensation but also set expected savings from the Quebec Government of \$1.5 billion over a 5-year period. These savings would be achieved through additional price reductions and the launch of new generic drugs. This Agreement will allow the Quebec Government, during those five years, to prevent the application of the calls for tender process permitted by law. It is a significant change as compared with all the uncertainty created in January 2017 when the Government decided to "uncap" the allowance returned to the pharmacists from generic drug distribution companies, such decision causing significant disruption in the industry as distribution companies started offering higher returns which directly impacted their profitability, including Pharmapar and Biomed, two wholly-owned subsidiaries of the Corporation involved in the generic drug distribution in Quebec.

On September 20, 2017, the regulation to restate the 15% cap was published in the "Gazette officielle du Québec". This regulation has been in effect starting October 19, 2017.

On October 5, 2017, Bill 148 entitled «An Act to regulate generic medication procurement by owner pharmacists and to

amend various legislative provisions» was introduced to the National Assembly of Quebec. The bill provides that an owner may not, in a calendar year, procure generic medications entered on the list of medications from the same manufacturer more than 50% of the monetary value of all the generic medications purchased by the pharmacist during that year. The implementation date remains to be determined.

FORBEARANCE AGREEMENT

On June 30, 2017, the Corporation agreed on the terms of a forbearance agreement with its lenders. The agreement was required since the Corporation did not meet its financial covenants during the year. The agreement, amongst other things, better defines calculations of the borrowing base, limits operating credit to \$2,500,000, requires from main shareholders to inject up to \$1,000,000 each, and also requires the appointment of an external consultant. The lender has agreed, during the forbearance period set until September 30, 2017 not to request immediate reimbursement of the loan. The forbearance agreement has been subsequently extended until November 30, 2017 with the same conditions as described. Discussions remain underway with the lender to further extend the forbearance agreement. The Corporation remains current in terms of debt repayment.

HIGHLIGHTS FOR THE TWELVE MONTHS ENDED JULY 31, 2017

BUSINESS ACQUISITIONS

On August 19, 2016, the Corporation completed the acquisition of Pharmapar Inc. ("**Pharmapar**") and Agence L.I.V. Inc. ("**LIV**"), entered into a new credit facility of \$14.5 million and has entered into a \$4 million private placement from Persistence Capital Partners ("**PCP**"), a private equity fund specializing in health care. The Pharmapar and the LIV acquisitions significantly expanded the Corporation's scope of services, particularly in the Pharmacy Services and Pharmaceutical Solutions segments.

Each of these businesses will add to KDA's core competencies:

- Pharmapar, a generic pharmaceutical distribution company, will open the door to pharmaceutical distribution for KDA;
- LIV, a medical communication agency, will open the market for branded pharmaceuticals to KDA through education and medical communication involving key decision makers.

Following these acquisitions, the Corporation has regrouped its activities into two segments to better reflect its focus on its customers:

- Pharmacy Services, which provides a range of services to pharmacies and pharmacists, including staffing, generic medication and related services; and
- Pharmaceutical Solutions, which provides a range of medical communications, training and other services to pharmaceutical firms in Canada.

Given LIV's pan-Canadian clients, these transactions represented the beginning of a strategy to broaden the Corporation's activities outside Quebec.

In order to finance these transactions, the Corporation entered into an agreement with PCP, Canada's leading private equity fund exclusively focused on high-growth opportunities in Canadian healthcare, to invest \$4 million into KDA.

PCP is a Montreal-based private equity fund that targets investment opportunities with strong growth potential in the healthcare sector. With its in-depth industry knowledge and operational experience in health care, PCP aims for long-term capital appreciation by identifying and developing attractive investment opportunities in the Canadian healthcare field.

Acquisition of Agence L.I.V. Inc.

Effective August 19, 2016, the Corporation completed the acquisition of 100% of the shares of LIV for a total consideration of \$5,868,000. The purchase was financed by the issuance of 3,833,333 common shares of the Corporation at a price of \$0.60 per share and a cash consideration of \$5,000,000.

The acquisition was in line with the Corporation's growth strategy to be a leading solution and services provider to pharmacies and pharmaceutical companies in Canada.

The allocation of the purchase price is based on the Corporation's estimates, and the Corporation completed the assessment using a third-party valuator. The acquisition was accounted for by the Corporation using the acquisition method set out in IFRS 3, Business Combinations and the balance sheet and the results of operations of LIV have been

consolidated with the Corporation as of August 19, 2016.

During the fourth quarter of 2017, the Corporation completed its comprehensive evaluation of the fair value of the net assets acquired from LIV and the purchase price allocation. As a result, initial goodwill of \$3,462,670 recognized upon the acquisition on August 19, 2016 in the Business Acquisitions note to the October 31, 2016 condensed interim consolidated financial statements has been adjusted as a result of the finalization of fair value measurements of intangible assets during the measurement period. Adjustments were made to the provisional amounts disclosed in the October 31, 2016 condensed interim consolidated financial statements for the recognition and measurement of intangible assets and deferred income taxes.

Acquisition of Pharmapar Inc. and Biomed (2002) Inc.

Effective August 19, 2016, the Corporation completed the acquisition of 100% of the shares of Pharmapar Inc. and 90% of the shares of Biomed (2002) Inc. for a total consideration of \$16,062,290. The purchase was financed by the issuance of 8,888,889 common shares of the Corporation at a price of \$0.60 per share, a cash consideration of \$8,500,000 and a balance of sale of \$1,600,000, payable in cash in five equal annual installments of \$320,000.

