

**CONSOLIDATED  
FINANCIAL  
STATEMENTS OF**



**FOR THE THREE MONTHS  
ended October 31  
2018 | 2017**

**KDA Group Inc.**

October 31, 2018 and 2017

### Management's Statement of Responsibility for Financial Information

The condensed consolidated interim financial statements contained in this Quarterly 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 condensed consolidated interim 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 condensed consolidated interim financial statements are unaudited and have not been reviewed by the Corporation's independent auditor.

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 condensed consolidated financial statements and matters relating to the audit. The Corporation's independent auditor has full and free access to the Audit Committee. The condensed consolidated financial statements have been reviewed by the Audit Committee, who recommended their approval by the Board of Directors.

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(signed)  
**Marc Lemieux**

President and Chief Executive Officer

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(signed)  
**Michael W. Kinley**

Interim Chief Financial Officer

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(In Canadian dollars)

	Note	At October 31, 2018 Unaudited	At July 31, 2018 Audited and Restated <sup>(1)</sup>
<b>ASSETS</b>			
Current assets			
Cash		—	411,782
Restricted cash		1,461,800	870,000
Trade and other receivables	4	4,750,704	4,247,046
Prepaid expenses		181,547	217,578
Income taxes receivable		176,760	236,340
Loans receivable from related parties		3,500,745	3,417,323
		10,071,556	9,400,069
Non current assets			
Property and equipment	5	559,787	377,159
Intangible assets	6	3,242,289	3,171,715
Goodwill	7	6,905,638	6,905,638
Deferred tax assets		552,478	552,478
Derivative financial instrument	17	197,854	189,489
		11,458,046	11,196,479
<b>TOTAL ASSETS FOR CONTINUING ACTIVITIES</b>		<b>21,529,603</b>	<b>20,596,548</b>
Assets available for sale		6,369,557	7,438,766
<b>TOTAL ASSETS</b>		<b>27,899,159</b>	<b>28,035,314</b>
<b>LIABILITIES</b>			
Current liabilities			
Bank overdraft		561,601	—
Bank indebtedness	8	1,769,700	2,085,950
Trade and other payables	9	3,521,694	3,201,782
Shares to be issued		1,461,780	870,000
Current maturity of long-term debt	11	12,362,037	12,937,465
		19,676,812	19,095,197
Non current liabilities			
Long term debt	11	1,885,291	1,865,205
Preferred shares	12,18	3,332,531	2,938,403
Deferred tax liabilities		350,110	350,110
		5,567,932	5,153,718
<b>TOTAL LIABILITIES FOR CONTINUING ACTIVITIES</b>		<b>25,244,744</b>	<b>24,248,916</b>
Liabilities available for sale		8,528,807	8,017,416
<b>TOTAL LIABILITIES</b>		<b>33,773,551</b>	<b>32,266,332</b>
<b>EQUITY (DEFICIENCY)</b>			
Share capital	12	12,621,560	12,621,560
Contributed surplus		382,721	382,721
Deficiency attributable to shareholders		(18,715,224)	(17,158,255)
Equity attributable to non-controlling interest		(163,449)	(77,044)
<b>TOTAL EQUITY (DEFICIENCY)</b>		<b>(5,874,392)</b>	<b>(4,231,018)</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>27,899,159</b>	<b>28,035,314</b>
Going concern	1		
Commitments and contingencies	18		

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

<sup>(1)</sup> Certain comparative figures have been reclassified to conform to the presentation adopted in the current year

(Signed)  
Marc Lemieux, Director

(signed)  
Michael W. Kinley, Director

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
**Three Months Ended October 2018 And 2017**

(In Canadian dollars, except per share amounts)

