



Consolidated Financial Statements of

KDA Group Inc.
(formerly AlliancePharma Inc.)

Years ended July 31, 2017 and 2016

Management's Report

July 31, 2017 and 2016

Management's Statement of Responsibility for Financial Information

The consolidated financial statements contained in this Annual Report are the responsibility of Management, and have been prepared in accordance with International Financial Reporting Standards. Where necessary, Management has made judgments and estimates of the outcome of events and transactions, with due consideration given to materiality. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information and data included in the consolidated financial statements.

The Corporation maintains a system of internal controls to provide reasonable assurance as to the reliability of the financial records and safeguarding of its assets. The consolidated financial statements have been audited by the Corporation's independent auditor, PricewaterhouseCoopers LLP, who has issued their report herein.

The Board of Directors is responsible for overseeing Management in the performance of its responsibilities for financial reporting. The Board of Directors exercises its responsibilities through the Audit Committee, which is comprised of a majority of independent directors. The Audit Committee meets from time to time with Management and the Corporation's independent auditor to review the consolidated financial statements and matters relating to the audit. The Corporation's independent auditor has full and free access to the Audit Committee. The consolidated financial statements have been reviewed by the Audit Committee, who recommended their approval by the Board of Directors.

(signed)
Marc Lemieux
President and Chief Executive Officer

(signed)
Bruno Dumais, CPA, CA
Chief Financial Officer



November 29, 2017

Independent Auditor's Report

To the Shareholders of KDA Group Inc.

We have audited the accompanying consolidated financial statements of KDA Group Inc. and its subsidiaries, which comprise the consolidated statement of financial position as at July 31, 2017 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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"PwC" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KDA Group Inc. and its subsidiaries as at July 31, 2017 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The comparative figures in the consolidated statement of financial position as at July 31, 2016 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows and the related notes for the year ended August 31, 2016 were audited by another auditor who expressed an unmodified opinion on those statements on November 28, 2016.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1 to the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about KDA Group Inc.'s ability to continue as a going concern.

PricewaterhouseCoopers LLP¹

¹ CPA auditor, CA, public accountancy permit No. A123475

KDA Group Inc. (formerly AlliancePharma Inc.)
Consolidated statements of financial position

(in Canadian dollars)

	Note	July 31, 2017	July 31, 2016
ASSETS			
Current assets			
Cash		289,830	164,143
Restricted cash		105,000	-
Trade and other receivables	5	7,323,018	1,244,617
Prepaid expenses		432,137	98,455
Inventories		3,397,083	-
Income taxes receivable		974,990	188,303
Loans receivable		22,480	120,942
		12,544,538	1,816,460
Non-current assets			
Property and equipment	6	194,171	89,767
Intangible assets	7	7,691,920	2,058,439
Goodwill	7	11,033,263	2,291,930
Deferred tax assets	11	260,513	712,455
		19,179,867	5,152,591
TOTAL ASSETS		31,724,405	6,969,051
LIABILITIES			
Current liabilities			
Bank indebtedness	8	2,420,000	240,688
Trade and other payables	9	9,973,882	1,933,091
Shares to be issued	12	105,000	-
Current maturity of long-term debt	10	13,774,752	4,355,729
Note payable, without interest		-	140,000
		26,273,634	6,669,508
Non-current liabilities			
Interest rate swap	10	139,033	-
Long-term debt	10	1,235,963	583,220
Preferred shares	12	1,684,580	-
Deferred tax liabilities	11	1,550,339	579,550
		4,609,915	1,162,770
TOTAL LIABILITIES		30,883,549	7,832,278
EQUITY (DEFICIENCY)			
Share Capital	12	12,450,993	2,907,570
Contributed surplus		349,179	349,179
Equity (Deficiency) attributable to shareholders		(11,965,343)	(4,136,385)
Equity attributable to non-controlling interest		6,027	16,409
TOTAL EQUITY (DEFICIENCY)		840,856	(863,227)
TOTAL LIABILITIES AND EQUITY		31,724,405	6,969,051

Going concern

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Commitments

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

On behalf of the Board:

(signed)

Marc Lemieux, Director

(signed)

Michael W. Kinley, Director

KDA Group Inc. (formerly AlliancePharma Inc.)
Consolidated statements of loss and comprehensive loss
Years ended July 31, 2017 and 2016

(in Canadian dollars, except per share amounts)

	Note	2017	2016
Revenues	16	29,616,034	7,946,639
Cost of revenues	17	22,511,264	6,522,009
		7,104,770	1,424,630
Selling and administrative expenses	18	6,666,081	2,311,955
Charges related to business combinations	15	1,799,135	17,900
Impairment charges	7	6,685,000	-
		15,150,216	2,329,855
Loss before depreciation, amortization, finance costs and income taxes:		(8,045,446)	(905,225)
Depreciation of property and equipment	6	51,095	15,176
Amortization of intangible assets	7	1,341,785	472,646
Operating loss before the following:		(9,438,326)	(1,393,047)
Net finance costs	19	(636,431)	247,304
Loss before income tax		(8,801,895)	(1,640,351)
Current and deferred income tax	11	(695,311)	(140,884)
Net Loss and comprehensive loss		(8,106,584)	(1,499,467)
Net Loss attributable to:			
Equity holders of KDA Group Inc.		(8,024,974)	(1,468,367)
Non-controlling interests		(81,610)	(31,094)
		(8,106,584)	(1,499,467)
Loss per share			
Basic loss per share	13	(0.20)	(0.06)
Diluted loss per share	13	(0.20)	(0.06)

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

KDA Group Inc. (formerly AlliancePharma Inc.)
Consolidated statements of changes in Equity (Deficiency)
Years ended July 31, 2017 and 2016

