

**MANAGEMENT
DISCUSSION
AND ANALYSIS OF**



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

KDA Group Inc.

KDA GROUP INC.

Management discussion and analysis

TSX VENTURE: KDA

December 31, 2018

The following management's discussion and analysis (the "MD&A") objective is to help the reader better understand the activities of KDA Group Inc., ("KDA" or the "Corporation"), and the highlights of its consolidated financial situation. It explains the consolidated financial situation and the results of its operations for the three-month period (the "First quarter") and for the year ended October 31, 2018, and the comparison of the Corporation's consolidated statement of financial position as at October 31, 2017.

The MD&A has been prepared in accordance with Regulation 51-102 and should be read in conjunction with the audited consolidated financial statements of the Corporation for the fiscal year ended July 31, 2018, and the related notes thereto.

The condensed interim consolidated financial statements and this MD&A have been reviewed by the Audit Committee and approved by the Corporation's Board of Directors on December 31, 2018. Unless otherwise indicated, all the amounts in this MD&A are in Canadian dollars.

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

FORWARD-LOOKING STATEMENTS

Some statements contained in this MD&A, especially the opinions, the projects, the objectives, the strategies, the estimates, the intent and the expectations of the Corporation that are not historical data, are forward-looking statements. Such statements can be recognized by the terms "forecast", "anticipate", "consider", "foresee" and other terms and similar expressions. The statements are based on information available at the time they are made, on assumptions established by the management and on the management expectation, acting in good faith, concerning future events and concerning, by their nature, known and unknown risks and uncertainties mentioned herein (see the section Risks and uncertainties). The real results for the Corporation could differ materially.

Consequently, it is recommended not to rely upon unduly these forward-looking statements. The forward-looking statements do not reflect the potential incidence of special events which could be announced or take place after the date of this MD&A. Except if the applicable legislation requires it, the Corporation does not intend to update these prospective statements to reflect new information or future events, and it is by no means committed doing so.

REPORTING ENTITY, NATURE OF OPERATIONS AND SCOPE OF ACTIVITIES

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

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

HIGHLIGHTS FOR THE FIRST QUARTER ENDED OCTOBER 31, 2018

FORBEARANCE AGREEMENT

On October 16, 2017, main shareholders, in accordance with the forbearance agreement with the lender of the loan with a Canadian chartered bank 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 December 11, 2017, the forbearance agreement has been subsequently extended until June 1, 2018, with the same conditions as described previously. The Corporation remains current in terms of debt repayment but was in breach of its financial covenant considered in the latest extended forbearance agreement.

On March 1st, 2018, a formal notification was received from the Corporation's banker because we were not in compliance with the revised covenants. The notification confirms the default situation and requests a remediation plan to be deposited no later than March 30, 2018.

In May 2018, the Corporation and its lender amended the forbearance agreement extending it to July 31, 2018. Pursuant thereto, the Corporation agreed to certain budgetary and expenditure restrictions, together with a commitment for an additional \$350,000 shareholder loan (received), and a one-time principal repayment holiday.

The forbearance agreement was subsequently extended to February 28, 2019. The Corporation remains current in terms of debt repayment.

SALE OF BIOMED (2002) INC.

On November 15, 2017, the Corporation sold Biomed (2002) Inc., a wholly owned subsidiary, for a total consideration of \$1,950,000. The sale included cash consideration of \$1,850,000 reduced by immediate payment of accrued pharmacists' compensation valued at \$722,622. The balance of sale of \$100,000 have not been received by June 1, 2018, because of adjustment of the working capital.

SALE OF PHAPMAPAR INC.

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.

BUSINESS ACQUISITIONS

INVESTMENT IN CANNORTH MEDIC INC.

On July 3, 2018, KDA announced a participation in a new subsidiary of the Corporation, CanNorth Medic Inc. ("CanNorth") of which it holds 51%. The creation of this subsidiary does not result from the acquisition of a corporation, so no sales agreement has been concluded. In addition, the 49% minority shareholders of CanNorth are at arm's length to the Corporation.