	Note	Three months ended October 31, 2018	Three months ended October 31, 2017
Revenues	16	4,949,931	4,693,838
Cost of revenues		3,889,585	3,752,782
		1,060,346	941,056
Selling and administrative expenses		1,268,600	726,326
<b>Earning before depreciation, amortization, finance cost and income taxes:</b>		<b>(208,254)</b>	214,730
Depreciation of property and equipment	5	16,471	5,272
Amortization of intangible assets	6	188,424	187,295
<b>Operating loss before the following:</b>		<b>(413,149)</b>	22,163
Net finance costs	15	747,675	453,707
<b>Loss before income tax</b>		<b>(1,160,824)</b>	(431,544)
Current and deferred income tax		(10,681)	—
Net Loss and comprehensive loss from continuing operations		<b>(1,150,143)</b>	(431,544)
Net loss from discontinued operations		<b>(493,231)</b>	(439,085)
<b>Net loss</b>		<b>(1,643,374)</b>	(870,629)
Loss attributable to:			
Shareholders of KDA Group Inc.		<b>(1,556,969)</b>	(876,501)
Non-controlling interest		<b>(86,405)</b>	5,872
		<b>(1,643,374)</b>	(870,629)
Loss per share-basic			
Continuing Operations	10	<b>(0.03)</b>	(0.01)
Discontinued Operations	10	<b>(0.01)</b>	(0.01)
Loss per share-Diluted			
Continuing Operations	10	<b>(0.03)</b>	(0.01)
Discontinued Operations	10	<b>(0.01)</b>	(0.01)

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

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

Three Months Ended October 31, 2018 And 2017

Total Equity (Deficiency) attributable to shareholders										
	Number of shares	Class "A" Common shares	Contributed surplus	Convertible Debenture in shares	Warrants reserve	Premium on convertible shares	Equity (Deficiency)	Total	Non-Controlling Interest	Total Equity (Deficiency)
(in Canadian dollars, except number of shares)										
Balance at July 31, 2018	42,930,614	12,621,560	382,721	43	41,235	(1,621,406)	(15,578,127)	(17,158,255)	(77,044)	(4,231,018)
Net loss and comprehensive loss for the period	—	—	—	—	—	—	(1,556,969)	(1,556,969)	(86,405)	(1,643,374)
<b>Balance at October 31, 2018</b>	<b>42,930,614</b>	<b>12,621,560</b>	<b>382,721</b>	<b>43</b>	<b>41,235</b>	<b>(1,621,406)</b>	<b>(17,135,096)</b>	<b>(18,715,224)</b>	<b>(163,449)</b>	<b>(5,874,392)</b>
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
Net loss and comprehensive loss for the year	—	—	—	—	—	—	(876,501)	(876,501)	5,872	(870,629)
<b>Balance at October 31, 2017</b>	<b>42,387,757</b>	<b>12,450,993</b>	<b>349,179</b>	<b>43</b>	<b>21,802</b>	<b>(1,621,406)</b>	<b>(15,578,127)</b>	<b>(17,158,255)</b>	<b>11,899</b>	<b>(4,346,184)</b>

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

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

Three Months Ended October 31, 2018 And 2017

(Tabular amounts in Canadian dollars, unless otherwise noted)

	Note	2018	2017
<b>Cash flows from operating activities:</b>			
Net loss for the period		(1,643,374)	(870,629)
Net loss from discontinued operations		(493,231)	(439,085)
		(1,150,143)	(431,544)
Adjustments for:			
Depreciation of property and equipment	5	15,763	5,272
Amortization of intangible assets	6	179,426	187,295
Unrealized (gain) loss on derivative financial instruments		(8,365)	(3,572)
Accreted interest	12	394,128	250,059
Fair value adjustment of the conversion option	12	(87,471)	(56,131)
		(239,084)	(48,621)
Changes in non-cash elements of working capital	25	669,125	(222,824)
		430,041	(271,445)
<b>Cash flows from investing activities:</b>			
Additions to property and equipment	7	(198,391)	(67,058)
Additions to intangible assets	8	(250,000)	—
(Increase) decrease in loan receivable		(83,422)	22,480
		(531,814)	(44,578)
<b>Cash flows from financing activities:</b>			
Proceeds from long-term debt	11	34,069	1,925,085
Repayment of long-term debt	11	(589,410)	(370,174)
Increase in restricted cash		(591,800)	(55,000)
Shares to be issued		591,780	55,000
(Decrease) Increase in the bank indebtedness	9	(316,250)	(845,200)
		(871,611)	709,711
Net increase in cash		(973,383)	393,688
Cash, beginning on the year		411,782	18,094
<b>Cash, end of the year</b>		<b>(561,601)</b>	<b>411,782</b>