	Note	Number of shares	Class "A" Common shares	Contributed surplus	Total Equity (Deficiency) attributable to shareholders					Non-Controlling Interests	Total Equity (Deficiency)
					Convertible Debenture in shares	Warrants reserve	Premium on convertible shares	Equity (Deficiency)	Total		
<i>(in Canadian dollars, except number of shares)</i>											
Balance at July 31, 2016		25,568,935	2,907,570	349,179	43	98,173	(1,621,406)	(2,613,195)	(4,136,385)	16,409	(863,227)
Warrants exercised	12	1,344,600	437,789	-	-	(98,173)	-	-	(98,173)	-	339,616
Broker's options units exercised	14	192,000	28,800	-	-	-	-	-	-	-	28,800
Warrants issued under a subscription agreement	12	-	-	-	-	21,802	-	-	21,802	-	21,802
Shares issued for business acquisitions	4, 12, 15	15,032,222	9,019,334	-	-	-	-	-	-	401,115	9,420,449
Shares issued in exchange of 10% non-controlling interests in a subsidiary	4, 12	250,000	57,500	-	-	-	-	272,387	272,387	(329,887)	-
Net loss and comprehensive loss for the year		-	-	-	-	-	-	(8,024,974)	(8,024,974)	(81,610)	(8,106,584)
Balance at July 31, 2017		42,387,757	12,450,993	349,179	43	21,802	(1,621,406)	(10,365,782)	(11,965,343)	6,027	840,856
Balance at July 31, 2015		24,472,934	2,480,037	349,179	43	134,947	(1,621,406)	(1,144,822)	(2,631,238)	47,503	245,481
Warrants exercised	4, 12	540,001	171,773	-	-	(36,774)	-	-	(36,774)	-	134,999
Shares issued for business acquisitions	4, 12	556,000	255,760	-	-	-	-	-	-	-	255,760
Net loss and comprehensive loss for the year		-	-	-	-	-	-	(1,468,373)	(1,468,373)	(31,094)	(1,499,467)
Balance at July 31, 2016		25,568,935	2,907,570	349,179	43	98,173	(1,621,406)	(2,613,195)	(4,136,385)	16,409	(863,227)

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

KDA Group Inc. (formerly AlliancePharma Inc.)
Consolidated statements of cash flows
Years ended July 31, 2017 and 2016

(in Canadian dollars)

	Note	2017	2016
Cash flows from operating activities:			
Net loss for the year		(8,106,584)	(1,499,467)
Adjustments for:			
Depreciation of property and equipment	6	51,095	15,176
Amortization of intangible assets	7	1,341,785	472,646
Impairment charges	7	6,685,000	-
Unrealized loss on derivative financial instruments	9	139,033	-
Deferred income tax (recovery)		(239,372)	(140,884)
Accreted interest		396,670	6,076
Fair value adjustment of the Conversion Option	12	(2,440,885)	-
Issuance of shares in lieu of finder's fees	15	1,386,000	-
		(787,258)	(1,146,453)
Changes in non-cash elements of working capital		(317,500)	504,324
		(1,104,758)	(642,129)
Cash flows from investing activities:			
Additions to property and equipment	6	(23,713)	(31,744)
Additions to intangible assets	7	(226,441)	(98,804)
Decrease (increase) in loan receivable		98,462	(12,072)
Business acquisitions	4	(13,500,000)	(380,760)
		(13,651,692)	(523,380)
Cash flows from financing activities:			
Cash acquired on business combination		-	(17,886)
Proceeds from long-term debt	9	14,078,762	1,401,011
Issuance of long-term debt	9	-	75,000
Long-term debt acquired on business combination		-	50,000
Repayment of long-term debt	9	(4,056,630)	(751,313)
Proceeds from issuance of units	12	2,452,277	-
Proceeds from exercise of warrants	12	368,416	390,759
Shares to be issued	12	105,000	-
Increase in Restricted cash	12	(105,000)	-
Repayment of note payable		(140,000)	-
(Decrease) Increase in the bank indebtedness	8	2,179,312	(327,922)
		14,882,137	819,649
Net increase (decrease) in cash		125,687	(345,860)
Cash, beginning of the year		164,143	510,003
Cash, end of the year		289,830	164,143
Supplemental information			
Interest paid		(1,127,225)	(190,491)

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

KDA Group Inc. (formerly AlliancePharma Inc.)
Notes to the consolidated financial statements
Years ended July 31, 2017 and 2016

(Tabular amounts in Canadian dollars, unless otherwise noted)

1. Reporting entity and going concern

KDA Group Inc., formerly AlliancePharma Inc., ("**KDA**" or the "**Corporation**") is incorporated under the Business Corporations Act (Québec). The Corporation is a publicly traded company listed on the TSX Venture Exchange ("**TSX.V**") under the symbol "KDA". The Corporation's head office is 300-1351 Notre-Dame East, Thetford Mines, Québec, G6G 0G5.

The consolidated financial statements of the Corporation for the years ended July 31, 2017 and 2016 comprise the Corporation and its subsidiaries. The Corporation provides a range of solutions and services to pharmacies and pharmaceutical companies in Canada.

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, has negative working capital of \$13,729,096 and has an accumulated deficit of \$10,365,782 at that date. As discussed in note 21, 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 Loan from a Canadian chartered bank 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 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.

2. Basis of preparation

a) **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.

b) **Basis of measurement**

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

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

KDA Group Inc. (formerly AlliancePharma Inc.)
Notes to the consolidated financial statements
Years ended July 31, 2017 and 2016

(Tabular amounts in Canadian dollars, unless otherwise noted)

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.

c) Functional and presentation currency

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

d) 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.

3. 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.

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

KDA Group Inc. (formerly AlliancePharma Inc.)
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(Tabular amounts in Canadian dollars, unless otherwise noted)

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.

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.

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(Tabular amounts in Canadian dollars, unless otherwise noted)

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 is 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 14.

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

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(Tabular amounts in Canadian dollars, unless otherwise noted)

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.