The allocation of the purchase price is based on the Corporation's estimates, and the Corporation completed the assessment using a third-party valuator. The acquisition was accounted for by the Corporation using the acquisition method set out in IFRS 3, Business Combinations and the balance sheet and the results of operations of Pharmapar and Biomed have been consolidated with the Corporation as of August 19, 2016.

During the fourth quarter of 2017, the Corporation completed its comprehensive evaluation of the fair value of the net assets acquired from Pharmapar and the purchase price allocation. As a result, initial goodwill of \$11,698,499 recognized upon the acquisition on August 19, 2016 in the Business Acquisitions note to the October 31, 2016 condensed interim consolidated financial statements has been adjusted as a result of the finalization of fair value measurements of intangible assets during the measurement period. Adjustments were made to the provisional amounts disclosed in the October 31, 2016 condensed interim consolidated financial statements for the recognition and measurement of intangible assets and deferred income taxes.

NEW FINANCING

On June 30, 2016, the Corporation entered into a subscription agreement that provided for the issuance of Series A Preferred Shares upon completion of the business acquisition. The creation and issuance of the new preferred shares (the "**Preferred Shares**") were approved by the Shareholders of the Corporation at a special meeting of shareholders. The Series A Preferred Shares are convertible into Class A Shares of the Corporation anytime up to June 29, 2020 at a conversion price of \$0.35 per share. Furthermore, the Series A Preferred Shares are entitled to vote as a separate class of shares and are also entitled to vote on an "as converted" basis at any special or general meeting of the shareholders of the Corporation. The Series A Preferred Shares shall not be entitled to any fixed dividend entitlement, but shall participate in all dividends declared on the Class A Shares on an "as converted" basis. Upon completion of the business acquisitions, the Corporation issued 40,000 series A preferred shares and 11,428,571 warrants for an aggregate purchase price of \$4,000,000. The creation of the Preferred Shares allowed the conversion of the promissory notes and the issuance of the Series A Preferred Shares, in accordance with the terms of the subscription agreement.

In the event of a change of control of the Corporation, and at any time after June 29, 2020, the holder may demand that the Corporation redeem its Series A Preferred Shares at a redemption price equal to the greater of (i) the subscription price of the Series A Preferred Shares plus a preferred return equal to 24%, compounded annually from June 30, 2016, less any amounts previously distributed as dividends and (ii) their fair market value. In the event of liquidation, holders of Series A Preferred Shares will be entitled to receive, in priority to holders of other shares of the Corporation, an amount per Series A Preferred Share equal to the product of three times the subscription price less any amounts previously distributed as dividends.

Upon completion of the business acquisitions on August 19, 2016, the Corporation issued 40,000 series A preferred shares and 11,428,571 warrants for an aggregate purchase price of \$4,000,000. The creation of the Preferred Shares allowed the conversion of the promissory notes and the issuance of the Series A Preferred Shares, in accordance with the terms of the subscription agreement. In connection with the Preferred Shares issuance, the Corporation recorded \$249,403 as professional fees. Net proceeds of the offering were used to contribute to the financing of Pharmapar and LIV's acquisitions. Please refer to note 12 of the consolidated financial statements for additional information.

LOAN FROM A CANADIAN CHARTERED BANK AND FORBEARANCE AGREEMENT

On August 19, 2017, the Corporation entered into a new credit facility of \$14.5 million (the “**Loan from a Canadian chartered bank**”) to complete its acquisitions. On June 30, 2017, the Corporation agreed on the terms of a forbearance agreement with its lenders. The agreement was required since the Corporation did not meet its financial covenants during the year. The agreement, amongst other things, better defines calculations of the borrowing base, limits operating credit to \$ 2,500,000, requires from main shareholders to inject up to \$1,000,000 each, and also requires the appointment of an external consultant. The lender has agreed, during the forbearance period set until September 30, 2017 not to request immediate reimbursement of the loan. The forbearance agreement has been subsequently extended until November 30, 2017 with the same conditions as described. Discussions remain underway with the lender to further extend the forbearance agreement. The Corporation remains current in terms of debt repayment.

On October 16, 2017, main shareholders, in accordance with the forbearance agreement injected \$1,690,000 in the form of convertible promissory notes bearing interest at 18% annually. The notes are convertible into Class A Shares of the Corporation anytime at a conversion price equal to the 20-day average trading period prior conversion.

FIERCE PRICE COMPETITION

Competition on price from competitors in the replacement pharmacists sector has continued to impact our results during the fiscal year. Such reduction in price was required from pharmacy owners who were experiencing financial difficulties further to the decision from the Quebec Government to impose a 4.3% levy on professional fees from the pharmacists. Competitors were still promoting lower hourly rates for replacement pharmacists and the situation has remained the same until the July 19, 2017 announcement made by the Quebec Government about its new legislation.

UNCERTAINTY ABOUT PROFESSIONAL ALLOWANCES

Negotiations regarding professional allowances between the Quebec Government and various stakeholders (pharmacists, banners, and distribution companies) have caused serious uncertainty and financial stress to pharmacy owners. This situation has had a negative impact on revenue and operating costs for the Corporation during the year caused by higher allowances being offered to pharmacist in the broad Quebec market.

FINANCIAL PERFORMANCE

Three months ended July 31, 2017 compared to three months ended July 31, 2016

For the Fourth quarter ended July 31, 2017, the Corporation has generated \$8,246,122 of sales with a contribution margin of 24%. Revenue increased by \$6,147,943 or 293%, as compared to the same period from the previous year; the increase was mainly driven by the recently completed acquisitions. The contribution margin increased \$1,749,073 as compared to the same period from the previous year as a consequence of conducting business in sectors carrying higher gross margins as compared to the single niche market addressed in the past. However, as discussed above, the level of profitability was materially impacted by increased professional allowances due to the regulatory changes.

