

CONDENSED
CONSOLIDATED
I N T E R I M
F I N A N C I A L
STATEMENTS OF



FOR THE THREE MONTHS
Ended October 31,
2019 | 2018

KDA Group Inc.

October 31, 2019 and 2018

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 condensed consolidated financial statements have been reviewed by the Audit Committee, who recommended their approval by the Board of Directors.

(signed)
Marc Lemieux

President and Chief Executive Officer

(signed)
Annie Mercier

Chief Financial Officer

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(In Canadian dollars)

	Note	At October 31, 2019	At July 31, 2019
ASSETS			
Current assets			
Cash		1,674,373	1,233,334
Trade and other receivables	6	3,515,432	3,243,109
Prepaid expenses		117,840	93,886
Loans receivable from shareholders		1,426,323	989,664
		6,733,968	5,559,993
Non current assets			
Investment		700,000	700,000
Property and equipment	7	803,862	605,543
Intangible assets	8	2,477,227	2,626,010
Goodwill	9	6,310,861	6,310,861
Deferred tax assets		283,487	283,487
		10,575,437	10,525,901
TOTAL ASSETS		17,309,405	16,085,894
LIABILITIES			
Current liabilities			
Bank indebtedness	10	471,250	1,251,250
Trade and other payables	11	2,906,224	3,674,901
Provision	5	1,844,335	1,844,335
Deferred Revenues		112,043	243,350
Due to Shareholder, without Interest		1,000,000	1,000,000
Income taxes payable		116,483	142,493
Current maturity of long-term debt	12	5,339,585	7,545,789
		11,789,920	15,702,118
Non current liabilities			
Long term debt	12	745,288	472,458
Preferred shares	13	7,442,661	5,972,762
Deferred tax liabilities		519,004	519,004
		8,706,953	6,964,224
TOTAL LIABILITIES		20,496,873	22,666,342
EQUITY (DEFICIENCY)			
Share capital	13	22,954,069	18,439,819
Shares to be issued		—	575,000
Contributed surplus		817,291	712,830
Other comprehensive loss		(220,500)	(220,500)
Deficiency attributable to shareholders		(26,230,465)	(25,667,901)
Equity attributable to non-controlling interest		(507,862)	(419,696)
TOTAL EQUITY (DEFICIENCY)		(3,187,469)	(6,580,448)
TOTAL LIABILITIES AND EQUITY		17,309,405	16,085,894

Going concern 1
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The accompanying notes are an integral part of the condensed consolidated interim financial statements.

On behalf of the Board :

(Signed)
 Marc Lemieux, Director

(signed)
 Annie Mercier

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(In Canadian dollars, except per share amounts)

	Note	Three months ended October 31, 2019	Three months ended October 31, 2018
Revenues ^{A8:C40A8:C3A8:D46}		5,513,442	4,949,931
Cost of revenues		4,535,282	3,889,585
		978,160	1,060,346
Selling and administrative expenses		1,809,082	1,268,600
Loss before depreciation, amortization, finance costs and income taxes:		(830,922)	(208,254)
Depreciation of property and equipment	7	30,341	16,471
Amortization of intangible assets	8	148,784	188,424
Operating loss before the following:		(1,010,047)	(413,149)
Net finance costs	16	1,783,834	747,675
Loss before income tax		(2,793,881)	(1,160,824)
Income tax expense (recovery)		(5,000)	(10,681)
		(5,000)	(10,681)
Net loss from continuing operations		(2,788,881)	(1,150,143)
Net loss from discontinued operations	5	—	(493,231)
Net loss		(2,788,881)	(1,643,374)
Other Comprehensive Loss			
Change in the fair value of available-for-sale financial assets		—	—
Deferred income tax recovery		—	—
Total loss and comprehensive loss		(2,788,881)	(1,643,374)
Net loss attributable to:			
Equity holders of KDA Group Inc.		(2,700,715)	(1,556,969)
Non-controlling interest		(88,166)	(86,405)
		(2,788,881)	(1,643,374)
Loss per share			
Basic loss per share	14	(0,02)	(0,03)
Diluted loss per share	14	(0,02)	(0,03)