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(Tabular amounts in Canadian dollars, unless otherwise noted)

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

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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

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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 9 - Financial Instruments ("IFRS 9")

In July 2014, the IASB issued the final version of IFRS 9, "Financial Instruments" concerning classification and measurement, impairment and hedge accounting, to supersede IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 will be effective for years beginning on or after January 1, 2018 with early adoption permitted.

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The Corporation is in the process of analyzing the impact of the adoption of IFRS 9 on the Corporation's consolidated statement of financial position and consolidated statements of net earnings and comprehensive income (loss) and cash flows. The impact is not expected to be significant.

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.

4. Business acquisitions

On August 19, 2016, the Corporation completed the acquisition of Pharmapar Inc. ("**Pharmapar**") and Agence L.I.V. Inc. ("**LIV**") and entered into a new credit facility of \$14.5 million. The Pharmapar and the LIV acquisitions significantly expanded the Corporation's scope of services, particularly in the Pharmacy Services and Pharmaceutical Solutions segments.

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 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.

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The following provides the summary of the net assets acquired and liabilities assumed at fair value and the changes in the carrying value of the goodwill on the acquisition of LIV:

	Initial recognition	Adjustments	Adjusted balance
Net assets acquired:			
Net working capital	795,030		795,030
Property and equipment	25,300		25,300
Customer relationships	1,125,000		1,125,000
Goodwill ⁽¹⁾	3,462,670	1,151,038	4,613,708
Deferred tax liabilities	-	(691,038)	(691,038)
Total Net assets acquired	5,408,000	460,000	5,868,000
Consideration:			
Shares	1,840,000	460,000	2,300,000
Cash consideration	5,000,000		5,000,000
Non-compete agreement	(1,432,000)		(1,432,000)
Total	5,408,000	460,000	5,868,000

⁽¹⁾ Goodwill represents the result of the price paid in excess of the net assets acquired.

The Corporation recorded \$434,568 as charges in conjunction with the acquisition.

The impact of the acquisition on revenues and net income between August 19, 2016 and July 31, 2017 has been 8,483,957 and \$1,013,740 respectively.

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. ("Pharmapar") and 90% of the shares of Biomed (2002) Inc. ("Biomed") for a total consideration of \$15,062,290. 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.

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The following provides the summary of the net assets acquired and liabilities assumed at fair value and the changes in the carrying value of the goodwill on the acquisition of Pharmapar:

	Initial recognition	Adjustments	Adjusted balance
Net assets acquired:			
Net working capital	1,430,828		1,430,828
Property and equipment	132,701	(26,215)	106,486
Software	145,203	26,215	171,418
Commercialization rights	444,200	927,900	1,372,100
Web site	40,307		40,307
Customer relationships	148,000	2,341,000	2,489,000
Goodwill ⁽¹⁾	11,698,499	(885,872)	10,812,627
Deferred tax liabilities	-	(959,361)	(959,361)
Non-controlling interests	(401,115)		(401,115)
Total Net assets acquired	13,638,623	1,423,667	15,062,290
Consideration:			
Shares	4,266,667	1,066,667	5,333,334
Cash consideration	8,500,000		8,500,000
Balance of purchase price ⁽²⁾	1,347,956		1,347,956
Non-compete agreement	(476,000)	357,000	(119,000)
Total	13,638,623	1,423,667	15,062,290

⁽¹⁾ Goodwill represents the result of the price paid in excess of the net assets acquired.

⁽²⁾ Calculated at fair value using a discount rate of 6.0%.

The Corporation recorded \$1,364,567 as charges in conjunction with the acquisition.

The impact of the acquisition on revenues and net loss between August 19, 2016 and July 31, 2017 has been \$11,219,040 and \$(521,246) respectively.

Effective May 23, 2017, the Corporation acquired the residual outstanding shares of Bio-Med in exchange for 250,000 common shares of the Corporation at a price of \$0.23 per share. This transaction was not treated as a business combination because control had been acquired on August 19, 2016. The difference between the non-controlling interests as at the transaction date and the consideration paid has been accounted for directly to equity.

Acquisition of Pro-J Pharma Inc.

Effective June 1, 2016, the Corporation completed the acquisition of 100% of the shares of Pro-J Pharma Inc. ("Pro-J") for a total consideration of \$255,760. The purchase was concluded with a share capital issuance of 556,000 common shares of the Corporation at a price of \$0.46 per share.

As at the approval and authorization date to issue the July 31, 2016 consolidated financial statements, the Corporation had not finalized the purchase price allocation. Thus, the allocation of the purchase price was initially based on the Corporation's estimates, subject to the completion of a third-party valuation. During the fourth quarter of 2017, the Corporation completed its comprehensive evaluation of the fair value of the net assets acquired from Pro-J and no adjustment to the purchase price allocation was required. 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 Pro-J have been consolidated with the Corporation as of June 1, 2016.

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The following is a summary of the estimated net assets acquired and liabilities assumed at fair value:

Net assets acquired:	
Net working capital	(326,399)
Property and equipment	21,713
Software	12,671
Web site	2,998
Goodwill ⁽¹⁾	594,777
Assumed long-term debt	(50,000)
Total Net assets acquired	255,760
Consideration:	
Shares	255,760
Total	255,760

⁽¹⁾ Goodwill represents the result of the price paid for the Corporation's shares and the net assets acquired.

The Corporation recorded \$17,900 as professional fees in conjunction with the acquisition.

5. Trade and other receivables

	2017	2016
Trade receivables	6,984,477	1,080,470
Sales tax receivable	41,763	129,294
Other receivables	296,778	34,853
	7,323,018	1,244,617

The Corporation's exposure to credit risk related to trade and other receivables is disclosed in note 21.