Pharmacy Services

For the Fourth quarter ended July 31, 2017, the Corporation has generated \$5,305,846 of sales in the Pharmacy Services segment. Revenue increased by \$3,207,667 or 153%, as compared to the same period from the previous year; the increase was mainly driven by the recently completed acquisitions and the increase in the demand for technical laboratory employees in pharmacies during the summer months. Gross margin has deteriorated as compared to the previous year as a consequence of higher returns being paid to pharmacists and the uncertainty created from the Government. The Corporation had to adjust its pricing and related pharmacist’s compensation to maintain its market share in a highly competitive marketplace. The segment operating income reached \$510,869, a decrease of \$115,244 as compared with \$626,113 from the same period of the previous year due to large sales of generic drugs carrying lower margins pursuant to the recently completed acquisitions.

Pharmaceutical Solutions

For the Fourth quarter ended July 31, 2017, the Corporation has generated \$2,940,276 of sales. Such revenues are a consequence of the LIV acquisition in August 2016. The segment income reached \$459,604 as compared to \$nil from the same period of the previous year.

Total consolidated selling and administrative expenses reached \$1,494,998 for the three-month period ended July 31,

2017, an increase of \$347,132 as compared to the same period from the previous fiscal year while the Corporation was still operating as a single segment entity. Finance costs of negative \$800,848, a variance of \$861,101 as compared with \$60,253 for the same period from the previous year, were mainly driven by the interest on the long-term debt, the decrease in the calculated fair value adjustment of the Conversion options to the preferred shares issued at the time of the acquisition and the accreted interest. An unrealized loss of derivative financial instrument was also recognized for the first time further to the completion of an interest rate swap agreement. The Corporation recorded an impairment of \$6,685,000 in connection with its goodwill to consider the difficult period the generic drugs distribution is facing.

The net loss and the comprehensive loss for the Fourth quarter ended July 31, 2017 was \$5,709,192 or \$0.13 per share, compared to a loss of \$1,049,649 or \$ 0.04 per share for the same period during the previous fiscal year.

Twelve months ended July 31, 2017 compared to twelve months ended July 31, 2016

For the twelve months ended July 31, 2017, the Corporation has generated \$29,616,034 of sales with a contribution margin of 24%. Revenue increased by \$21,669,395 or 273%, as compared to the same period from the previous year; the increase was mainly driven by the recently completed acquisitions. The contribution margin increased \$5,680,139 as compared to the same period from the previous year as a consequence of higher gross margin in the recently purchased businesses as compared to the single niche market addressed in the past.

Pharmacy Services

For the twelve months ended July 31, 2017, the Corporation has generated \$21,132,077 of sales. Revenue increased by \$13,185,438 or 166%, as compared to the same period from the previous year; the increase was mainly driven by the recently completed acquisitions and the increase in the demand for technical laboratories employees in pharmacies. The operating segment income increased by \$768,707 as compared to the same period from the previous year.

Pharmaceutical Solutions

For the twelve months ended July 31, 2017, the Corporation has generated \$8,483,957 of sales in the Pharmaceutical Solutions segment. Such revenues are a consequence of the LIV acquisition for the period between August 19,2016 and July 31, 2017.

Total consolidated selling and administrative expenses reached \$6,666,081 for the twelve months ended July 31, 2017, an increase of \$4,354,126 as compared to the same period from the previous fiscal year while the Company was still operating as a single segment entity. Net finance costs of negative \$636,431 a variance of \$883,735 as compared with finance costs of \$247,304 for the same period from the previous year, were mainly driven by the interest costs related with the long-term debt contracted at the time of the acquisition. The Corporation also recorded accreted interest and a fair value adjustment for the Conversion Options to account for the newly created Preferred Shares. An unrealized loss of derivative financial instrument was also recognized for the first time further to the completion of an interest rate swap agreement. The Corporation recorded an impairment of \$6,685,000 in connection with its intangibles assets to consider the difficult period the generic drugs distribution is facing.

The net loss and the comprehensive loss for the twelve months ended July 31, 2017 was \$8,106,584 or \$ 0.20 per share, compared to a loss of \$1,499,467 or \$ 0.06 per share for the same period during the previous fiscal year.

Selected Financial Information

The following table summarizes the Corporation's selected key financial data taken from the consolidated statements of loss for the periods ended July 31, 2017 and 2016 as well as the consolidated statement of financial position as at July 31, 2017, and July 31, 2016.

<i>(unaudited)</i> <i>(in \$)</i>	For the three months ended July 31		For the twelve months ended July 31	
	2017	2016	2017	2016
Revenues	8,246,122	2,098,179	29,616,034	7,946,639
Cost of revenue	6,242,065	1,673,762	22,511,264	6,522,009
Selling and administrative expenses	1,494,998	1,308,609	6,666,081	2,329,855
Transactions charges related to business combinations	494,789	-	1,799,135	-
Depreciation of property and equipment	3,826	4,879	51,096	15,176
Amortization of intangible assets	288,037	193,827	1,341,785	472,646
Net finance costs	(800,848)	60,253	(636,431)	247,304
Net loss	(5,709,192)	(1,049,649)	(8,106,584)	(1,499,467)
Net loss per share	(0.13)	(0.04)	(0.20)	(0.06)

<i>(unaudited)</i> <i>(in \$)</i>	At July 31, 2017	At July 31, 2016
Net cash	(2,130,170)	(76,545)
Working capital, excluding net cash	(11,598,926)	(4,776,543)
Total assets	31,724,405	6,969,051
Total liabilities	30,883,549	7,832,278
Net equity (deficiency)	840,856	(863,227)

Statement of financial position as at July 31, 2017

As at July 31, 2017, total assets of the Corporation were at \$32,081,043 an increase of \$25,111,992 when compared to July 31, 2016. The increase in the total assets is related to the recently completed acquisitions.