### Supplemental information

Interest paid

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

# 1 REPORTING ENTITY AND GOING CONCERN

KDA Group 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 condensed consolidated interim financial statements of the Corporation for the three months ended October 31, 2018 and 2017 comprise the Corporation and its subsidiaries. The Corporation provides a range of solutions and services to pharmacies and pharmaceutical companies in Canada.

These condensed consolidated interim 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 three months ended October 31, 2018, the Corporation reported a loss of \$870,629, has negative working capital of \$13,905,705 and has an accumulated deficit of \$11,235,071 at that date. As discussed in note 16, the Corporation is in breach of its financial covenants with respect to its secured credit financing as at October 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 10 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 February 28, 2019. 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 condensed consolidated interim financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by International Accounting Standard Board (“IASB”) and with IAS 34 Interim Financial Reporting. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the most recent audited annual consolidated financial statements and the notes thereto for the year ended July 31, 2018.

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on December 21, 2018.

### b) BASIS OF MEASUREMENT

These condensed consolidated interim 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.

The condensed consolidated interim 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 condensed consolidated interim financial statements are presented in Canadian dollars (“\$”), which is the Corporation’s functional currency.

### d) USE OF ESTIMATES AND JUDGMENTS

The preparation of the accompanying condensed consolidated interim 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.

In preparing these condensed interim consolidated financial statements, the significant judgments made by management applying the Corporation’s accounting policies and the key sources of estimation uncertainty are the same as those described in the Corporation’s audited consolidated financial statements for the year ended July 31, 2017.

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

Notes 5, 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;

- 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 11

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.



**SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies described in the annual audited

consolidated financial statements for the year ended July 31, 2018 have been applied consistently to all periods presented in these condensed consolidated interim financial statements, unless otherwise

indicated. The accounting policies have been applied consistently by all the subsidiaries. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Corporation's condensed consolidated interim financial statements.

## 4 TRADE AND OTHER RECEIVABLES

	At October 31, 2018	At July 31, 2018
Trade receivables	4,670,435	4,149,471
Sales tax receivable	60,269	30,621
Other receivables	20,000	66,953
	4,750,704	4,247,046

The Corporation's exposure to credit risk related to trade and other receivables is disclosed in note 18.

## 5 PROPERTY AND EQUIPMENT

	Leasehold improvements	Computer equipment	Furniture and fixtures	Equipment	Vehicles	Total
<b>Cost</b>						
Balance at July 31, 2018	175,246	105,162	46,624	28,722	111,288	467,042
Additions	77,183	9,073	6,125	72,010	34,000	198,391
<b>Balance at October 31, 2018</b>	<b>252,429</b>	<b>114,235</b>	<b>52,749</b>	<b>100,732</b>	<b>145,288</b>	<b>665,433</b>
<b>Depreciation</b>						
Balance at July 31, 2018	6,979	44,027	28,480	—	10,397	89,883
Depreciation for the period	2,803	4,647	1,048	—	7,264	15,763
<b>Balance at October 31, 2018</b>	<b>9,782</b>	<b>48,674</b>	<b>29,528</b>	<b>—</b>	<b>17,661</b>	<b>105,646</b>
Net carrying value						
At July 31, 2018	168,267	61,135	18,144	28,722	100,891	377,159
<b>At October 31, 2018</b>	<b>242,647</b>	<b>65,560</b>	<b>23,221</b>	<b>100,732</b>	<b>127,627</b>	<b>559,787</b>

Additions of Leasehold improvements and equipment are not amortized because they were not ready to be in use.