6. Property and equipment

	Note	Leasehold improvements	Computer equipment	Furniture and fixtures	Vehicles	Total
Cost						
Balance at July 31, 2015		5,634	43,289	14,937	-	63,860
Other additions		-	7,749	-	23,995	31,744
Additions through business acquisitions	4	-	5,103	16,610	-	21,713
Balance at July 31, 2016		5,634	56,141	31,547	23,995	117,317
Other additions		7,000	4,919	11,794	-	23,713
Additions through business acquisitions	4	-	40,003	86,651	5,132	131,786
Balance at July 31, 2017		12,634	101,063	129,992	29,127	272,816
Depreciation						
Balance at July 31, 2015		3,553	3,084	5,737	-	12,374
Depreciation for the year		1,127	9,071	3,778	1,200	15,176
Balance at July 31, 2016		4,680	12,155	9,515	1,200	27,550
Depreciation for the year		2,299	24,483	18,488	5,825	51,095
Balance at July 31, 2017		6,979	36,638	28,003	7,025	78,645
Net carrying value						
At July 31, 2016		954	43,986	22,032	22,795	89,767
At July 31, 2017		5,655	64,425	101,989	22,102	194,171

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7. Intangible assets

		Training	Software	Web	Customer	Commer-	Non-	
	Note	courses		sites	relation-	cialization	compe-	Total
					ships	rights	te	
							agree-	
							ments	
Cost								
Balance at								
July 31, 2015		91,236	1,182,670	31,716	1,186,000	-	-	2,491,622
Additions through								
business acquisition	4	-	12,671	2,998	-	-	-	15,669
Other additions		-	68,768	30,036	-	-	-	98,804
Balance at								
July 31, 2016		91,236	1,264,109	64,750	1,186,000	-	-	2,606,095
Additions through								
business acquisitions	4	-	171,418	40,307	3,614,000	1,372,100	1,551,000	6,748,825
Other additions		-	145,183	10,258	-	71,000	-	226,441
Impairment charges		-	-	-	-	-	-	-
Balance at								
July 31, 2017		91,236	1,580,710	115,315	4,800,000	1,443,100	1,551,000	9,581,361
Amortization								
Balance at July 31,								
2015		10,867	53,376	10,767	-	-	-	75,010
Amortization for the								
year		53,359	289,943	10,744	118,600	-	-	472,646
Balance at July 31,								
2016		64,226	343,319	21,511	118,600	-	-	547,656
Amortization for the								
year		27,010	321,836	21,949	432,392	156,998	381,600	1,341,785
Balance at								
July 31, 2017		91,236	665,155	43,460	550,992	156,998	381,600	1,889,441
Net carrying value								
At July 31, 2016		27,010	920,790	43,239	1,067,400	-	-	2,058,439
At July 31, 2017		-	915,555	71,855	4,249,008	1,286,102	1,169,400	7,691,920

Goodwill

	Note	Pharmacist	Pharmaceutical	Total
		Services	Solutions	
Balance at July 31, 2015		1,697,153	-	1,697,153
Additions through business acquisition	4	594,777	-	594,777
Balance at July 31, 2016		2,291,930	-	2,291,930
Additions through business acquisitions	4	10,812,625	4,613,708	15,426,333
Impairment charges		(6,685,000)	-	(6,685,000)
Balance at July 31, 2017		6,419,555	4,613,708	11,033,263

Goodwill impairment test

For the purpose of impairment testing, goodwill is allocated to the Corporation's CGUs within operating segments that represent the lowest level within the Corporation at which the goodwill is monitored for internal management purposes. The Corporation performed its goodwill impairment tests as at July 31, 2017 and 2016.

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The recoverable amount of the CGU was determined based on the value-in-use approach using a discounted cash flow model. The significant key assumptions are based on the forecasted cash flows based on a period of 5 years. CGUs within the Pharmacist Services considered revenue growth rates as follows: year 1 – between 16.4% and 18.80%, year 2 between (7.9%) and 38.4% and years 3, 4 and 5 – between 2.0% and 3.8%. The expected growth rates of the expenses were as follows: year 1 – 4.9%, year 2 - between (10.3%) and 26.3%, years 3, 4 and 5 – between 1.6% and 2.8%. The growth rate of the projections reflects changes in the legislative conditions as well as management expectation that the sales will grow starting in year 1 while the expenses rate should grow at least at the inflation rate. CGU within the Pharmaceutical Solutions considered revenue and expense growth rates as follows year 1 – 6.7%, years 2, 3, 4 and 5 – 2.0%. The growth rate of the projections reflects management expectation that the sales will grow starting in year 1 while the expenses rate should grow at the inflation rate. The discounted cash flow models were established using a discount rate of 16.6%, which was based on the weighted average cost of capital before tax which assumes a cost of equity between 13.19% and 13.9% and a cost of debt of 3.03%. A terminal value based on the Gordon growth model was used at the end of year 5.

Based on the estimated FVLCS and sensitivity analysis performed, management concluded that an impairment of \$6,685,000 was required in the Pharmacist Services and that the Pharmaceutical Solutions were not impaired as at July 31, 2017.

8. Bank indebtedness

As part of the Corporation’s credit facility (as more fully described in note 10), the Corporation has authorized operating credits totaling \$2,500,000, bearing interest at prime rate plus a spread varying between 2.50% - 4.35% per annum based on certain leverage ratios. The loan is secured by a first mortgage on the Corporation’s present and future accounts receivable, tangible and intangible properties, by a \$1,000,000 guarantee from certain shareholders and by a \$1,000,000 guarantee from the holders of Series A Preferred Shares.

9. Trade and other payables

	2017	2016
Trade payables and accrued expenses	8,690,278	1,128,499
Salaries and vacations payable	543,483	401,926
Sales tax payable	258,227	227,006
Advance from a shareholder, non-interest bearing	236,894	100,660
Dividend payable ⁽¹⁾	245,000	75,000
	9,973,882	1,933,091

⁽¹⁾ Recorded before the reverse takeover transaction in 2015 or prior business combination in the acquired entity.

The Corporation’s exposure to liquidity risk related to trade and other payables is disclosed in note 21.