The Corporation's majority interest in CanNorth will allow the Corporation to offer cannabis products for medical purposes to patients. CanNorth will operate in accordance with all applicable laws, rules and regulations.

CanNorth's operations are at a preliminary stage and currently generate no income or sales and CanNorth currently has no significant assets or liabilities. All of its operations are located in Canada and CanNorth does not currently have any operations in the United States and does not plan to operate in the United States.

AGREEMENT WITH ZOOMMED INC.

On June 1st, 2018, KDA announced that it entered in an agreement with ZoomMed Inc ("ZoomMed"), whereby KDA can distribute under a non-exclusive license the ZRx Prescriber developed by ZoomMed in the United States. The Corporation and ZoomMed were also expecting to conclude a joint venture agreement in order to unite their expertise for the development and commercialization of the ZRx Prescriber in the US market. KDA Group and ZoomMed are arms' length parties.

Within the context of the agreement, KDA Group would have issued ZoomMed 10,000,000 common class A shares of its share capital (the "Common Shares") at a deemed value of \$1,720,000, based on the average closing price of the Common Shares for the last 52 weeks to April 30th, 2018, being \$0.172 per Common Share.

The agreement and share issuance were subject to obtaining all required approvals, including the final approval of the TSX Venture Exchange.

On August 28, 2018, KDA announced that its Board of Directors has decided not to proceed with the project and to terminate the agreement between the Corporation and ZoomMed. Consequently, the Corporation will not issue the Common Shares to ZoomMed.

FINANCIAL PERFORMANCE

THREE MONTHS ENDED OCTOBER 31, 2018, COMPARED TO THREE MONTHS ENDED OCTOBER 31, 2017

For the First quarter ended October 31, 2018, the Corporation has generated \$4,949,931 of sales with a contribution margin of 21%. Revenue increased by \$2566,093 or 5%, as compared to the same period from the previous year; the increase was mainly driven by the pharmacy distribution sector. The contribution margin increased by \$119,290 as compared to the same period from the previous year because of the cost-reducing strategy adopted earlier this year by Group KDA.

PHARMACY SERVICES

For the First quarter ended October 31, 2018, the Corporation has generated \$3,473,761 of sales in the Pharmacy Services segment. Revenue increased by \$39,303 or 1%, as compared to the same period from the previous year. The personnel agency are facing an increase in the demand for technical laboratory employees in pharmacies during the summer months. The segment operating income reached \$939,483 an increase of \$208,427 as compared with \$731,056 from the same period of the previous year.

PHARMACEUTICAL SOLUTIONS

For the First quarter ended October 31, 2018, the Corporation has generated \$1,476,169 of sales, a decrease of \$582,054 or 28% as compared with the

same period last year. The segment income reached \$120,862 as compared to \$676,117 from the same period of the previous year.

Total consolidated selling and administrative expenses reached \$1,268,600 for the three-month period ended October 31, 2018, an increase of \$542,274 as compared to the same period from the previous fiscal year. Finance costs of \$747,675 versus \$453,707 an increase of \$293,968 compare to the same period from the previous year, were mainly driven by the interest on the long-term debt, the increase in the calculated fair value adjustment of the Conversion options to the preferred shares issued at the time of the acquisition and the accreted interest. An unrealized gain of derivative financial instruments was also recognized in line with the interest rate swap agreement.

The net loss and the comprehensive loss for the First quarter ended October 31, 2018, was \$1,643,374 or \$0.04 per share, compared to a loss of \$870,629 or \$0.01 per share for the same period during the previous fiscal year

SELECTED FINANCIAL INFORMATION

The following table summarizes the Corporation's selected key financial data taken from the consolidated statements of loss and comprehensive loss for the periods ended October 31, 2018, and 2017 as well as the consolidated statement of financial position as of October 31, 2018, and October 31, 2017.