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, 2019 And 2018

	Total Equity (Deficiency) attributable to shareholders											
	Number of shares	Class "A" Common shares	Shares to be issued	Contributed surplus	Convertible Debenture in shares	Warrants reserve	Premium on convertible shares	Equity (Deficiency)	Total	Other Comprehensive Loss	Non-Controlling Interest	Total Total Equity (Deficiency)
(in Canadian dollars, except number of shares)												
Balance at July 31, 2019	86,760,947	18,439,819	575,000	712,830	—	797,526	(2,371,363)	(24,094,064)	(25,667,901)	(220,500)	(419,696)	(6,934,948)
Issuance of units	19,720,000	3,067,850	(575,000)	27,600	—	1,834,550	—	—	1,834,550	—	—	4,930,000
Debt Settlement	7,925,000	1,446,400	—	—	—	303,600	—	—	303,600	—	—	1,750,000
Stock-based compensation	—	—	—	76,861	—	—	—	—	—	—	—	76,861
Net loss and comprehensive loss for the period	—	—	—	—	—	—	—	(2,700,715)	(2,700,715)	—	(88,166)	(2,788,881)
Balance at October 31, 2019	114,405,947	22,954,069	—	817,291	—	2,935,676	(2,371,363)	(26,794,779)	(26,230,466)	(220,500)	(507,862)	(2,966,968)
Balance at July 31, 2018	42,930,614	12,621,560	870,000	382,721	43	41,235	(1,621,406)	(15,578,127)	(17,158,255)	—	(77,044)	(4,231,018)
Issuance of units	—	—	591,780	—	—	—	—	—	—	—	—	—
Debt Settlement	—	—	—	—	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	—	—
Net loss and comprehensive loss for the period	—	—	—	—	—	—	—	(1,556,969)	(1,556,969)	—	(86,405)	(1,643,374)
Balance as at October 31, 2018	42,930,614	12,621,560	1,461,780	382,721	43	41,235	(1,621,406)	(17,135,096)	(18,715,224)	—	(163,449)	(5,874,392)

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
Three months ended October 31, 2019 and 2018

(in Canadian dollars)

(in Canadian dollars)	Note	2019	2018
Cash flows from operating activities :			
Net loss for the period		(2,788,881)	(1,643,374)
Net loss from discontinued operations		—	(493,231)
		(2,788,881)	(1,150,143)
Adjustments for:			
Depreciation of property and equipment	7	30,341	15,763
Amortization of intangible assets	8	148,784	179,426
Stock-based compensation	15	76,861	—
Unrealized (gain) loss on derivative financial instruments		—	(8,365)
Accreted interest	16	927,502	394,128
Fair value adjustment of the conversion option	16	542,397	(87,471)
		(1,062,995)	(239,084)
Changes in non-cash elements of working capital		(642,048)	669,125
		(1,705,043)	430,041
Cash flows from investing activities:			
Additions to property and equipment	7	(203,136)	(198,391)
Proceeds from the sale of a subsidiary		—	
Additions to intangible assets	8	—	(250,000)
(Increase) decrease in loan receivable		(436,659)	(83,422)
		(639,795)	(531,814)
Cash flows from financing activities:			
Proceeds from long-term debt	12	—	34,069
Repayment of long-term debt	12	(1,933,374)	(589,410)
Proceeds from issuance of units			
Proceeds from issuance of shares	13	4,514,250	—
Increase in restricted cash		—	(591,800)
Shares to be issued		(575,000)	591,780
Increase in the bank indebtedness	9	780,000	(316,250)
		2,785,876	(871,611)
Net increase in cash		441,039	(973,384)
Cash, beginning of the period		1,233,334	411,782
Cash, end of the period		1,674,373	(561,601)
Supplemental information			
Interest paid		(1,241,437)	(694,497)

The accompanying notes are an integral part of the condensed consolidated interim 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, 2019 and 2018 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, 2019, the Corporation reported a loss of \$2,788,881 has negative working capital of \$5,055,952 and has an accumulated deficit of \$26,230,465 at that date.

During the period, to improve its profitability the corporation:

- Completed a private placement with accredited investors totaling 19,720,000 units for gross proceeds of \$4,930,000.
- Realized a debt settlement of 4,625,000 Class A Shares at a price of \$0.20 per common share for a gross proceeds of \$925,000.
- Completed agreement to settle indebtedness to a creditor totaling \$825,000 in exchange of 3,300,000 Class A Shares at a price of \$0.25 per common share and 1,650,000 warrants.