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10. Long-term debt

On August 23, 2016, the Corporation completed a secured credit financing facility granted to the Corporation by a Canadian chartered bank. The Corporation also repaid its existing loan from a different Canadian chartered bank.

This note provides information about the contractual terms of the Corporation's interest-bearing long-term debts, which are measured at amortized cost. The Corporation's exposure to interest rate and liquidity risk is disclosed in note 21.

	2017	2016
Long-term debt bearing interest at prime rate plus 1%, repayable monthly by installments of \$3,125 and maturing in March 2017.	-	25,000
Long-term debt bearing interest at prime rate plus 1%, repayable monthly by installments of \$1,560 and maturing in February 2021.	67,080	75,000
Promissory note, bearing interest at 24% calculated and compounded quarterly, converted to Series A Preferred Shares during the period, net of transaction costs of \$249,403 (note 12).	-	1,298,320
Loan bearing interest at 5.73%, repayable by monthly installments of \$401 including interest, and maturing in May 2023.	23,810	27,152
Long-term debt bearing interest at prime rate plus 4%, repayable monthly by installment of \$830, and maturing in October 2021 with a first payment of \$1,030 in November 2016	42,330	50,000
Loan bearing interest at prime rate plus 1.95%, repayable by monthly installments of \$36,310, and repaid in August 2016, net of transaction costs of \$33,595	-	2,513,477
Loan from a Canadian chartered bank ⁽¹⁾ (the " Loan from a Canadian chartered bank "), bearing interest at prime rate plus a spread varying between 2.50% - 4.35% per annum based on certain leverage ratios, repayable by quarterly installments varying between \$453,125 and \$634,375 and a final payment of \$3,625,000, maturing in August 2021, net of transaction costs of \$204,790	12,520,255	-
Balance of purchase price bearing interest at 8% repayable by bi-annual installments, maturing in May 2018	938,538	950,000
Balance of purchase price, non-interest bearing and net of accreted interest of \$261,303, repayable by annual installments of \$320,000, maturing in June 2021	1,418,702	-
	15,010,715	4,938,949
Less: Current maturity of long-term debt	13,774,752	4,355,729
	1,235,963	583,220

⁽¹⁾ The loan is secured by a first mortgage on the Corporation's present and future accounts receivable, tangible and intangible properties, by a \$1,000,000 guarantee from certain shareholders and by a \$1,000,000 guarantee from the holders of Series A Preferred Shares. The loan is subject to certain covenants regarding the maintenance of financial ratios on a quarterly basis, and requires the Corporation to maintain hedging and interest rate swap arrangements that converts the variable rate of interest to a fixed annual rate of 4.66% for the hedged portion of the loan (see below). After giving effect to financing costs, the effective interest rate on this loan was 4.7%.

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The amounts payable for the next five years, as of July 31, 2017, are as follows:

	2017	2016
Less than 1 year	13,989,719	4,383,918
Between 1 and 5 years	1,376,847	572,375
More than 5 years	4,154	10,845
	15,370,720	4,967,138
Less: Financing fees	(360,005)	(28,189)
	15,010,715	4,939,949

Interest rate swap ("Loan")

The Loan from a Canadian chartered bank requires the Corporation to enter into interest rate swaps to convert the variable rate to a fixed rate as described above for an amount of at least 50% of the outstanding balance. The Corporation has the following interest rate swap at July 31, 2017, and July 31, 2016:

	Notional amount	Maturity date	Floating rate	Fixed rate	2017	2016
Term loan	8,246,875	August 19, 2021	CDOR	1.11%	139,033	-
					139,033	-

Under the interest rate swap agreements, the notional amount declines at a similar rate as the principal reduction in the loan. During the year, an unrealized loss on \$139,033 (2016 - \$nil) was recognized in the statement of comprehensive loss related to the marked to market valuation of the interest rate swap as of July 31, 2017.

As at July 31, 2017, the Corporation was in breach of both of its financial covenant under the Loan from a Canadian chartered bank.

11. Current and deferred income tax

	2017	2016
Current tax recovery	(455,939)	-
Deferred tax recovery	(239,372)	(140,884)
	(695,311)	(140,884)

The income tax expense reported differs from the amount computed by applying Canadian federal and provincial income tax rates to income before income taxes of 26.8% (2016 – 26.9%). The reasons for the difference and the related tax effects are as follows:

	2017	2016
Net loss before income taxes	(8,801,895)	(1,640,351)
Statutory income tax rate	28%	26.9%
Expected income tax recovery	(2,358,908)	(441,255)
Adjustments :		
Tax effect of non-deductible costs to becoming a public company	-	26,260
Tax effect of non-deductible professional fees	-	1,380
Tax effects of non-deductible impairment charges	1,791,580	-
Tax effect of other non-deductible expense (income)	(150,782)	34,427
Other	22,799	238,304
Income tax recovery	(695,311)	(140,884)

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The tax effects of temporary differences and net operating losses that give rise to deferred income tax assets and liabilities are as follows:

	2017	2016
Deferred tax assets		
Net operating losses carried forward	503,584	616,723
Tax basis of capital assets in excess of carrying value	63,892	77,567
Financial expenses	13,568	18,165
	581,044	712,455
Deferred tax liabilities		
Carrying value of intangibles assets in excess of tax basis	1,870,870	579,550
	1,870,870	579,550

Presented as follows on the statement of financial position:

Deferred tax assets	260,513	712,455
Deferred tax liabilities	1,550,339	579,550

As at July 31, 2017, the Corporation had tax losses of \$608,750 for which no deferred tax benefit has been recorded (2016 – \$608,750)

12. Share capital and other components of equity

Share capital

The Corporation's share capital consists only of fully paid Class "A" common shares, voting and participating.

The common shares entitle the holders thereof to one vote per share. The holders of the common shares are entitled to receive dividends as declared from time to time. Subject to the rights, privileges, restrictions and conditions attached to any other class of shares of the Corporation, the holders of the common shares are entitled to receive the remaining property of the Corporation upon its dissolution, liquidation or winding-up.