## INTANGIBLE ASSETS

	Training courses	Software	Web sites	Customer relationships	Non-compete agreements	Total
<b>Cost</b>						
Balance at July 31, 2018	91,236	1,268,466	75,008	2,935,569	1,075,000	5,445,279
Additions	—	250,000	—	—	—	250,000
<b>Balance at October 31, 2018</b>	<b>91,236</b>	<b>1,518,466</b>	<b>75,008</b>	<b>2,935,569</b>	<b>1,075,000</b>	<b>5,695,279</b>
<b>Amortization</b>						
Balance at July 31, 2018	91,236	963,066	50,791	667,071	501,400	2,273,564
Amortization for the period	—	57,791	5,910	61,975	53,750	179,426
<b>Balance at October 31, 2018</b>	<b>91,236</b>	<b>1,020,857</b>	<b>56,701</b>	<b>729,046</b>	<b>555,150</b>	<b>2,452,989</b>
<b>Net carrying value</b>						
At July 31, 2018	—	305,400	24,217	2,268,498	573,600	3,171,715
<b>At October 31, 2018</b>	<b>—</b>	<b>497,609</b>	<b>18,307</b>	<b>2,206,523</b>	<b>519,850</b>	<b>3,242,289</b>

There was no impairment during the period.

## 7 GOODWILL

	Pharmacist Services	Pharmaceutical Solutions	Total
Balance at July 31, 2018	2,291,930	4,613,708	6,905,638
Balance at October 31, 2018	2,291,930	4,613,708	6,905,638

There was no impairment during the period.

## 8 BANK INDEBTEDNESS

As part of the Corporation's credit facility (as more fully described in note 10 under the Loan from a Canadian chartered bank), 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.

## 9 TRADE AND OTHER PAYABLES

	At October 31, 2018	At July 31, 2018
Trade payables and accrued expenses	2,962,345	2,435,868
Salaries and vacations payable	290,848	319,110
Sales tax payable	117,053	130,880
Interest payable to shareholders	76,448	240,924
Dividend payable <sup>(1)</sup>	75,000	75,000
	3,521,694	3,201,782

<sup>(1)</sup> 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 18.

(Tabular amounts in Canadian dollars, unless otherwise noted)

## 10 DISCONTINUED OPERATIONS

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.

On November 16, 2018, the Corporation signed a Letter of Intent for the sale of 80% of its investment in Pharmapar Inc. The Letter of Intent, which becomes binding on November 28, 2018, provides for a closing date of December 31, 2018 and is predicated upon the results of a due diligence and the required approvals from both parties' Board of Directors, from the

Corporation's creditors and lenders and from the TSX Venture Exchange.

The transaction contemplated by the parties would provide the Corporation with \$4,000,000 in exchange for 80% of the issued and outstanding shares of Pharmapar Inc. The consideration would be received in three payments. First, on November 28, 2018, \$1,000,000 to be collected and would be refundable if the parties decide not to pursue the transaction before December 15, 2018. Then, a second payment of \$2,000,000 has to be received by December 15, 2018, and a third payment on the closing date for \$1,000,000.

Statements of financial position for Discontinued Operations		
(In Canadian dollars)		
	<b>At October 31, 2018</b>	At July 31, 2018
<b>ASSETS</b>		
Current assets		
Cash	(229,190)	560,237
Trade and other receivables	361,560	716,094
Prepaid expenses	100,010	104,920
Inventories	1,815,672	1,616,009
	<b>2,048,052</b>	2,997,260
Non current assets		
Property and equipment	87,681	86,065
Intangible assets	3,308,218	3,072,835
Goodwill	925,606	1,282,606
	<b>4,321,505</b>	4,441,506
<b>TOTAL ASSETS</b>	<b>6,369,557</b>	7,438,766
<b>LIABILITIES</b>		
Current liabilities		
Trade and other payables	1,012,999	1,179,015
Professional Allocation	1,451,442	1,527,703
Impôt sur le bénéfice	58,788	58,788
Loans payable	5,023,182	4,269,514
Deferred tax assets	982,396	982,396
<b>TOTAL LIABILITIES</b>	<b>8,528,807</b>	8,017,416
<b>TOTAL Discontinued Operations</b>	<b>(2,159,250)</b>	(578,650)