- Has a focus on the development of cannabis subsidiary CanNorth Medic Inc. and wants to become a global leader in Cannabis cultivation with a vision to offer patients innovative and high-quality cannabis-based products for medical use.

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. In addition, as discussed in note 12 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 March 31, 2020. 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 condensed consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Corporation were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

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, 2019.

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on December 27, 2019.

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 condensed consolidated interim 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, 2019.

They were no other new critical judgments, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment described in the last consolidated financial statement for the year ended July 31, 2019.

3 SIGNIFICANT ACCOUNTING POLICIES

a) The accounting policies described in the annual audited consolidated financial statements for the year ended July 31, 2019 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.

b) These condensed consolidated interim financial statements have been prepared following the same accounting policies and methods of computation as the audited annual consolidated financial statements for the year ended July 31, 2019, except for the following new accounting standards and amendments to standards and interpretations, which were effective August 1, 2019, and were applied in preparing these condensed consolidated interim financial statements. These are summarized as follows:

IFRS 16 – Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate

used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The Corporation adopted IFRS 16 effective August 1, 2019, with no adjustment to its condensed consolidated interim financial statements.

IAS 12 Income taxes

The amendments clarify that the Corporation accounts for the tax consequences of dividends in net income, other comprehensive income or equity, according to original recognition of the transactions or events that generated distributable profits resulting in dividends.

IAS 23 Borrowing Costs

The amendments clarify that, when a qualified asset is ready for its intended use or sale, the Corporation must treat any outstanding borrowing costs contracted specifically for the purpose of securing the relevant asset as generally borrowed funds.

IFRIC 23

IFRIC 23 - Uncertainty over Income Tax Treatments In June 2017, the IASB issued IFRIC Interpretation 23 - Uncertainty over Income Tax Treatments. This interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Corporation adopted IFRIC 23 effective August 1, 2019, with no adjustment to its condensed consolidated interim financial statements.

c) Future Changes in Accounting Policies

At the date of authorization of these condensed consolidated interim financial statements, new standards and interpretations of existing standards and new amendments have been issued, but are not yet effective, and the Corporation has not adopted them early. The Corporation has not yet assessed the impact of these standards and amendments. Management expects that all pronouncements, not yet effective, will be adopted in the Corporation's accounting policies during the first financial year beginning after the effective date of each pronouncement.

INVESTMENT IN CANNORTH MEDIC

On July 3, 2019 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 sale agreement has been concluded. In addition, the 49% minority shareholders of CanNorth are at arm's length to the Corporation.

The Corporation 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 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.

KDA has successfully completed the preliminary and high-level review of its licence application for the cultivation of cannabis for medical purposes, as confirmed by health Canada on May 10, 2019. This confirmation under the Cannabis Regulations by health Canada represents an important milestone on which the Corporation has been working for several months.

On October 2018, KDA created a new compagnie, CanNorth Medic International Inc. (CanNorth int'l) of which it holds 80%. The creation of this subsidiary does not result from the acquisition of a corporation, so no sale agreement has been concluded. In addition, the 20% minority shareholders of CanNorth are at arm's length to the Corporation.

The Corporation's majority interest in CanNorth Int'l will allow the Corporation to operate a nursery for the cultivation of cannabis and to distribute cannabis products for medical purpose to patients, in Canada and other countries in accordance with all applicable laws, rules and regulations.

5 DISCONTINUED OPERATION

On February 15, 2019, KDA completed the sale of 80% of the issued and outstanding shares of Pharmapar Inc. to Strides Pharma Canada Inc. ("Strides"), for \$4,000,000. The consideration has been received in two payments: the first one, on December 5, 2018, for \$1,000,000 and the second one of \$2,803,195 on the closing date. The amount received at the closing date represent the due balance of the sale price minus the amounts of taxes payable of \$46,805 by Pharmapar Inc. ("Pharmapar") and an adjustment on the net working capital of \$150,000 as of December 31, 2018. The transaction is effective as of January 1, 2019.