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 acquisitions described in note 4. 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, 2021 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.

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 (note 11) 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.

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In accordance with IAS 32, Financial Instruments: Presentation (“IAS 32”), the issuer of a non-derivative financial instrument shall evaluate the terms of the financial instrument to determine whether it contains both a liability and an equity component. In application of this standard, the issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.

Relative to the Series A Preferred Shares referred to above and the application of IAS 32, the Corporation has determined that the conversion option together with the redemption option feature (collectively the “**Conversion Options**”) constitute an embedded derivative financial instrument. Upon a conversion into common shares of the Corporation, the carrying amount of the host debt instrument recorded at amortized cost and the fair value of the related embedded derivative will be transferred to Equity. Upon a conversion into debt, the carrying amount of the host debt instrument and the fair value of the related embedded derivative will be transferred as a normal carried at amortized cost.

The Preferred Shares are a hybrid instrument, which are in their entirety regarded as a financial liability. The initial carrying amount of \$ 996,354 for the debt host represents the residual amount of the proceeds after separating out the \$ 2,732,441 fair value of the derivative, which represent the estimated fair value of the conversion options, and the \$ 21,802 of the warrants valuation. All transaction costs were allocated to the host.

As at July 31, 2017, the Corporation reviewed the estimated fair value of the Preferred shares embedded derivatives and adjusted the initial fair value to \$ 291,556 using the same valuation technique.

The fair value of the Conversion Options was estimated using a Black-Scholes valuation model using the following assumptions at inception: estimated life: 5 years, actual stock price: \$0.60, volatility: 15%, dividend yield: 0%, risk-free rate: 0.68% and on July 31, 2017: estimated life: 4.1 years, actual stock price: \$0.22, volatility: 45%, dividend yield: 0%, risk-free rate: 1.66%

Expected volatility was based on the Corporation’s historical volatility and the volatility of an equity market index in the health care providers and services for the same period. The credit spread used in the valuation was based on an index for CAD triple-C corporate bonds.

For the year ended July 31, 2017 the change in fair value of derivatives resulted in a gain of \$ 2,440,885 (July 31, 2016 - \$nil) and was recorded in the consolidated statements of loss and comprehensive loss.

The following summarizes the face value and carrying values of the host and derivative components of the Preferred Shares for the year ended July 31, 2017:

				Liability	Equity
		Preferred shares - host	Conversion Option	Total	Warrants
	Face value	Carrying value	Carrying value	Carrying value	Carrying value
Issuance, as of August 19, 2016 ⁽¹⁾	3,750,597	996,354	2,732,441	3,728,795	21,802
Accretion expense	-	396,670	-	396,670	-
Change in fair value of the derivative	-	-	(2,440,885)	(2,440,885)	-
	3,750,597	1,393,024	291,556	1,684,580	21,802

⁽¹⁾ Net of issuance fees of \$249,403.

Escrowed shares

At July 31, 2017, a total of 17,377,777 outstanding Class A common shares are held under an escrow agreement and are to be released on a staged basis as follows: August 18, 2017: 1,272,221, January 8, 2018: 7,200,000, February 18, 2018: 1,908,333, August 18, 2018: 1,908,333, February 18, 2019: 1,908,333 and August 18, 2019: 3,180,557.

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Contributed surplus

The contributed surplus account is used to record amounts arising from the issuance of share-based payment awards and the value of the warrants issued in relation to various financings.

Convertible debentures

The convertible debentures issued at the time of the reverse takeover acquisition in 2015 with a face value of \$750,000 and a fair value of \$43 based on net assets being transferred, are automatically convertible into 5,000,000 Class A common shares at such time as the conversion of the debenture will result in at least 20% of issued and outstanding Class A common shares being held by holder other than a promoter, an insider, an associate or an affiliate with the debenture holder. The convertible debentures are held by key management personnel. As at July 31, 2017, \$300,000 worth of convertible debentures remain held in escrow and are to be released on January 8, 2018.

Warrants

On August 19, 2016, the Corporation issued 11,428,571 warrants in connection with the issuance of the Series A Preferred shares (see above). Further to the issuance of Preferred Shares, an amount of \$21,802 was allocated to the warrants.

Each Warrant entitles its holder to purchase one common Share at a price of \$0.69 at any time until the five-year anniversary of the date of their issuance.

The following is a continuity of the warrants outstanding at July 31, 2017:

	Number of warrants	Weighted average exercisable price
Balance, beginning of the year	1,491,599	0.25
Issued	11,428,571	0.69
Exercised	(1,344,600)	0.25
Cancelled	(146,999)	0.25
Balance, end of the year	11,428,571	0.69

The following table presents the details of the issued and outstanding warrants as at:

Exercise price	Expiry date	As at July 31, 2017		As at July 31, 2016	
		Number	Number	Expiry date	Number
0.25	-	-	-	January 7, 2017	1,491,599
0.69	October 20, 2021	11,428,571	-	-	-

Dividends

During the period, the Corporation did not declare any dividend.

13. Loss per share

Basic loss per share

The calculation of basic net loss per share was based on the net loss attributable to Class A common shareholders of \$ 8,024,974 (July 31, 2016 – net loss of \$1,468,373) and a weighted average number of Class A common shares of 40,717,023 (July 31, 2016 – 24,698,476).

Diluted loss per share

The effect of potential issuances of shares under stock options, warrants and preferred shares would be anti-dilutive for periods ended July 31, 2017 and 2016, and accordingly, basic and diluted loss per share are the same.

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14. Share-based payment arrangements

Stock option plan

The Corporation offers a stock option plan for the benefit of its directors, employees, consultants and persons conducting investor relations activities (the "Plan"). The total number of shares which may be issued under the Plan may not exceed 4,894,868 options. The exercise price payable for each option is determined by the Board at the date of grant, and may not be less than the market price of the common share at the closing price of the TSX-V the day preceding the grant date for a minimum amount of \$0.10 per option. The options vest over periods ranging between 12 months and 2 years.

