



**MANAGEMENT
DISCUSSION
AND ANALYSIS OF**

**FOR THE THREE MONTHS
AND THE TWELVE MONTHS
ended July 31
2019 | 2018**

KDA Group Inc.

KDA GROUP INC.

Management discussion and analysis

TSX VENTURE: KDA

November 28, 2019

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 "Fourth quarter") and for the year ended July 31, 2019, and the comparison of the Corporation's consolidated statement of financial position as at July 31, 2018.

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, 2019, and the related notes thereto.

The audited consolidated financial statements and this MD&A have been reviewed by the Audit Committee and approved by the Corporation's Board of Directors on November 28, 2019. 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. KDA has successfully completed the preliminary and high-level review of Its licence application for the cultivation of cannabis for pharmaceutical purposes, as confirmed by heath 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.

THE CORPORATION'S SUBSIDIARIES, AS AT JULY 31 ARE:

Name	Nature of services	2019	2018
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. combination	Pharmacy Services	100%	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. ⁽¹⁾	Pharmacy Services	20%	100%
CanNorth Médic Inc.	Pharmaceutical cannabis products	51%	51%
CanNorth Médic International Inc.	Pharmaceutical cannabis products	80%	n.a

⁽¹⁾ The interest in the subsidiary is accounted for in accordance with the Corporation's accounting policy for financial instruments, i.e. at fair value through other comprehensive loss. The investment in Pharmapar Inc. didn't give the power to participate in the financial and operating policies decisions.

HIGHLIGHTS FOR THE FISCAL

FORBEARANCE AGREEMENT

On October 16, 2017, main shareholders, in accordance with the forbearance agreement with the lenders 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 was been subsequently extended until June 1, 2019, with the same conditions as described in the consolidated financial statements. The Corporation remained 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 requested 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 November 30, 2019. The Corporation remains current in terms of debt repayment.

The professional fees paid to renew, respect and maintain the engagement in the forbearance agreement, represent the total amount of \$679,150.

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 December 4, 2018, the Corporation signed a Letter of Intent for the sale of 80% of its investment in Pharmapar Inc. The final share purchased agreement was signed on February 15, 2019, for a closing date of December 31, 2018.

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 has been received in two payments. First, on December 5, 2018, \$1,000,000. Then, a second payment 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 and an adjustment on the net working capital of \$150,000 by Pharmapar Inc. at December 31, 2018. The transaction is effective as of January 1, 2019. The amount of \$2,953,195 was received, and applied in reduction of our bank indebtedness.

Under the share sale agreement, KDA could pay to Stride Pharma Canada Inc. 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 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 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 for a total of \$700,000 and recognized a loss of \$300,000 in the other comprehensive loss.

Comparative figure didn't include the Pharmapar Inc. operations, unless otherwise specified.

BUSINESS ACQUISITIONS

INVESTMENT IN CANNORTH MEDIC INC.

On July 3, 2018, KDA announced a creation of 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.

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 purposes to patients, in Canada and other countries in accordance with all applicable laws, rules and regulations.

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 JULY 31, 2019, COMPARED TO THREE MONTHS ENDED JULY 31, 2018

For the Fourth quarter ended July 31, 2019, the Corporation has generated \$7,201,887 of sales with a contribution margin of 28.3%. Revenue increased by \$1,776,828 or 33%, as compared to the same period from the previous year; the increase was mainly driven by the high demand in the Pharmaceutical solutions sector. The contribution margin increased by \$255,423 as compared to the same period from the previous year because of higher cost in the pharmaceutical solution sector.

PHARMACY SERVICES

For the Fourth quarter ended July 31, 2019, the Corporation has generated \$3,827,182 of sales in the Pharmacy Services segment. Revenue increased of \$460,347 as compared to the same period from the previous year. Gross margin has decrease compared to the previous year because the personal replacement sector facing a high competition In Is operating activities sector and this is difficult to attract ant retain pharmacists in this high market concurrency. The segment operating income reached \$362,742 a decrease of \$789,923 as compared with \$1,152,065 from the same period of the previous year.

PHARMACEUTICAL SOLUTIONS

For the fourth quarter ended July 31, 2019, the Corporation has generated \$3,374,596 of sales, an increase of \$1,316,373 or 63.9% as compared with the

same period last year. The segment income reached \$1,033,068 as compared to \$750,077 from the same period of the previous year.

Total consolidated selling and administrative expenses reached \$1,199,983 for the three-month period ended July 31, 2019, an decrease of \$120,038 as compared to the same period from the previous fiscal year. Finance costs for twelve months of \$4,448,620, 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. the interest rate swap expired on April 25, 2019.

The net loss and the comprehensive loss for the fourth quarter ended July 31, 2019, was \$498,442 or \$0.01 per share, compared to a loss of \$1,152,065 or \$0.03 per share for the same period during the previous fiscal year.