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three months ended October 31, 2018 and 2017

(Tabular amounts in Canadian dollars, unless otherwise noted)

The following table presents the results from discontinued operations for the three-month period ended October 31, 2017 and 2018:

Statements of loss and comprehensive loss for Discontinued Operations For the three months ended October 31, 2018 and 2017 (in Canadian dollars)	October 31, 2018	October 31, 2017
Revenues	<b>1,296,613</b>	1,860,090
Cost of revenues	<b>881,616</b>	1,463,573
	<b>414,997</b>	396,517
Selling and administrative expenses	<b>748,001</b>	660,886
	<b>748,001</b>	660,886
Earnings before depreciation, amortization, finance costs and income taxes:	<b>(333,004)</b>	(264,369)
Depreciation of property and equipment	<b>5,741</b>	5,452
Amortization of intangibles	<b>139,329</b>	152,870
Net finance costs	<b>15,157</b>	8,010
<b>Income (loss) before income tax</b>	<b>(493,231)</b>	(430,701)
Deferred income tax expense (recovery)	<b>—</b>	8,384
<b>Net income (loss) and comprehensive loss for the period</b>	<b>(493,231)</b>	(439,085)

(Tabular amounts in Canadian dollars, unless otherwise noted)



## LONG-TERM DEBT

	At October 31, 2018	At July 31, 2017
Balance of purchase price bearing interest at 8% repayable by bi-annual installments, maturing in May 2018	813,993	813,993
Long-term debt bearing interest at prime rate plus 1%, repayable monthly by installments of \$1,560 and maturing in February 2021	43,680	48,360
Long-term debt bearing interest at prime rate plus 4%, repayable monthly by installments of \$830, and maturing in October 2021	29,880	32,370
Loan from a Canadian chartered bank <sup>(1)</sup> (the “ <b>Loan from a Canadian chartered bank</b> ”), 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 \$543,750 and \$634,375 and a final payment of \$2,950,747 maturing in August 2021, net of transaction costs of \$204,790	9,510,416	10,077,404
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	1,322,427	1,322,427
Loan bearing interest at 5.73% repayable by monthly installments of \$401 including interest, and maturing in May 2023	19,354	20,270
Loan bearing interest at 5.94%, repayable by monthly installments of \$514 including interest, and maturing in October 2023	26,650	27,787
Loan bearing interest at 5.99%, repayable by monthly installments of \$800 including interest, and maturing in december 2024	49,413	51,057
Loan bearing interest at 5.99%, repayable by monthly installments of \$800 including interest, and maturing in december 2023	34,069	—
Long-term debt bearing interest at 6.50%, repayable by monthly installments of \$3,852 and maturing in october 2020	92,447	104,003
<b>Promissory notes</b> <sup>(2)</sup> with shareholders, bearing interest at 18% calculated and compounded annually, convertible into Class “A” common shares anytime at a conversion price equal to the 20-day average trading period prior conversion	1,685,000	1,685,000
Unsecured loan with a shareholder, without interest and no payment terms	620,000	620,000
	<b>14,247,329</b>	14,802,670
Less: Current maturity of long-term debt	<b>12,362,037</b>	12,937,465
	<b>1,885,292</b>	1,865,205

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended July 31, 2018 and 2017

(Tabular amounts in Canadian dollars, unless otherwise noted)

(1) The loan is secured by a first mortgage on the Corporation's present and future accounts receivable, tangible and intangible properties. 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%.

(2) On October 16, 2017, main shareholders, in accordance with the forbearance agreement with the lender of the Loan from a Canadian chartered bank, injected \$1,690,000 in the form of convertible promissory notes bearing interest at 18% annually.

As at October 31, 2018, the Corporation was in breach of both of its financial covenant under the Loan from a Canadian chartered bank. Accordingly, the loan from a Canadian chartered bank and the promissory notes with shareholders have been presented as short-term liabilities.