Under the share sale agreement, KDA could pay to Stride an amount regarding the 2019 EBITDA (calendar year from January to December 31) non-achieve. Under the agreement, if the target EBITDA 2019 of \$700,000 is not achieve, KDA must pay the adjustment amount. As of July 31, 2019, the Corporation could estimate the 2019 EBITDA adjustment to \$1,844,335.

Resulting to the completion of the sale, the Corporation has kept 20% of the issued and outstanding shares of Pharmapar and recognized his investment at a fair value of \$1,000,000. As at July 31, 2019, KDA remeasured his investment at fair value and recognized a loss of \$300,000 in the other comprehensive loss.

At any time following the second anniversary of the effective date of the agreement, January 1, 2019 KDA or Stride shall have the right to require the purchase of all and not less than all of the shares held by KDA equal to the product obtained by multiplying a) 6 times of the EBITDA of Pharmapar for the last four quarters ending immediately prior to the delivery notice from KDA or Stride, by b) a fraction of the numerator of which is the total number of common shares to be purchased and the denominator of which is the total number of issued and outstanding common shares at the relevant date. The Corporation, as of July 31, 2019 had a loan receivable from Phamapar for an amount of \$350,000, with interest rate at 6%.

(in Canadian dollars)	2018
Revenues	1,296,613
Cost of revenues	881,616
	414,997
Selling and administrative expenses	748,001
Impairment charges	—
	748,001
Loss before depreciation, amortization, finance costs and income taxes:	(333,004)
Depreciation of property and equipment	5,741
Amortization of intangible assets	139,329
Operating loss before the following:	(478,074)
Net finance costs	15,157
Net loss from discontinued operations	(493,231)

Net cash flows used in discontinued operations	
Three months ended October 31, 2018	
Net cash (used) provided by operating activities (1)	(789,427)
Net cash (used) provided by investing activities	—
Net cash (used) provided by financing activities	—
Net cash flows used in discontinued operations	(789,427)
(1) Before net loss of discontinued operations of \$493,231	

6 TRADE AND OTHER RECEIVABLES

	At October 31, 2019	At July 31, 2019
Trade receivables	3,515,432	3,243,109
Sales tax receivable	—	30,621
	3,515,432	3,273,730

7 PROPERTY AND EQUIPMENT

	Leasehold improvements	Computer equipment	Furniture and fixtures	Equipment	Vehicles	Total
Cost						
Balance at July 31, 2019	297,429	285,380	31,212	162,424	141,860	918,305
Additions	188,799	6,337	8,000	—	—	203,136
Disposal	—	—	—	—	—	—
Balance at October 31, 2019	486,228	291,717	39,212	162,424	141,860	1,121,441
Depreciation						
Balance at July 31, 2019	32,378	220,405	19,520	—	14,935	287,238
Disposal	—	—	—	—	—	—
Depreciation for the period	3,613	18,297	1,338	—	7,093	30,341
Balance at October 31, 2019	35,991	238,702	20,858	—	22,028	317,579
Net carrying value						
At July 31, 2019	265,051	64,975	11,692	162,424	126,925	631,067
At October 31, 2019	450,237	53,015	18,354	162,424	119,832	803,862

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

8 INTANGIBLE ASSETS

	Training courses	Software	Web sites	Customer relationships	Non-compete agreements	Total
Cost						
Balance at July 31, 2019	91,236	1,844,391	95,384	2,478,998	1,074,999	5,585,008
Additions	—	—	—	—	—	—
Balance at October 31, 2019	91,236	1,844,391	95,384	2,478,998	1,074,999	5,585,008
Amortization						
Balance at July 31, 2019	91,236	1,420,746	82,816	676,400	687,800	2,958,998
Amortization for the period	—	14,354	855	61,975	71,600	148,784
Balance at October 31, 2019	91,236	1,435,100	83,671	738,375	759,400	3,107,782
Net carrying value						
At July 31, 2019	—	423,645	12,568	1,802,598	387,199	2,626,010
At October 31, 2019	—	409,291	11,714	1,740,623	315,599	2,477,227

9 GOODWILL

	Total
Balance at July 31, 2019	6,310,861
Impairment	—
Balance at October 31, 2019	6,310,861

10 BANK INDEBTEDNESS

As part of the Corporation's credit facility (as more fully described in note 12), the Corporation has authorized operating credits totaling \$1,800,000 (\$1,800,000 as of July 31, 2019), bearing interest at prime rate plus 2.50% per annum based on certain leverage ratios. The loan is secured by a first mortgage on the Corporation's present and future accounts receivable, tangible and intangibles properties.