The table below summarizes the changes in the outstanding stock options:

	At July 31, 2017		At July 31, 2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of the year	2,575,000	0.15	2,575,000	0.15
Balance, end of the period	2,575,000	0.15	2,575,000	0.15
Options exercisable, end of the year	2,575,000	0.15	2,575,000	0.15

The following table summarizes information about stock options outstanding and exercisable at July 31, 2017:

Exercise price	Options outstanding		Options exercisable
	Number of options	Weighted average remaining contractual life (in years)	Number of options
0.15	2,325,000	2.58	2,325,000
0.20	250,000	2.84	250,000
	2,575,000	2.65	2,575,000

Of the options outstanding at July 31, 2017, a total of 900,000 (July 31, 2016 – 900,000) are held by key management personnel.

Broker's options units

The table below summarizes the changes in the outstanding broker's options units:

	At July 31, 2017		At July 31, 2016	
	Number of units	Weighted average exercise price	Number of units	Weighted average exercise price
Balance, beginning of the year	192,000	0.15	192,000	0.15
Exercised	192,000	0.15	-	-
Balance, end of the year	-	-	192,000	0.15
Units exercisable, end of the year	-	-	192,000	0.15

15. Charges related to business combinations

	2017	2016
Professional fees	413,135	17,900
Finder's fees paid in common shares	1,386,000	-
	1,799,135	17,900

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16. Revenues

	2017	2016
Pharmacy	10,653,047	-
Replacement pharmacists	10,032,685	7,541,971
Training	8,510,618	20,922
Other	419,684	383,746
	29,616,034	7,946,639

17. Cost of revenues

Cost of revenues includes compensation and related employee benefits for a total amount of \$8,842,088 (2016 - \$5,866,277).

18. Selling and administrative expenses

	2017	2016
Salaries and fringe benefits	2,910,715	399,146
Repairs and maintenance	49,922	9,489
Rental fees	276,171	70,333
Travel	292,208	79,867
Meals and entertainment	244,724	25,092
Advertising	239,592	25,023
Supplies and office expenses	467,375	179,822
Telecommunications	92,326	20,578
Bad debt	34,814	-
Professional fees	1,608,660	992,263
Management fees	363,098	499,169
Regulatory and filing fees	86,476	29,073
	6,666,081	2,329,855

19. Finance costs

	2017	2016
Accreted interest	396,670	1,304
Fair value adjustment of the Conversion Option	(2,440,885)	-
Unrealized loss derivative financial instrument	139,033	-
Financial costs	1,268,751	246,000
	(636,431)	247,304

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20. Segmented information

The Corporation provides information on two reporting segments: Pharmacy Services and Pharmaceutical Solutions. In line with the Corporation's strategic plan and recent acquisitions expanding the customers products offering. The profitability measure employed by the chief operating decision-maker, who is responsible for allocating resources and for assessing segment performance, are gross margin less selling and administrative expenses and is income (loss) before depreciation, amortization, finance costs and income taxes.

Information pertaining to each segment for the years ended July 31:

	Pharmacy Services		Pharmaceutical Solutions		Corporate and others		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Revenues	21,132,077	7,946,639	8,483,957	-	-	-	29,616,034	7,946,460
Segment operating income (loss) ⁽¹⁾	1,067,012	298,305	1,061,194	-	(1,689,578)	(1,203,530)	438,689	(905,225)
Impairment charges	(6,685,000)	-	-	-	-	-	(6,685,000)	-
Transactions charges related to business combinations	-	-	-	(1,799,135)	-	(1,799,135)	-	-
Segment income (loss)⁽²⁾	(5,617,988)	298,305	1,061,194	-	(3,488,652)	(1,203,530)	(8,045,446)	(905,225)

⁽¹⁾ The Corporation uses primarily one measure of profit to make decisions and assess performance being gross margin less selling and administrative expenses.

⁽²⁾ Per consolidated statements of income (loss) and comprehensive income (loss), this measure corresponds to Loss before depreciation, amortization, finance costs and income taxes.

21. Financial instruments and financial risk management

Classification of financial instruments

The carrying amounts of the Corporation's financial assets and liabilities by category are as follows:

Financial assets classified as loans and receivables

	2017	2016
Cash	289,830	164,143
Restricted cash	105,000	-
Trade and other receivables (excluding sales tax receivable)	7,281,255	1,115,323
Loan receivable	22,480	120,942
	7,698,565	1,400,408

Financial liabilities recognized at amortized cost

	2017	2016
Bank indebtedness	2,420,000	240,688
Trade and other payables (excluding sales tax payable)	9,715,655	1,706,085
Note payable	-	140,000
Long-term debt	15,010,715	4,938,949
Preferred shares – host component	1,393,024	-
	28,539,394	7,025,722

Fair value

Fair value is the estimated amount that parties dealing at arm's length would accept to exchange in settlement of a financial instrument based on the current market for instruments with the same risk, principal and maturity date.

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These fair value estimates are affected by assumptions made about the amount and timing of estimated future cash flows, discount rates and terms of the contract. As a result, the fair values are not necessarily the net amounts that would be realized if such financial instruments were settled.

The Corporation has determined that the carrying amount of its short-term financial assets and liabilities, including, trade and other receivables, bank overdraft and, trade and other payables, approximates their fair value because of the relatively short periods to maturity of these instruments.

Management believes that no significant change occurred in the risk of these instruments.

Fair value hierarchy

Fair value estimates are made as of a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and may not be determined with precision. A three-tier fair value hierarchy prioritizes the inputs used in measuring fair value. These tiers include:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The Corporation's cash and bank indebtedness are considered level 1.