The amounts payable for the next five years are as follows:

	At October 31, 2018	At July 31, 2018
Less than 1 year	12,503,895	13,079,323
Between 1 and 5 years	1,336,293	1,316,207
More than 5 years	623,057	623,057
Total amounts payable	14,463,245	15,018,587
Less: Financing fees	(215,917)	(215,917)
	14,247,328	14,802,670

### INTEREST RATE SWAP ("NBF LOAN")

The NBF Loan requires the Corporation to enter into interest rate swaps to convert the variable rate to a fixed rate as described above for an amount at least of 50% of the NBF Loan. The Corporation has the following interest rate swap at October 31, 2018:

	National amount	Maturity date	Floating rate	Fixed rate	2018
Interest rate swap	6,715,313	August 19, 2021	CDOR	1.11%	197,854
					197,854

Under the interest rate swap agreements, the notional amount declines at a similar rate as the principal reduction in the loans. During the period, an unrealized loss on \$45,757 (October 31, 2017-\$45,757) was recognized in the statement of comprehensive loss.

## 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.

The Corporation also issued series A preferred shares (the "Preferred Shares") convertible into Class "A" common shares of the Corporation at anytime up to June 29, 2020 at a conversion price of \$0.35 per share. Furthermore, the 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 Preferred Shares shall not be entitled to any fixed dividend entitlement, but shall participate in all dividends declared on the Class "A" common shares on an "as converted" basis.

For the three months ended October 31, 2018 the change in fair value of derivatives resulted in a gain of \$56,131 (October 31, 2017 – gain of \$56,131) and was recorded in the consolidated statements of loss and comprehensive loss.

The following summarizes the carrying values of the host and derivative components of the Preferred Shares for the three months ended October 31, 2018:

		Liability Component			Equity
		"Preferred shares-host"	Conversion Option	Total	Warrants
Face Value		Carrying Value			
Balance at July 31, 2018		2,682,882	255,521	2,938,403	41,235
Accretion expense		—	—	—	—
Change in fair value of the derivative		481,599	(87,471)	394,128	—
Balance at October 31, 2018		3,164,481	168,050	3,332,531	41,235

### ESCROWED SHARES

At October 31, 2018, a total of 5,088,890 outstanding Class A common shares are held under an escrow agreement and are to be released on a staged basis as follows: February 18, 2019: 1,908,333 and August 18, 2019: 3,180,557.

### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended July 31, 2018 and 2017

(Tabular amounts in Canadian dollars, unless otherwise noted)

### WARRANTS

The following is a continuity of the warrants outstanding at October 31, 2018:

	Number of warrants	Weighted average Exercisable price
Balance, at July 31, 2018	11,971,428	0.68
<b>Balance, at October 31, 2018</b>	<b>11,971,428</b>	0.68

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

Exercise price	At July 31, 2018		At October 31, 2017	
	Expiry date	Number	Expiry date	Number
0.68	October 20, 2021	11,971,428	October 20, 2021	11,428,571

## 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 (October 31, 2017 – net loss of \$869,290) and a weighted average number of Class A common shares of (October 31, 2017 – 42,362,757).

### DILUTED LOSS PER SHARE

The effect of potential issuances of shares under stock options, warrants and preferred shares would be anti-dilutive for the three months ended October 31, 2018 and 2017, and accordingly, basic and diluted loss per share are the same.

# 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 8,477,551 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:

	As October 31, 2018		At October 31, 2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance	2,575,000	0.15	2,575,000	0.15
Issuance	1,150,000	0.25	—	—
Balance, end of the period	3,725,000	0.18	2,575,000	0.15
Options exercisable, end of the period	2,954,500	0.17	2,575,000	0.15

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

Exercise price	Number of options	Options outstanding	Options exercisable
		Weighted average remaining contractual life (in years)	Number of options
0.15	2,325,000	1.31	2,325,000
0.20	250,000	1.59	250,000
0.25	1,150,000	4.23	379,500
	3,725,000	2.23	2,954,500

Of the options outstanding at October 31, 2018, a total of 1,950,000 (July 31, 2018 – 1,950,000) are held by key management personnel.