11 TRADE AND OTHER PAYABLES

	At October 31, 2019	At July 31, 2019
Trade payables and accrued expenses	2,051,150	2,487,353
Provision	65,761	65,761
Salaries and vacations payable	332,276	364,367
Sales tax payable	—	147,085
Interest payable to shareholders	225,369	368,668
Dividend payable ⁽¹⁾	75,000	75,000
Lease inducement	156,667	166,667
	2,906,224	3,674,901

⁽¹⁾ Recorded before the reverse takeover transaction in 2015 from prior business combination in the acquired

The corporation's exposure to liquidity risk related to trade and other payables is disclosed in note 18

12 LONG-TERM DEBT

This note provides information about the contractual terms of the Corporation's interest-bearing long-term debts, which are measured at amortized cost. The Corporation's exposure to interest rate and liquidity risk is disclosed in note 18. The Corporation is in breach of its financial covenants with respect to its secured credit financing as at October 31, 2019, and has, therefore, reclassified the Loan from a Canadian chartered bank under current liabilities.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three months ended October 31, 2019 and 2018

(in Canadian dollars)

	At October 31, 2019	At July 31, 2019
(1) Balance of purchase price bearing interest at 12% repayable by bi-annual installments, matured in May 2018, converted in common shares subsequently (note 27)	—	825,259
Long-term debt bearing interest at prime rate plus 1%, repayable monthly by installments of \$1,560 and maturing in February 2021	24,960	29,640
Long-term debt bearing interest at prime rate plus 4%, repayable monthly by installments of \$830, and maturing in October 2021	19,920	22,410
Loan from a Canadian chartered bank ⁽²⁾⁽⁴⁾ (the “ Loan from a Canadian chartered bank ”), bearing interest at prime rate plus a spread varying between 2.50% - 4.35% per annum based on certain leverage ratios, repayable by monthly installments of \$85,000 maturing in March 2023, net of transaction costs of \$24,000 (\$113,065 as of July 31, 2018)	3,497,247	3,749,247
Balance of purchase price, non-interest bearing and net of accreted interest of \$57,400 (\$192,573 as of July 31, 2018), repayable by annual installments of \$320,000, maturing in June 2021. Converted in common shares subsequently (note 27)	1,364,775	1,357,600
Long-term debt bearing interest at 6.50%, repayable by monthly installments of \$3,852 and maturing in October 2020	46,223	57,779
Loan bearing interest at 6.99%, repayable by monthly installments of \$589 including interest, and maturing in July 2024	28,482	29,736
Loan bearing interest at 7.44%, repayable by monthly installments of \$777 including interest, and maturing in December 2025	45,394	46,832
Loan bearing interest at 6.99% repayable by monthly installments of \$514 including interest, and maturing in October 2025	30,159	31,162
Loan bearing interest at 7.74% repayable by monthly installments of \$472 including interest, and maturing in December 2025	27,713	28,582
Promissory notes ⁽³⁾ with shareholders, bearing interest at 18% calculated and compounded annually, without payment terms	1,000,000	1,690,000
Unsecured loan with a shareholder, with 6% of interest and no payment terms	—	150,000
	6,084,873	8,018,247
Less:		
Current portion due to breach of covenants	3,497,247	3,749,247
Current portion due to absence of payment terms debt	1,775,000	3,702,859
Current maturity of long-term debt	67,338	93,683
Total long-term debt	745,288	472,458

⁽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. The interest rate swap has been canceled.

⁽²⁾ On October 16, 2017, main shareholders, in accordance with the forbearance agreement injected \$1,690,000 in the form of convertible promissory notes bearing interest at 18% annually. The notes are convertible into Class A Shares of the Corporation anytime at a conversion price equal to the 20-day average trading period prior conversion. A total amount of \$925,000, representing the capital amount of \$690,000 plus interest at 18% have been converted after the year end (note 22).