(unaudited) (in \$)	For the three months ended October 31	
	2018	2017
Revenues	4,949,931	4,693,838
Cost of revenue	3,889,585	3,752,782
Selling and administrative expenses	1,278,306	726,326
Depreciation of property and equipment	15,471	5,272
Amortization of intangible assets	179,426	187,295
Net finance costs	747,675	453,707
Net loss per share	(0.04)	(0.02)

(unaudited) (in \$)	At October 31, 2018	At July 31, 2018
Bank Overdraft – Cash	(561,601)	411,782
Working capital, excluding cash	(11,986,792)	(10,976,910)
Total assets	27,899,159	28,035,314
Total liabilities	33,773,551	32,266,332
Net equity (deficiency)	(5,874,392)	(4,231,018)

**STATEMENT OF FINANCIAL POSITION
AS OF OCTOBER 31, 2018**

As at October 31, 2018, total assets of the Corporation were at \$23,805,178 a decrease of \$7,919,227 when compared to October 31, 2017. The decrease in the total assets is related to the impairment recognized in October 2018 combined with the selling of a subsidiary during the first quarter of fiscal 2018.

Management estimates that the net cash deficiency at the end of the year is serious and recognizes the requirement for a restructuring plan in order to improve operating

margins, additional financing will also be required; such actions should provide the Corporation with adequate funding in order to meet its short-term obligations and to continue its ongoing efforts in order to grow the business.

SELECTED QUARTERLY DATA

Operating results for each of the last 8 quarters are presented in the table below. The data related to these quarters were prepared in the same manner as that of the audited financial statements for the fiscal year ended July 31, 2018, and 2017.

	2019				2018			2017
(in \$)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	4,949,931	6,378,944	5,976,215	7,174,710	6,553,927	8,246,122	6,199,075	8,160,821
Net (loss) Income	(1,643,374)	(3,169,677)	(393,003)	(832,107)	(870,629)	(5,709,192)	771,654	(612,580)
Net (loss) Income per share	(0.04)	(0.07)	(0.01)	(0.02)	(0.02)	(0.13)	0.02	(0.02)

RELATED PARTY TRANSACTIONS AND COMMERCIAL OBJECTIVES

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

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

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

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management personnel includes those people having authority and responsibility for planning, directing and controlling the activities of the Corporation as a whole. The Corporation has determined that key management personnel consist of the Corporation's Board of Directors and corporate officers. During the year, the key management personnel received a total remuneration of \$139,859 (October 31, 2017 -\$245 000).

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

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

OFF-BALANCE SHEET AGREEMENTS

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

OBLIGATIONS, AND CONTRACTUAL COMMITMENTS AND CONTINGENCIES

The Corporation entered into operating leases expiring on various dates through May 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	223,278	270,479
Between 1 and 5 years	1,037,781	1,035,306
More than 5 years	504,142	504,142
	1,765,201	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.

SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

GOING CONCERN

The Corporation 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 three months ended October 31, 2018, the corporation reported a loss of \$1,643,374. As discussed in note 17 to its consolidated financial statements, the Corporation is in breach of its financial covenants with respect to its secured credit financing as of October 31, 2018, and has, therefore, reclassified the loan under current liabilities. The Corporation remains in discussions with its banker to remediate to the situation. The Bank could recall its credit facility and its loan should the Corporation fails with its remediation plan.

During the period, the Corporation addressed some of the uncertainties described above with the following actions:

- 1 The Corporation completed a private placement involving the issuance of 542,860 units (comprised of one Class “A” common shares and one full warrant) at a price of \$0.35 per unit for net proceeds of \$190,000;
- 2 The Corporation sold Biomed (2002) Inc. for a cash consideration of \$1,850,000 (reduced by the payment of accrued professional allowances of \$722,622) generating a loss of \$209,980 (note 4);
- 3 Following the above-mentioned transaction, the Corporation reimbursed partially its term loan by \$1,127,378 (note 11);
- 4 The Corporation hired a new Chief Executive Officer for its subsidiary involved in the generic drugs distribution.