## 15 SELLING AND ADMINISTRATIVE EXPENSES

	2018	2017
Salaries and fringe benefits	285,047	182,579
Insurance	24,604	13,961
Repairs and maintenance	17,075	12,531
Rental fees	34,145	26,895
Travel	53,042	10,622
Meals and entertainment	34,286	18,065
Share-based compensation	33,542	—
Supplies and office expenses	49,629	41,300
Telecommunications	15,491	12,364
Professional fees	726,107	373,730
Management fees	—	25,767
Regulatory and filing fees	5,339	8,512
	1,278,306	726,326

## 16 FINANCE COSTS

	2018	2017
Accreted interest	394,128	250,059
Fair value adjustment of the Conversion option	(87,471)	(56,131)
Unrealized (gain) loss derivative financial instrument	8,365	3,572
Financial costs	432,653	256,207
Net finance costs (income)	747,675	453,707



## SEGMENTED INFORMATION

The Corporation provides information on two reporting segments: Pharmacy Services and Pharmaceutical Solutions. The profitability measure employed by the Corporation for assessing segment performance is segment income.

Information pertaining to each segment for the year ended October 31:

	Pharmacy Services		Pharmaceutical Solutions		Corporate and others		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Revenues	3,473,761	3,434,458	1,476,169	1,259,380	—	—	4,949,930	4,693,838
Segment operating income (loss)	(172,134)	302,827	(163,217)	(202,651)	(223,623)	114,552	(558,974)	214,728
“Segment income (loss)” <sup>(1)</sup>	(172,134)	302,827	(163,217)	(202,651)	(223,623)	114,552	(208,255)	214,728

<sup>(1)</sup> The Corporation uses primarily one measure of profit to make decisions and assess performance being gross margin less operating expenses.

<sup>(2)</sup> Per consolidated interim statements of loss, corresponds to Loss before depreciation, amortization, finance costs and income taxes.



## 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

	October 31, 2018	July 31, 2018
Cash	—	411,782
Restricted cash	1,461,800	870,000
Trade and other receivables	4,750,704	4,247,046
Loan receivable	3,500,745	3,417,323
	9,713,249	8,946,151

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended July 31, 2018 and 2017

(Tabular amounts in Canadian dollars, unless otherwise noted)

### FINANCIAL LIABILITIES RECOGNIZED AT AMORTIZED COST

	October 31, 2018	July 31, 2018
Bank overdraft	561,601	—
Bank indebtedness	1,769,700	2,085,950
Trade and other payables (excluding sales tax payable)	3,363,363	3,201,782
Shares to be issued	1,461,800	870,000
Long-term debt	14,247,328	14,802,670
Preferred shares - host component	3,164,481	2,682,882
	<b>24,568,273</b>	<b>23,643,284</b>

### 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. 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);

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.

	2018	2017
Interest rate swap (level 2)	197,854	189,489
Preferred shares—conversion options (level 3)	(168,050)	(255,521)

### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended July 31, 2018 and 2017

(Tabular amounts in Canadian dollars, unless otherwise noted)

### RISK MANAGEMENT FRAMEWORK

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

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

### a) CREDIT RISK

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

- No single customer accounts for more than 10% of the Corporation's revenue;
- Approximately 77% (July 31, 2018 – 86%) 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:

	October 31, 2018		July 31, 2018	
	Total	Impairment	Total	Impairment
Not past due	2,898,637	—	2,983,403	—
Past due 1–30 days	300,227	—	460,579	—
Past due 31–60 days	148,574	—	261,262	—
Past due more than 60 days	1,322,997	(29,772)	444,214	(29,772)
	4,670,435	(29,772)	4,149,458	(29,772)

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 Corporation's entities 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; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. The Corporation monitors its short and medium-term liquidity needs on an ongoing basis using forecasting tools.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended July 31, 2018 and 2017

(Tabular amounts in Canadian dollars, unless otherwise noted)

	Less than 1 year	Between 1 and 5 years	More than 5 years
Bank indebtedness	1,769,700	—	—
Trade and other payables (excluding sales tax)	3,404,641	—	—
Long-term debt	12,503,895	1,336,293	623,057
	17,678,236	1,336,293	623,057

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 October 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 June 30, 2018.