As at July 31, 2019, 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, 2019	At July 31, 2019
Less than 1 year	5,142,205	7,569,789
Between 1 and 5 years	755,710	445,275
More than 5 years	207,958	27,183
Total amounts payable	6,105,873	8,042,247
Less : Financing fees	(21,000)	(24,000)
	6,084,873	8,018,247

13 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, 2019 the change in fair value of derivatives resulted in a loss of \$542,367 (October 31, 2018—gain of \$87,474) 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, 2019:

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three months ended October 31, 2019 and 2018

(in Canadian dollars)

	Preferred shares-host	Liability Component		Equity
		Conversion Option	Total	Warrants
		Carrying Value		
Balance at July 31, 2019	5,167,073	805,689	5,972,762	21,802
Accretion expense	927,532	—	927,532	—
Change in fair value of the derivative	—	542,367	542,367	—
Balance at October 31, 2019	6,094,605	1,348,056	7,442,661	21,802

On September 20, 2019, KDA announced a debt settlement with Marc Lemieux, President et Chief of the operation of KDA for a total amount of \$925,000 totalling 4,625,000 Class A Share of KDA at a price of \$0.20 per Class A share.

October 22, 2019, KDA announced a private placement totaling 19,720,000 units at a price of \$0.25 per Unit for total gross proceeds of \$4,930,000.

Each Unit consists of one Class A Share of KDA and one-half of one Common share purchase warrant. Each Warrant entitles the holder to purchase one additional Common share of the Corporation at an exercise price of \$0.40 per Common share for a period of 12 months ending October 22, 2020.

The Corporation paid a cash commission of \$27,600 in relation to this Private Placement and issued 110,400 non-transferable share purchase warrants (the "Broker warrants"). Each Broker warrant entitles the holder to purchase one Common share at an exercise price of \$0.25 per Common share for a period of 12 months ending October 22, 2020. All securities issued in connection with the Private Placement are subject to a mandatory four-month hold period expiring on February 23, 2020 in accordance with applicable securities regulations.

At the same date, the Corporation completed a debt settlement with a creditor totalling \$825,000 with the same terms as the Private Placement subscribers as disclosed above, meaning in exchange for the issuance of 3,300,000 Common shares at a price of \$0.25 per Common share and 1,650,000 Warrants.

■ ESCROWED SHARES

At October 31, 2019, there are no escrow shares. The 3,180,557 outstanding Class A common shares held under an escrow agreement were released on August 18, 2019.

■ 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.

■ WARRANTS

During the period, the Corporation paid a cash commission of \$27,600 in relation the Private Placement of \$4,930,000 and issued 110,400 non-transferable share purchase warrants. Each Broker warrant entitles the holder to purchase one Common share at an exercise price of \$0.25 per Common share for a period of 12 months ending October 22, 2020. All securities issued in connection with the Private Placement are subject to a mandatory four-month hold period.

Under the private placement Issued during the period, the corporation issued 11 510 000 warrants. Each warrant entitle the holder to purchase one Common share at an exercise price of \$0.40 per common share for a period of 12 months ending October 22, 2019.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three months ended October 31, 2019 and 2018

(in Canadian dollars)

The following is a continuity of the warrants outstanding at October 31, 2019:

	Number of warrants	Weighted average Exercisable price
Balance, at July 31, 2019	26,021,764	0.42
Issuance	11,620,400	0.40
Balance, at October 31, 2019	37,642,164	0.41

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

Exercise price	At October 31, 2019		At July 31, 2019	
	Expiry date	Number	Expiry date	Number
0.45	January 31, 2020	542,860	January 31, 2020	542,860
0.25	October 22, 2020	110,400	—	—
0.40	October 22, 2020	11,510,000	—	—
0.20	November 7, 2020	13,930,333	November 7, 2020	13,930,333
0.15	March 21, 2021	120,000	March 21, 2021	120,000
0.69	October 20, 2021	11,428,571	October 20, 2021	11,428,571
0.31		37,642,164		26,021,764

14 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 \$2,700,714 (October 31, 2018—net loss of \$1,556,969 and a weighted average number of Class A common shares of 114,405,947 (October 31, 2018—42,930,614).

DILUTED LOSS PER SHARE

The effect of potential issuances of shares under stock options, warrants and preferred shares would be non-dilutive for the Three months ended October 31, 2019 and 2018.

15 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 5 years.