Financial liabilities recognized at fair value

	2017	2016
Interest rate swap (level 2)	139,033	-
Preferred shares - Conversion Options (level 3)	291,556	-
	430,589	-

Risks

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

- credit risk
- liquidity risk
- market risk.

This note 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 capital management. Further quantitative disclosures are included throughout these 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;

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- Approximately 88% (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:

	2017		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:

	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	1,376,847	4,154
	26,383,601	1,376,847	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

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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

d) 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 year.

22. Commitments

The Corporation entered into operating leases expiring on various dates through October 2027, with respect to leased premises and other leases. The total future minimum lease payments under non-cancellable operating leases are as follows:

	2017	2016
Less than 1 year	310,222	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 August 31, 2017 and which represent minimum lease revenues under a non-cancellable operating lease are as follows:

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

23. Related parties

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.

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

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personnel consist of the Corporation's Board of Directors and corporate officers. During the year ended July 31, 2017, 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	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

24. Changes in non-cash working capital items

	2017	2016
Trade and other receivables	1,582,966	191,815
Inventories	(1,137,269)	-
Income tax receivable	151,612	(107,089)
Prepaid expenses	333,682	(65,319)
Trade and other payables	(1,248,490)	484,917
	(317,499)	504,324

25. 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.

26. Quarterly adjustments (unaudited – supplementary information)

The condensed interim consolidated financial statements for the interim periods for the year ended July 31, 2017 have been restated to adjust for the accreted interest on the Series A Preferred shares – debt host component which is following the effective interest rate method of amortisation in accordance with IAS 39. Following the completion of our annual accounts during the fourth quarter of 2017, the Corporation revised the accreted interest to better reflect the intrinsic effective interest rate on the debt host component resulting from the redemption option feature contained in the compound instrument. These adjustments have no effect on the operating, investing and financing activities of the Corporation.

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The effects of the adjustments are as follows:

Adjustments to the Consolidated Interim Statements of Financial Position

	As at October 31, 2016	Adjustments	As at October 31, 2016
	Previously stated	Accreted interest	Adjusted
Preferred shares - host	1,492,818	(639,686)	853,132
Total Non- current liabilities	19,692,094	(639,686)	19,052,408
Total liabilities	31,953,810	(639,686)	31,314,124
Equity (Deficiency) attributable to shareholders	3,165,690	639,686	3,805,376
Equity attributable to non-controlling interest	413,353	-	413,353
Total Equity (Deficiency)	3,579,043	639,686	4,218,729
Total Liabilities and Equity	35,532,853	-	35,532,853

	As at January 31, 2017	Adjustments	As at January 31, 2017
	Previously stated	Accreted interest	Adjusted
Preferred shares - host	2,079,436	(1,073,160)	1,006,276
Total Non- current liabilities	7,590,787	(1,073,160)	6,517,627
Total liabilities	30,455,642	(1,073,160)	29,382,482
Equity (Deficiency) attributable to shareholders	2,472,388	1,073,160	3,545,548
Equity attributable to non-controlling interest	407,175	-	407,175
Total Equity (Deficiency)	2,879,563	1,073,160	3,952,723
Total Liabilities and Equity	33,335,205	-	33,335,205

	As at April 30, 2017	Adjustments	As at April 30, 2017
	Previously stated	Accreted interest	Adjusted
Preferred shares - host	2,651,884	(1,470,863)	1,181,021
Total Non- current liabilities	6,379,001	(1,470,863)	4,908,138
Total liabilities	32,091,803	(1,470,863)	30,620,940
Equity (Deficiency) attributable to shareholders	2,897,865	1,470,863	4,368,728
Equity attributable to non-controlling interest	355,561	-	355,561
Total Equity (Deficiency)	3,253,426	1,470,863	4,724,289
Total Liabilities and Equity	35,345,229	-	35,345,229

KDA Group Inc. (formerly AlliancePharma Inc.)
Notes to the consolidated financial statements
Years ended July 31, 2017 and 2016

(Tabular amounts in Canadian dollars, unless otherwise noted)

Adjustments to the Consolidated Interim Statements of Loss and Comprehensive Loss

For the three-month period ended October 31, 2016			
	Previously stated	Accreted interest	Adjusted
Loss before the following:	(1,337,138)	-	(1,337,138)
Preferred shares – accreted interest	474,662	(639,686)	(165,024)
Net finance cost	1,961,915	(639,686)	1,322,229
Loss before income tax	(3,299,053)	639,686	(2,659,367)
Net loss and comprehensive loss for the period	(3,196,152)	639,686	(2,556,466)
Net loss attributable to KDA Group Inc.	(3,191,981)	639,686	(2,552,295)
Non-controlling interests	(4,171)	-	(4,171)
Basic loss per share	(0.09)	0.02	(0.07)

For the three-month period ended January 31, 2017			
	Previously stated	Accreted interest	Adjusted
Loss before the following:	(904,228)	-	(904,228)
Preferred shares – accreted interest	586,618	(433,474)	153,144
Net finance cost	310,827	(433,474)	(122,647)
Loss before income tax	(1,215,055)	433,474	(781,581)
Net loss and comprehensive loss for the period	(1,046,054)	433,474	(612,580)
Net loss attributable to KDA Group Inc.	(1,039,876)	433,474	(606,402)
Non-controlling interests	(6,178)	-	(6,178)
Basic loss per share	(0.03)	0.01	(0.02)

For the three-month period ended April 30, 2017			
	Previously stated	Accreted interest	Adjusted
Loss before the following:	(264,361)	-	(264,361)
Preferred shares – accreted interest	572,448	(397,703)	174,745
Net finance income	(637,462)	(397,703)	(1,035,165)
Income before income tax	373,101	397,703	770,804
Net income and comprehensive income for the period	373,861	397,703	771,564
Net income attributable to KDA Group Inc.	425,475	397,703	823,178
Non-controlling interests	(51,614)	-	(51,614)
Basic and diluted earnings per share	0.01	0.01	0.02