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

### c) MARKET RISK

#### Interest rate risk

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

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

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

**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 period.



**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:

	2018	2017
Less than 1 year	<b>223,278</b>	270,479
Between 1 and 5 years	<b>1,037,781</b>	1,035,306
More than 5 years	<b>504,142</b>	504,142
	<b>1,765,201</b>	1,809,927

On August 23, 2018, the Corporation received a formal notification from the holder of the Series A Preferred Shares alleging breaches of certain contractual provisions by the Corporation and demanding, among other things and claims, redemption or acquisition of all Series A Preferred Shares at principal plus any accrued but unpaid dividends (note 13) and repayment of their pro rata share of the Promissory notes plus accrued but unpaid interest (note 11).

Management of the Corporation believes the claims to be unfounded and formally responded in writing to that effect to the Preferred Shares holder on September 7, 2018. There have been no reply or development from the Preferred Shares holder following such formal response. Management intends to defend and contest any and all claims brought forward in the formal notification received from the Preferred Shares holder. The outcome of any further action on this matter is undeterminable at this time and therefore, no adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications have been reflected in the consolidated financial statements

## 20 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 personnel consist of the Corporation's Board of Directors and corporate officers. The key management personnel received a total remuneration of \$245,000 (October 31, 2017 – \$245,000).

The Corporation has the following amounts owing to key management personnel as at October 31:

	October 31, 2018	July 31, 2018
Trade and other payables	397,121	500,632
Advance to a shareholder	(573,384)	—
	(176,263)	500,632

## 21 SUBSEQUENT EVENTS

### SALE OF SUBSIDIARIES

On November 16, 2018, the Corporation signed a Letter of Intent for the sale of 80% of its investment in Pharmapar Inc. The Letter of Intent, which becomes binding on November 28, 2018, provides for a closing date of December 31, 2018 and is predicated upon the results of a due diligence and the required approvals from both parties' Board of Directors, from the Corporation's creditors and lenders and from the TSX Venture Exchange.

The transaction contemplated by the parties would provide the Corporation with \$4,000,000 in exchange for 80% of the issued and outstanding shares of Pharmapar Inc. The consideration would be received in three payments. First, on November 28, 2018, \$1,000,000 to be collected and would be refundable if the parties decide not to pursue the transaction before December 15, 2018. Then, a second payment of \$2,000,000 has to be received by the end of January 2019, and a third payment on the closing date for \$1,000,000. Un prolongation jusqu'a été accepté par les parties pour compléter le due diligence.

#### FINANCING

On November 7, 2018, KDA Group Inc. announced a private placement with accredited investors totaling 13,930,333 units at a price of \$0.15 per Unit for total gross proceeds of \$2,089,550. Each Unit is comprised of one Class A Share of KDA Group and one warrant. Each Warrant entitles the holder to purchase one Class A Share at an exercise price of \$0.20 per share for a period of 24 months ending November 7, 2020. The securities issued in connection with the Private Placement are subject to a four-month hold period expiring on March 8, 2019. KDA Group will use the Private Placement proceeds for its working capital, general expenses and the settlement of short-term debts except those to subscribers.

On December 17, 2018, KDA Group Inc. announces that it proposes to make a private placement of a maximum of 26,666,666 Class A Shares of KDA Group at a price of \$0.15 per Common share. The private

placement is expected to close in the coming weeks. The Corporation plans to use the proceeds of the financing for its cash flow activities and for general corporate purposes. The private placement remains subject to the approval of the TSX Venture Exchange.

On December 28, 2018, the corporation announced that, subject to regulatory approval, it has reached agreements to settle indebtedness to creditors totaling \$585,000 in exchange for the issuance of 3,900,000 Class A Shares of KDA Group at a price of \$0.15 per Common share. The Debt Settlement remains subject to the approval of the TSX Venture Exchange. All securities to be issued under the Debt Settlement will be subject to a hold period of four months and one day from the date of issuance in accordance with applicable securities regulations.