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

	At October 31, 2019		At July 31, 2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance	7,495,000	0.15	3,125,000	0.15
Issuance	—	—	4,370,000	0.25
Expired	(600,000)	0.25	(600,000)	0.25
Balance, end of the period	6,895,000	0.25	6,895,000	0.25
Options exercisable, end of the period	3,695,000	0.20	3,695,000	0.20

The following table summarizes information about stock options outstanding and exercisable at October 31, 2019:

Exercise price	Number of options	Options Outstanding	Options Exercisable
		Weighted average remaining contractual life (in years)	Number of options
0.15	1,200,000	0.19	1,200,000
0.15	375,000	0.25	375,000
0.15	150,000	0.54	150,000
0.20	250,000	0.59	250,000
0.25	650,000	3.23	650,000
0.25	1,070,000	4.33	1,070,000
0.25	3,200,000	4.61	—
	6,895,000	2.90	3,695,000

Of the options outstanding at April 30, 2019, a total of 2,354,500 (July 31, 2018—1,950,000) are held by key management personnel.

16 FINANCE COSTS

	Nine months ended April 30, 2019	Nine months ended April 30, 2018
Accreted interest	927,502	394,128
Fair value adjustment of the Conversion option	542,397	(87,471)
Unrealized (gain) loss derivative financial instrument	—	8,365
Financial costs	313,935	432,653
Net finance costs	1,783,834	747,675

17 SEGMENTED INFORMATION

In line with the Corporation's strategic plan and recent acquisitions expanding the customer's products offering, the Corporation provides information on three reporting segments: Pharmacy Services and Pharmaceutical Solutions and Pharmaceutical cannabis products. The profitability measures employed by the chief operating decision maker, who is responsible for allocating resources and for assessing segment performance. The first

profitability measure is gross margin less selling and administrative expenses. The second profitability measure is the income (loss) and comprehensive loss which corresponds to loss before depreciation, amortization, finance costs and income taxes. Information pertaining to each segment for the nine months ended April 30 :

Information pertaining to each segment for the three months ended October 31:

	Pharmacy Services		Pharmaceutical Solutions		Pharmaceutical cannabis products		Corporate and others		Total	
	2019	2018	2019	2018			2019	2018	2019	2018
Revenues	3,564,043	3,473,762	1,946,538	1,476,169	—	—	—	—	5,510,581	20,412,237
Segment operating income (loss)	487,526	6,357	(185,360)	(43,215)	(181,073)	(171,396)	(951,755)	(333,004)	(830,662)	(541,258)
Segment income (loss)⁽¹⁾	1,009,686	489,440	864,086	465,222	—	—	(3,844,247)	(1,424,573)	(1,970,475)	(469,911)

⁽¹⁾ Per the condensed consolidated interim statements of loss and comprehensive loss, this measure corresponds to loss before depreciation, amortization, finance costs and income taxes.

18 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 AND LIABILITIES RECOGNIZED AT AMORTIZED COST

	At October 31, 2019	At July 31, 2019
Cash	1,674,373	1,233,334
Restricted cash	—	—
Trade and other receivables	3,515,432	3,243,111
Loans receivable, without interest	1,426,323	989,664
Loan receivable from a minority subsidiary	—	—
Bank indebtedness	471,250	1,251,250
Trade and other payables (excluding sales tax payable)	2,906,224	3,527,816
Provision	1,844,335	1,844,335
Long-term debt	6,084,873	8,018,247
Preferred shares - host component	6,094,605	5,167,073

■ 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).

FINANCIAL ASSETS AND LIABILITIES RECOGNIZED AT FAIR VALUE

	2019	2018
Interest rate swap (level 2)	—	189,489
Preferred shares - conversion options (level 3)	(1,348,056)	(255,521)
Investment in Pharmapar (level 3)	700,000	—

RISKS

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

- credit risk
- liquidity risk
- market risk

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

RISK MANAGEMENT FRAMEWORK

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

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

a) CREDIT RISK

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

No single customer accounts for more than 10% of the Corporation's revenue;

Approximately 85% (July 31, 201-94%) of the Corporation's trade receivables are not past due or 30 days or less past due.