Management estimates that the net cash deficiency at the end of the Fourth quarter will be resolved by improvements in operating margins and additional financing; such actions should provide the Corporation with adequate funding in order to meet its short-term obligations and to continue its ongoing efforts in order to grow the business.

FINANCING ACTIVITIES FOR THE TWELVE MONTHS ENDED JULY 31, 2017

During the twelve months ended July 31, 2017, \$14,882,137 was provided by the financing activities principally due to the proceeds received from a long-term debt and the issuance of preferred shares net of the repayment of the existing bank loan. The Corporation also increased its bank indebtedness by \$2,179,312 while in the transition process from its former bank to a Canadian chartered bank.

INVESTING ACTIVITIES FOR THE TWELVE MONTHS ENDED JULY 31, 2017

During the twelve months ended July 31, 2017, a net amount of \$13,651,692 was used in investing activities, mainly driven by the recently completed acquisition of Pharmapar and LIV.

Selected quarterly data

Operating results for each of the last 8 quarters are presented in the table below. The data related to these quarters were prepared in the same manner as that of the audited financial statements for the fiscal year ended July 31, 2017 and 2016.

(in \$)	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	8,246,122	6,199,075	8,160,821	7,010,016	2,098,179	1,562,911	1,607,998	2,677,551
Net Income (loss)	(5,709,192)	771,654	(612,580)	(2,556,466)	(1,049,649)	(184,026)	(289,343)	23,551
Net Income (loss) per share	(0.13)	0.02	(0.02)	(0.07)	(0.04)	(0.01)	(0.01)	0.00

RELATED PARTY TRANSACTIONS AND COMMERCIAL OBJECTIVES

The Corporation's related parties include companies under common control as well as key management personnel.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. The transactions are measured at value of the consideration given or received, which has been established and agreed by the parties. Outstanding balances are usually settled in cash.

All balances of advances receivable and due are measured at fair value and occurred in the normal course of business.

Transactions with key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation as a whole. The Corporation has determined that key management personnel consist of the Corporation's Board of Directors and corporate officers. During the year, the key management personnel received a total remuneration of \$541,950 (July 31, 2016 - \$872,018).

The Corporation has the following amounts owing to key management personnel as at:

	July 31, 2017	July 31, 2016
Trade and other payables	761,381	420,004
Loans receivable	-	(120,942)
Advance from a shareholder, without interest	236,894	140,000
	998,275	439,062

OFF-BALANCE SHEET AGREEMENTS

The Corporation has not concluded any off-balance sheet agreements.

OBLIGATIONS AND CONTRACTUAL COMMITMENTS

The Corporation entered into operating leases expiring on various dates through August 2021, with respect to leased premises and other leases. The total future minimum lease payments under non-cancellable operating leases are as follows:

	At July 31, 2017	At July 31, 2016
Less than 1 year	310,322	88,679
Between 1 and 5 years	1,310,912	174,666
More than 5 years	529,592	2,070
	2,150,726	265,415

The Corporation also rents part of the office which is under operating leases expiring on July 31, 2018 and which represent minimum lease revenues under a non-cancellable operating lease are as follows:

	At July 31, 2017	At July 31, 2016
Less than 1 year	1,148	4,590
Between 1 and 5 years	-	3,443
More than 5 years	-	-
	1,148	8,033

SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Going concern

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of operations as they become due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period.

For the year ended July 31, 2017, the Corporation reported a loss of \$8,106,584. As discussed in note 21 to its consolidated financial statements, the Corporation is in breach of its financial covenants with respect to its secured credit financing as at July 31, 2017, and has, therefore, reclassified the NBF loan under current liabilities

The Corporation's recent operating results, combined with the financial covenants breach, lend significant doubt as to the ability of the Corporation to meet its obligations as they come due and, accordingly the appropriateness of the use of the accounting principles applicable to a going concern.

Management is currently implementing several initiatives to improve its cost structure, drive increased revenues and improve operating profitability. The ability of KDA to ultimately achieve profitable operations in the longer terms is dependent on some factors outside KDA management's control including, but not limited to, the external legislative changes in the generic drugs distribution industry. In addition, as discussed in note 25 the Corporation has agreed with its main lender on the terms of a forbearance agreement under which the lender has agreed not to request immediate reimbursement of the loan until November 30, 2017. Discussions remain underway with the main lender to further extend the forbearance agreement until operating profitability improves as stated above. These undertakings, while significant, may not be sufficient in and of themselves to enable the Corporation to fund all aspects of its operations and, accordingly, management may need to pursue other financing alternatives to fund the Corporation's operations, so it can continue as a going concern. There is no assurance that these initiatives will be successful and that such forbearance extension will be granted.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Corporation were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

Basis of preparation

Statement of compliance

These consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standard Board ("IASB").

These consolidated financial statements were approved and authorized for issue by the Board of Directors on November 28, 2017.

Basis of measurement

These unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statements of financial position:

- certain financial instruments and contingent considerations are measured at fair value.

The consolidated financial statements have been prepared on a going concern basis, meaning the Corporation would be able to realize its assets and discharge its liabilities in the normal course of action.

Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars ("C\$"), which is the Corporation's functional currency.

Use of estimates and judgments

The preparation of the accompanying consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions about future events. These estimates and the underlying assumptions affect the reported amounts of assets and liabilities, the disclosures about contingent assets and liabilities, and the

reported amounts of revenues and expenses. These estimates and assumptions are based on management's best estimates and judgments.

Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. Actual results could differ from these estimates. Changes in those estimates and assumptions resulting from changes in the economic environment will be reflected in the financial statements of future periods.

Information about critical judgments, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment are included in the following notes:

- Note 4 – Establishing the fair value of assets and liabilities, intangible assets and goodwill related to business acquisition;
- Notes 6 & 7 – Goodwill is reviewed annually for impairment. Property and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment review requires estimates in a variety of areas including the determination of fair value, selling costs, timing and size of cash flows, long-term growth rates, discount rates, and other valuation variables; the application of these variables in valuation models requires judgment;
- Note 11 – Assessing the recoverability of deferred tax assets based on an assessment of KDA and its subsidiaries' ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions;
- Note 12 – The Series A Preferred Shares issued by the Corporation include conversion and redemption options, which are considered as Level 3 financial instruments. The derivative is measured at fair value through profit and loss, and its fair value must be measured at each reporting period, with subsequent changes in fair value recorded in the consolidated statement of loss and comprehensive loss. A derivative valuation model is used, and includes management's assumptions, to estimate the fair value. Detailed assumptions used in the model to determine the fair value of the embedded derivative at inception and as at July 31, 2017 are provided in Note 12.

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated. The accounting policies have been applied consistently by all the subsidiaries. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Corporation's interim consolidated financial statements.

Basis of consolidation

i) Business combinations

The Corporation measures goodwill as the fair value of the consideration transferred including the fair value of liabilities resulting from contingent consideration arrangements, less the net recognized amount of the identifiable assets acquired, and liabilities assumed, all measured at fair value as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in income or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Corporation incurs in connection with a business combination are expensed as incurred.

ii) Subsidiaries

Subsidiaries are entities controlled by the Corporation. The Corporation controls an entity when it is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are aligned with the policies adopted by the Corporation.

The Corporation's subsidiaries, as at July 31 are:

Name	Nature of services	2017	2016
Campus Elitis Pharma Inc.	Pharmacy Services	80%	80%
Elitis Pharma Inc.	Pharmacy Services	100%	100%
Alliance Pharma Operations Inc.	Pharmacy Services	100%	100%
Pro-J Pharma Inc.	Pharmacy Services	100%	100%
9287396 Canada Inc.	Pharmacy Services	100%	100%
9321-5317 Quebec Inc.	Pharmacy Services	100%	100%
Alliance Pharma Group L.L.P.	Pharmacy Services	99%	99%
Agence L.I.V. Inc.	Pharmaceutical Solutions	100%	n.a.
Pharmapar Inc.	Pharmacy Services	100%	n.a.
Biomed (2002) Inc.	Pharmacy Services	100%	n.a.

iii) Transactions eliminated on consolidation

Intra-Company balances and transactions, and any unrealized income and expenses arising from intra-Company transactions, are eliminated in preparing the consolidated financial statements.

iv) Non-controlling interests

Non-controlling interests represent equity interests in the subsidiary owned by outside parties. The share of net assets of the subsidiary attributable to non-controlling interests is presented as a component of equity. Their share of net loss and comprehensive loss is recognized directly in equity.

All significant intercompany transactions and balances have been eliminated.

Financial instruments

The Corporation initially recognizes loans and receivables; investment in equity securities, debt issued, and subordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets designated at fair value through income or loss) are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Corporation is recognized as a separate asset or liability.

A financial liability is derecognized when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Corporation has classified non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise cash, trade and other receivables (excluding sales tax receivable) and loans receivable.

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of financial assets. These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, are recognized in other comprehensive loss and presented in the fair value reserve in equity. When an available-for-sale financial asset is derecognized, the gain or loss accumulated in the fair value reserve is reclassified to income or loss. The Corporation has not recorded any available-for-sale financial assets.

Non-derivative financial liabilities are comprised of bank indebtedness, trade and other payables (excluding sales tax payable), long-term debt and demand loans) and demand loan presented under current liabilities, note payable and preferred shares. Such financial liabilities are recognized initially at fair value less any directly attributable transaction

costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities at fair value through profit and loss include the derivative embedded in the Preferred Shares (derivative) (see note 12), which are initially recognized at fair value and carried subsequently at fair value with gains or losses recognized in the consolidated statements of loss and comprehensive loss.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares, stock options and warrants are recognized as a deduction from equity, net of any tax effects.

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity.

All transactions with owners are recorded separately within equity. Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

Compound financial instrument and embedded derivatives

The preferred shares issued by the Corporation are considered to be a compound financial instrument that can be converted into common shares at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The preferred shares also include a redemption option to convert the preferred shares into debt after a certain period, at the option of the holder, which amount to be settled will vary based on the timing of the exercise as described in note 12.

The compound financial instrument is recognized as a liability, with the initial carrying value of the Preferred shares (host) being the residual amount of the proceeds, after separating the derivative component, which is recognized at fair value, and also the warrants issued with the instruments. Any directly attributable transaction costs are allocated to the host and to the warrants issued.

The embedded derivative (conversion options) that constitutes the Preferred shares (derivative) is recorded at fair value separately from the host contract, as its economic characteristics and risks are not clearly and closely related to those of the host contract.

Subsequent to initial recognition, the host component of the compound financial instrument is measured at amortized cost using the effective interest method. The derivative component of the compound financial instrument is measured at fair value through profit and loss. Subsequent changes in fair value is recorded in the consolidated statements of loss and comprehensive loss.

Accretion of interest related to the host component is also recognized in the consolidated statement of loss and comprehensive loss as financing costs.

Derivative financial instruments

The Corporation may enter into non-speculative derivative financial instruments to manage risk. Derivative financial instruments are recorded at fair value with mark-to-market adjustments recorded in the consolidated statement of loss and comprehensive loss.