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’s plans with respect to the uncertainties described are as follows:

- Investigating a range of alternatives to streamline its Pharmacy Services and Pharmaceutical Solutions business units and focus its efforts toward selected niche markets with the objective of ensuring the Corporation can generate sustainable, long-term profitability;
- Approaching potential lenders and investors to secure additional debt and/or equity financing.
- Divestiture of business units.

Management is 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 22 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, 2018. 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 further forbearance extensions will be granted.

BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

The Corporation consolidated financial statements 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 consolidated financial statements were approved and authorized for issuance by the Board of Directors on December 31, 2018.

BASIS OF MEASUREMENT

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

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

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

FUNCTIONAL AND PRESENTATION CURRENCY

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

USE OF ESTIMATES AND JUDGMENTS

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

- Notes 7 & 8 — 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 12 — 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 13 — 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 set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated. The accounting policies have been applied consistently by all the subsidiaries. Certain other accounting policies are presented in the notes to the Corporation consolidated financial statements.

BASIS OF CONSOLIDATION

i) 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 of July 31 are:

Name	Nature of services	2018	2017
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 Québec Inc.	Pharmacy Services	n.a	100%
Logistik Pharma Inc.	Pharmacy Services	100%	100%
Alliance Pharma Group L.L.P.	Pharmacy Services	99%	99%
Agence L.I.V. Inc.	Pharmaceutical Solutions	100%	100%
Pharmapar Inc.	Pharmacy Services	100%	100%
CanNorth Médic Inc.	Pharmaceutical products	51%	n.a.

ii) 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.

iii) Non-controlling interests

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

All significant inter-company transactions and balances have been eliminated.

FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

Non-derivative financial liabilities are comprised of bank indebtedness, trade and other payables (excluding sales tax payable), long-term debt and demand loans) and demand loan presented under current liabilities, note payable and preferred shares. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities at fair value through profit and loss include the derivative embedded in the Preferred Shares (derivative) (see note 13), which are initially recognized at fair value and carried subsequently at fair value with gains or losses recognized in the consolidated statements of loss and comprehensive loss.

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 amounts to be settled will vary based on the timing of the exercise as described in note 12.

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

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

INVENTORIES

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

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

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.

the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income or loss.

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

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.

REVENUE RECOGNITION

Revenues are derived from sales of goods, services or contracts. Revenues from goods are recognized at the fair value of the consideration received or receivable, net of returns, trade discounts and professional allowance. Revenues from services and contracts are recognized when it is realized or realizable and earned. Revenue is recognized when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the buyer, usually when the merchandise

is shipped; the recovery of the consideration is probable; the associated costs and possible return of goods can be estimated reliably; there is no continuing management involvement with the goods; and the amount of revenue can be measured reliably. Professional allowance and cash discounts granted to customers are accrued at the time of sale and recorded as a reduction of sales.

SEGMENTED INFORMATION

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

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

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

FINANCE INCOME AND FINANCE COSTS

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

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

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

INCOME TAXES

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

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

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

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

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, 2018 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. 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 Corporation is currently evaluating the extent of the impact of adoption of the standard on its consolidated financial statements.

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 Corporation is currently evaluating the extent of the impact of adoption of the standard on its consolidated financial statements.

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. The Corporation is currently evaluating the extent of the impact of adoption of the standard on its consolidated financial statements.

FINANCIAL RISK, MANAGEMENT OBJECTIVES AND POLICIES

RISKS

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

- credit risk
- liquidity risk
- market risk

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

RISK MANAGEMENT FRAMEWORK

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

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

a) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterpart 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 69% (July 31, 2017–88%) of the Corporation’s trade receivables are not past due or 30 days or less past due.

IMPAIRMENT LOSSES

The aging of trade receivables, excluding tax receivable and other receivable, 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 30–60 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 the Corporation and its subsidiaries are monitored closely and separately to ensure the Corporation optimizes its cash return on investment. Typically, the Corporation ensures that it has sufficient cash to meet expected operational expenses. The Corporation monitors its short and medium-term liquidity needs on an ongoing basis using forecasting tools.