IMPAIRMENT LOSSES

The aging of trade receivables at the reporting date was

	AT October 31, 2019		At July 31, 2019	
	Total	Impairment	Total	Impairment
Not past due	2,864,870	—	2,650,260	—
Past due 1 – 30 days	123,647	—	410,692	—
Past due 31 – 60 days	422,246	—	35,282	—
Past due more than 60 days	104,669	—	146,875	—
	3,515,432	—	3,243,109	—

The impaired trade receivables are mostly due from customers that are experiencing financial difficulties. The Corporation cash balances and restricted cash balances are maintained at major Canadian banks, which management believes to be creditworthy. The Corporation is

also exposed to credit risk through its derivative financial instrument. The risk is mitigated by using creditworthy counterpart.

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:

	Less than 1 year	Between 1 and 5 years	More than 5 years
Bank indebtedness	471,250	—	—
Trade and other payables (excluding sales tax)	2,906,224	—	—
Long-term debt	5,142,205	755,710	207,958
	8,519,679	755,710	207,958

The future amounts payable are as follows

	At October 31, 2019	At July 31, 2019
Less than 1 year	5,142,205	7,569,789
Between 1 and 5 years	755,710	445,275
More than 5 years	207,958	27,183
Total amounts payable	6,105,873	8,042,247
Less: Financing fees	(21,000)	(24,000)
	6,084,873	8,018,247

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 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 in 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:

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

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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:

	At October 31, 2019	At October 31, 2018
Less than 1 year	140,250	223,278
Between 1 and 5 years	559,294	1,037,781
More than 5 years	122,161	504,142
	821,705	1,765,201

On June 21, 2019, the Corporation signed an agreement with Chaineum, a French corporation, as part of a block-chain solution to get strategic advice at the technical level, developing the technology solution and fundraising. The fees related to the agreement include a fixed portion 1) 60,000 EUR (\$78,888) at the signature, 2) a monthly 1,000 EURO (\$1,315) from the closing date and a variable portion of 5% of the amount that will be raising. The contract may be terminated at any time and without cause by both parties.

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CONTINGENT LIABILITIES

A) 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, redemption or acquisition of all Series A Preferred Shares at principal plus any accrued but unpaid dividends (note 11) repayment of their pro-rata share of the Promissory notes plus accrued but unpaid interest (note 12) and regarding amounts supposedly owed under a consulting agreement. The outcome of any further action on this matter is indeterminable at this time and therefore.

This agreement was signed in November 2016 for a fixed term of 10 years. The fees for the first five years was establish at a quarterly amount of \$85,000 and the second five years, the quarterly amount is increased at \$95,000. This agreement could be terminate following the fifth year anniversary with the payment of the balance of the next five years minus a 10% discount.

The management of the Corporation indicates that they have never received services under the consulting agreement and that the obligations of the parties under this consulting agreement have been suspended since the first forbearance agreement signed with its main lender as at November 2017.

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 has 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 indeterminable at this time.

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.

B) As at July 31, 2019, the Corporation is involved in an action on account payable from a third party pursuant to which the third party claims an amount of \$65,761 to the Corporation for services rendered. That is recorded in its liability. In the opinion of the management, the resolution of this claim should not have a negative impact for the Corporation.

21 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 the following remuneration:

	October 31, 2019	October 31, 2018
Professional fees	59,000	245,000
Share-based compensation	14,405	—
	73,405	245,000
	2019	2019
Trade and other payables	250,823	397,121
Dividend payable ⁽¹⁾	75,000	75,000
	325,823	472,121

⁽¹⁾ Recorded before the reverse take over transactions in 2015 from prior business combination in the acquired entity.

22 SUBSEQUENT EVENTS

a) August 7, 2019, KDA announced that a letter of intent has been signed to acquire 100% of the ordinary share of Consult & Grow Inc. for a total value of \$1,900,000 composed of \$500,000 in cash and 5,600,000 ordinary shares of class A of KDA for a value of \$1,400,000. Consult & Grow Inc. offers cannabis license services, as well as consulting and compliance to grow cannabis. Consult & Grow Inc. is a team of experts with a proven record of success in the cannabis industry. The due diligence is currently underway.

b) November 8, 2019, KDA completed a debt settlement with creditor totaling \$780,000 in exchange for the issuance of 2,600,000 Class A Shares of KDA at a price of \$0.30 per Common share.

c) November 27, 2019, KDA settle the litigation for \$44,000.