Inventories

Inventories are composed of finished goods available for sale. Inventories are measured at the lower of cost and net realizable value, the cost being determined using the first in, first out method.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses. Allowances for slow-moving or obsolete inventory are recorded when considered appropriate.

Property and equipment

Property and equipment are accounted for at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized in net income or loss. Depreciation is based on the cost of an asset less its residual value and is recognized in income or loss over the estimated useful life of each component of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term.

The depreciation method and useful lives are as follows:

Categories	Method	Useful lives
Furniture and fixtures	Straight-line	5 years
Computer equipment	Straight-line	5 years
Leasehold improvements	Straight-line	5 years
Vehicle	Straight-line	5 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate.

Property and equipment are reviewed for impairment in accordance with IAS 36 Impairment of Assets when there are indicators that the carrying value may not be recoverable.

Intangible assets

i) Goodwill

Goodwill that arises upon business combinations is included in intangible assets. Goodwill is not amortized and is measured at cost less accumulated impairment losses.

ii) Other finite life intangible assets

Other intangible assets consist of customer relationships, training courses, software, web sites, commercialization rights and non-compete agreements. Other intangible assets that are acquired by the Corporation and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Intangible assets with finite lives are amortized on a straight-line basis over the following estimated useful lives:

Category	Useful lives
Customer relationships	10 years
Training courses	5 years
Software	5 years
Web sites	3 years
Commercialization rights	Contractual period
Non-compete agreement	Contractual period

Useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate. The carrying amounts are reviewed at each reporting date to determine whether there is an indication of impairment.

Impairment

i) Financial assets

A financial asset not carried at fair value through income or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in income or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income or loss.

ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets other than deferred tax assets and goodwill are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to each acquired business within the

Corporation's operating segments, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell ("FVLCS"). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or group of assets.

The Corporation's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, if any, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Impairment losses and impairment reversals are recognized in income or loss.

Share-based payment transactions

The grant date fair value of equity share-based payment awards granted to employees or consultants is recognized as an administrative expense, with a corresponding increase in contributed surplus, over the period that the employees or the consultants unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service condition at the vesting date.

Deferred Revenue

Deferred revenue consists of payments received by the Corporation in consideration for professional services to be delivered over a certain period at contracted prices. As services are provided, the Corporation will record a portion of the deferred revenue as sales, based on a proportionate share of services provided compared with the total estimated contractual commitment.

Deferred financing costs

Financing costs related to debt are deferred and amortized over the term of the corresponding loans. When one of these loans is repaid, the corresponding financing costs are charged to net earnings.

Revenue recognition

Revenues are derived from sales of goods, services or contracts. Revenues from goods are recognized at the fair value of the consideration received or receivable, net of returns, trade discounts and professional allowance. Revenues from services and contracts are recognized when it is realized or realizable and earned. Revenue is recognized when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the buyer, usually when the merchandise is shipped; the recovery of the consideration is probable; the associated costs and possible return of goods can be estimated reliably; there is no continuing management involvement with the goods; and the amount of revenue can be measured reliably. Professional allowance and cash discounts granted to customers are accrued at the time of sale and recorded as a reduction of sales.

Segmented information

An operating segment is a component in the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Corporation's other components. The Corporation's Chief Executive Officer regularly reviews all operating segments' operating results to decide which resources should be allocated to the segment and to assess its performance, for which specific financial information is available.

The Corporation has two reportable operating segments: pharmacy services and pharmaceutical solutions.

The accounting policies that are used for the operating segment are the same as the one described in this note. The Corporation analyzes the performance of its pharmacy services and pharmaceutical solutions segments based on its operating income before depreciation, amortization, finance costs and income taxes. This is the measure reported to the Chief Executive Officer for the purposes of resource allocation and assessment of segment performance. The Corporation records intersegment operations, if any, at the amount agreed between the parties.

Finance income and finance costs

Finance income comprises interest income on funds invested, available-for-sale financial assets, dividend income, and bargain purchase gains on business acquisitions. Interest income is recognized as it accrues in income or loss, using the effective interest method.

Finance costs comprise interest expense on bank indebtedness and long-term debt, unwinding of the discount on provisions and impairment losses recognized on financial assets (other than trade receivables) and accretion of interest on the host component of the preferred shares.

Fair value gains or losses on derivative financial instruments, on the derivative component of the preferred shares and on contingent considerations, and foreign currency gains and losses are reported as either finance income or cost.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in income or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive loss.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Earnings per share

The Corporation presents basic and diluted earnings per share ("**EPS**") data for its Class "A" common shares. Basic EPS is calculated by dividing the income or loss attributable to common shareholders of the Corporation by the weighted average number of Class "A" common shares outstanding during the period, adjusted for own shares held, if any.

Diluted EPS is determined by adjusting the income or loss attributable to common shareholders and the weighted average number of Class "A" common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential Class "A" common shares, which comprise convertible debentures in shares, warrants and stock options.

Employee benefits

Short-term employee benefits

Short-term employee benefits include wages, salaries, compensated absences, and bonuses. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided or capitalized if the service rendered is in connection with the creation of a tangible or intangible asset.

A liability is recognized for the amount expected to be paid under short-term cash bonus if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation

can be estimated reliably.

Defined contribution plans

The Corporation contributes to state-run defined contribution pension plans for employees in which the Corporation pays fixed contributions for eligible employees. The costs of benefits for defined contribution plans are expensed as they are incurred. The Corporation has no legal or constructive obligation to pay any further amounts.