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

	Less than 1 year	Between 1 and 5 years	More than 5 years
Bank indebtedness	1,769,700	—	—
Trade and other payables (excluding sales tax)	3,404,641	—	—
Long-term debt	12,503,895	1,336,293	623,057
	19,071,090	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-quarter basis. The second is a fixed charge coverage ratio. At October 31, 2018, 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 February 28, 2019. The Corporation remains current in terms of debt repayment but was in breach of its financial covenant considered in the latest extended forbearance agreement. The Corporation remains in discussions with its banker to remediate to the situation. The Bank could recall its credit facility and its loan should the Corporation fails with its remediation plan.

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 are 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 11). The interest rate swaps are measured at fair value and changes in interest rates will result in a change in fair value of the interest rate swaps. This change is recognized in earnings as a gain or loss in the year it occurs.

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

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

OTHER RISKS AND UNCERTAINTIES

The following are other risk factors facing the Corporation.

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

Legislation — The industry is trying to adapt to recent changes and obligations under Bill n°41, n°28 and proposed Bill 81. These bills impact day-to-day operations of pharmacists but will also impact significantly their overall compensation. Proposed Bill 81 relating to Prescription Drug Insurance in Quebec is an act to reduce the cost of certain medications covered by the basic prescription drug insurance plan by allowing calls for tender allowing the Minister of Health and Social Services to issue a call for tenders to add drugs to the Drugs List as well as, in relation to drugs having been the object of such a call for tenders, for the services of a wholesaler to supply the pharmacist owners.

On July 19, 2017, the Quebec Government announced having reached an agreement in Principle with the Association québécoise des pharmaciens propriétaires (“AQPP”) in order to determine various components of their compensation but also set expected savings from the Quebec Government of \$1.5 billion over a 5-year period. These savings would be achieved through additional price reductions and the launch of new generic drugs. This Agreement will allow the Quebec Government,

during those five years, to prevent the application of the calls for tender process permitted by law. It is a significative change as compared with all the uncertainty created in January 2017 when the Government decided to “uncap” the allowance returned to the pharmacists from generic drug distribution companies, such decision causing significant disruption in the industry as distribution companies started offering higher returns which directly impacted their profitability, including Pharmapar and Biomed, two wholly owned subsidiaries of the Corporation involved in the generic drug distribution in Quebec.

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

On October 5, 2017, Bill 148 entitled “An Act to regulate generic medication procurement by owner pharmacists and to amend various legislative provisions” was introduced to the National Assembly of Quebec. The bill provides that an owner may not, in a calendar year, procure generic medications entered on the list of medications from the same manufacturer more than 50% of the monetary value of all the generic medications purchased by the pharmacist during that year. The implementation date remains to be determined.

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

Compliance — Compliance considers the following areas: pharmacy laws and regulations, laws and regulations on protecting personal information, laws and regulations

governing the distribution and sale of drugs (including the ones governing the selling price of drugs), laws and regulations governing health insurance and drug insurance plans, laws and regulations regarding labour, laws and regulations governing product safety, approval and labelling (in particular for drugs and natural health products).

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

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

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

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

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

Credit Facilities — The Corporation's credit facilities and financing agreement mature on various dates. There can be no assurance that such credit facilities or financing

agreements will be renewed or refinanced, or if renewed or refinanced, that the renewal or refinancing will occur on equally favorable terms to the Corporation.

Credit Risks — The Corporation provides services to clients primarily in Canada. The concentration of credit risk to which the Corporation is exposed is limited due to the significant number of customers that make up its client base and their distribution across different geographic areas. Furthermore, no client accounted for more than 10% of the Corporation's total accounts receivable as of July 31, 2018.

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

CAPITAL MANAGEMENT

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

- To ensure proper capital investment in order to provide stability and competitiveness to its operations;
- To ensure sufficient liquidity to pursue its growth strategy and undertake selective acquisitions;
- To maintain an appropriate debt level so that there is 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 levels of borrowing and the advantages and security by a sound capital position.

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

SUBSEQUENT EVENTS

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.

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.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

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

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