The pension plan expense during the year amounts to the following:

	2017	2016
Total presented under cost of revenue	14,304	30,426
Total presented under administrative expenses	1,268	2,104
	15,572	32,530

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2017 and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Corporation are set out below.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15, which will replace IAS 18, Revenue, and will become effective for annual periods beginning on or after January 1, 2018 and is available for early adoption. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The Corporation intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning August 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 16, Leases ("IFRS 16")

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019.

FINANCIAL RISK, MANAGEMENT OBJECTIVES AND POLICIES

Risks

In the normal course of its operations and through its financial assets and liabilities, the Company is exposed to the following risks:

- credit risk
- liquidity risk
- market risk

This section presents information about the Corporation's exposure to each of the above risks, the Corporation's objectives and processes for managing risk, and the Corporation's management of capital. Further quantitative disclosures are included throughout the consolidated financial statements.

Risk management framework

The Corporation's management identifies and analyzes the risks faced by the Corporation, sets appropriate risk limits and controls, and monitors risks and adherence to limits. Risk management is reviewed regularly to reflect changes in market conditions and the Corporation's activities.

The Board of Directors has overall responsibility of the Corporation's risk management framework. The Board of Directors monitors the Corporation's risks through its audit committee. The audit committee reports regularly to the Board of Directors on its activities. The Corporation's audit committee oversees how management monitors and manages the

Corporation's risks.

a) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligation, and arises principally from the Corporation's trade receivables. The Corporation grants credit to its customers in the ordinary course of business. Management believes that the credit risk of trade receivables is limited due to the following reasons:

- No single customer accounts for more than 10% of the Corporation's revenue;
- Approximately 86% (July 31, 2016 – 94%) of the Corporation's trade receivables are not past due or 30 days or less past due.

Impairment losses

The aging of trade receivables at the reporting date was:

	At July 31, 2017		At July 31, 2016	
	Total	Impairment	Total	Impairment
Not past due	5,131,501	-	898,373	-
Past due 1 – 30 days	1,034,585	-	118,238	-
Past due 31 – 60 days	432,798	-	40,649	-
Past due more than 60 days	385,594	(80,022)	23,210	-
	6,984,477	(80,022)	1,080,470	-

The impaired trade receivables are mostly due from customers that are experiencing financial difficulties.

b) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

Cash inflows and cash outflows requirements from the Corporation and its subsidiaries are monitored closely and separately to ensure the Corporation optimizes its cash return on investment. Typically, the Corporation ensures that it has sufficient cash to meet expected operational expenses. The Corporation monitors its short and medium-term liquidity needs on an ongoing basis using forecasting tools.

The following are the contractual maturities of the financial liabilities, including estimated interest payment:

	Less than 1 year	Between 1 and 5 years	More than 5 years
Bank indebtedness	2,420,000	-	-
Trade and other payables	9,973,882	-	-
Long-term debt	13,989,719	1,231,809	4,154
	26,383,601	1,231,809	4,154

The Corporation's loan agreement requires compliance with two ratios on a quarterly basis, starting August 19, 2016. The first is a ratio of Senior debt to earnings before interest, income taxes, depreciation, amortization and permitted expenses ("**Adjusted EBITDA**") calculated on a rolling four quarters basis. The second is a fixed charge coverage ratio. At July 31, 2017, the Corporation was not in compliance with its financial covenants, and has, therefore, reclassified the Loan from a Canadian chartered bank under current liabilities. The Corporation has entered into a forbearance agreement until November 30, 2017.

The Corporation has sufficient liquidity to continue its operations, but additional financing will be required. The Corporation remains in discussion with its lender to remediate the breach of the financial covenant in accordance with the Loan from a Canadian chartered bank.

c) Market risk

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument held by the Corporation will fluctuate, because of changes in interest rates. The Corporation's financial liabilities other than current liabilities, is comprised of medium to long-term variable rate debt, concerning which the Corporation has mitigated its risk by entering into interest rate swap contracts for a contracted fixed interest rate (note 10). The interest rate swaps are measured at fair value and changes in interest rates will result in a change in fair value of the interest rate swaps. This change is recognized in earnings as a gain or loss in the year it occurs.

The Corporation's exposure to interest rate risk is summarized as follows:

Cash	Fixed interest rates
Trade and other receivables	Non-interest bearing
Loans receivables	Non-interest bearing
Bank indebtedness	Variable interest rates
Trade and other payables	Non-interest bearing
Long-term debt	Fixed and variable interest rates

OTHER RISKS AND UNCERTAINTIES

The following are other risk factors facing the Corporation.

Competition - The pharmacist replacement industry has grown rapidly over last 10 years and so did the number of competitors. Because companies can enter such industry with very little capital or technical expertise, there are a large number of regional and local replacement companies in the industry. The Corporation faces competition from these businesses in the markets and regions it currently serves. Most of competitors in the generic drug industry are significantly larger than the Corporation.

Legislation - The industry is trying to adapt to recent changes and obligations under Bill n°41, n°28 and proposed Bill 81. These bills impact day-to-day operations of pharmacists but will also impact significantly their overall compensation. Proposed Bill 81 relating to Prescription Drug Insurance in Québec is an act to reduce the cost of certain medications covered by the basic prescription drug insurance plan by allowing calls for tender allowing the Minister of Health and Social Services to issue a call for tenders to add drugs to the Drugs List as well as, in relation to drugs having been the object of such a call for tenders, for the services of a wholesaler to supply the pharmacist owners. A draft regulation to determine the conditions and applicable mechanisms to any call for tenders was published in the "Gazette officielle du Québec" on August 24, 2016. The regulation on the call for tenders procedure can be enacted by the Minister of Health and Social Services after a period of 45 days starting on that date.

Operating Environment - The Corporation is subject to changes in its general operating environment. The Corporation is exposed to the following elements affecting its operating environment: the availability of pharmacists, sufficient qualified personnel to provide specialized training, and the average compensation offered on the market.

Compliance - Compliance considers the following areas: pharmacy laws and regulations, laws and regulations on protecting personal information, laws and regulations governing the distribution and sale of drugs (including the ones governing the selling price of drugs), laws and regulations governing health insurance and drug insurance plans, laws and regulations regarding labor, laws and regulations governing product safety, approval and labeling (in particular for drugs and natural health products).

General Economic Conditions - Demand for generic drugs, education and specialized training and replacement pharmacists is closely linked to the state of the health industry and overall economy. Consequently, a decline in general economic growth could adversely affect the Corporation's performance.

Interest Rate Fluctuations - Changes in interest rates may result in fluctuations in the Corporation's future cash flows related to interest payment of its long-term debt.

Acquisitions and Integration Risks - Historically, acquisitions have been a part of the Corporation's growth strategy. This year has shown major acquisitions for the Corporation. Acquisitions involve numerous risks, including potential loss of customers, key employees, and service providers of the acquired company.

Key Personnel - The future success of the Corporation will be based in large part on the quality of its management

and key personnel. The loss of key personnel could have a negative effect on the Corporation. There can be no assurance that the Corporation will be able to retain its current personnel or, in the event of their departure, to attract new personnel of equal quality.

Loan Default - The Corporation's current credit facilities and financing agreements impose certain covenant requirements. There is a risk that such loans may go into default if there is a breach in complying with such covenants and obligations which could result in the Corporation being unable to pay dividends to shareholders, and in lenders realizing on their security and causing the Corporation to lose some or all of its assets.

Credit Facilities - The Corporation's credit facilities and financing agreement mature on various dates. There can be no assurance that such credit facilities or financing agreements will be renewed or refinanced, or if renewed or refinanced, that the renewal or refinancing will occur on equally favorable terms to the Corporation.

Credit Risks - The Corporation provides services to clients primarily in Canada. The concentration of credit risk to which the Corporation is exposed is limited due to the significant number of customers that make up its client base and their distribution across different geographic areas. Furthermore, no client accounted for more than 10% of the Corporation's total accounts receivable as of July 31, 2017.

Availability of Capital - The Corporation's future growth may be dependent on the Corporation's ability to fund a portion of its capital expenditures and working capital with the current credit facilities and financing agreement. The Corporation may be required to reduce dividends or sell additional shares in order to accommodate these items. There can be no assurance that sufficient capital will be available on acceptable terms to the Corporation for necessary or desirable capital expenditures or that the amount required will be the same as currently estimated.

CAPITAL MANAGEMENT

For the purposes of capital management, capital consists of share capital and retained earnings of the Corporation. The Corporation's objectives when managing capital are:

- To ensure proper capital investment in order to provide stability and competitiveness to its operations;
- To ensure sufficient liquidity to pursue its growth strategy and undertake selective acquisitions;
- To maintain an appropriate debt level so that there are no financial constraints on the use of capital; and
- To maintain investors, creditors and market confidence.

The Corporation seeks to maintain a balance between the highest returns that might be possible with higher level of borrowings and the advantages and security by a sound capital position.

There were no changes in the Corporation's approach to capital management during the period.

SUBSEQUENT EVENTS

On June 30, 2017, the Corporation agreed on the terms of a forbearance agreement with its lenders. The agreement was required since the Corporation did not meet its financial covenants during the year. The agreement, amongst other things, better defines calculations of the borrowing base, limits operating credit to \$ 2,500,000, requires from main shareholders to inject up to \$1,000,000 each, and also requires the appointment of an external consultant. The lender has agreed, during the forbearance period set until September 30, 2017 not to request immediate reimbursement of the loan. The forbearance agreement has been subsequently extended until November 30, 2017 with the same conditions as described. Discussions remain underway with the lender to further extend the forbearance agreement. The Corporation remains current in terms of debt repayment.

On October 16, 2017, main shareholders, in accordance with the forbearance agreement injected \$1,690,000 in the form of convertible promissory notes bearing interest at 18% annually. The notes are convertible into Class A Shares of the Corporation anytime at a conversion price equal to the 20-day average trading period prior conversion.

On November 15, 2017, the Corporation sold Biomed (2002) Inc., a wholly-owned subsidiary, for a total consideration of \$1,950,000. The sale considers a cash consideration of \$1,850,000 reduced by immediate payment of accrued pharmacists' compensation valued at \$722,622; a balance of sale of \$ 100,000 remains to be received by June 1, 2018.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was prepared as of the date shown in the header of this document. Additional information relating to the Corporation can be found on the website www.sedar.com and on our website www.kdagroup.ca.

GENERAL INFORMATION

Head office

www.kdagroup.ca

1351, Notre Dame St. East Suite 300
Thetford Mines (Québec) G6G 0G5, CANADA
Tel: (418) 755-0821 – (514) 622-7370
Fax: (418) 755-0822

Stock Exchange

TSX Venture Exchange under the symbol: **KDA**

Officers

Marc Lemieux
Isabelle Begin
Bruno Dumais, CPA, CA

Board of Directors

Marc Lemieux, Chairman
Isabelle Bégin
Dr. Sheldon Elman
Stuart M. Elman
Patrick Fernet
Michael W. Kinley

Legal Counsel

Thibeault, Joyal
2110, rue Fleury Est,
Montréal (Québec) H2B 1J5, CANADA

Transfer Agent

Computershare Trust Company of Canada
1500, Robert-Bourassa Boulevard, 7th floor
Montréal (Québec) H3A 3S8, CANADA