TWELVE MONTHS ENDED JULY 31, 2019, COMPARED TO TWELVE MONTHS ENDED JULY 31, 2018

For the twelve months ended July 31, 2019, the Corporation has generated \$23,093,827 of sales with a contribution margin of 24%. Revenue increased by \$2,681,591 or 13%, as compared to the same period from the previous year; mainly driven by a high demand on replacement pharmacist and in pharmaceutical solution sector. The contribution margin increased \$121,753 or 2% as compared to the same period from the previous year.

PHARMACY SERVICES

For the twelve months ended July 31, 2019, the Corporation has generated \$13,402,925 of sales. Revenue decreased by \$795,787 or 6%, as compared to the same period from the previous year. The operating segment income increased by \$1,680,060 as compared to the same period from the previous year.

The Corporation recorded a total impairment of \$602,678 in 2019 in the pharmaceutical services operating segment.

PHARMACEUTICAL SOLUTIONS

For the twelve months ended July 31, 2019, the Corporation has generated \$9,690,903 of sales in the Pharmaceutical Solutions segment, an increase of \$1,885,804. The higher revenues depend on demand for different project from our customers.

Total consolidated selling and administrative expenses reached \$5,160,596 for the twelve months ended July 31, 2019, an increase of \$1,461,317 as compared to the same period from the previous fiscal year. Net finance costs of \$4,448,620 represent a variance of \$3,268,272 as compared with negative finance costs of \$1,220,348 for the same period from the previous year were mainly driven by higher accreted interest and a significantly lower a fair value adjustment for the conversion Options on the Preferred Shares compared to the same period of last year.

The net loss and the comprehensive loss for the twelve months ended July 31, 2019, was \$8,266,743 or \$0.12 per share, compared to a loss of \$5,295,416 or \$0.12 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 July 31, 2019, and 2018 as well as the consolidated statement of financial position as of July 31, 2019, and July 31, 2018.

(unaudited) (in \$)	For the three months ended July 31		For the twelve months ended July 31	
	2019	2018	2019	2018
Revenues	7,201,887	5,425,059	23,093,827	20,412,237
Cost of revenue	5,161,835	3,640,429	17,538,010	14,978,172
Selling and administrative expenses	1,984,895	1,464,520	5,160,596	3,699,279
Transactions charges related to business combinations		-		
Depreciation of property and equipment	9,923	11,370	84,872	27,182
Amortization of intangible assets	298,382	(155,868)	431,006	790,094
Impairment of charge	602,678		602,678	-
Net finance costs	1,893,526	(383,575)	4,448,620	1,220,348
Net loss per share	(0,02)		(0,11)	(0,12)
(in \$)			At July 31, 2019	At July 31, 2018
Cash			1,233,334	411,782
Bank indebtedness			(1,251,250)	(2,085,950)
Net Cash			(17,916)	(1,674,168)
Working capital, excluding net cash			(10,987,869)	(13,182,365)
Total assets			16,833,823	24,959,862
Total liabilities			22,601,926	28,320,880
Net equity (deficiency)			(5,768,103)	(3,361,018)

STATEMENT OF FINANCIAL POSITION AS OF JULY 31, 2019

As at July 31, 2019, total assets of the Corporation were at \$16,833,823 a decrease of \$8,126,039 when compared to July 31, 2018. The decrease in the total assets is related to the impairment recognized in July 2019 combined with the selling of a subsidiary during the first quarter of fiscal 2019.

- In realization of its restructuring plan, the management issued 13,930,333 class A Shares of KDA. The proceeds of \$2,089,550 is used for its cash flow activities and for general corporate purposes.
- Realized, in part, another private placement of maximum of 26,666,666 Class A Shares of KDA Group at a price of \$0.15 per Common share.
- Still in the realization of its plan, the Corporation has reached agreements to settle indebtedness to creditors totaling \$510,000 in exchange for the issuance of 3,400,000 Class A Shares of KDA.

- Completed a conversion of a convertible debenture for a total consideration of \$750,000. The management continues his effort to have additional financing to reduce the term debt.

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, and that 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, 2019, and 2018.

				2019				2018
(in \$)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	7,201,887	5,347,526	5,594,482	4,949,931	5,425,059	4,607,579	5,720,761	4,658,838
Net loss	(2,489,084)	(1,160,006)	(1,977,152)	(1,643,374)	(665,786)	(305,702)	(263,241)	(545,475)
Net loss per share	(0.03)	(0.02)	(0.03)	(0.04)	(0.02)	(0.01)	(0.01)	(0.01)

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.

	2019	2018
Professional,fees	403,004	596,104
Share-based,compensation	169,956	11,667
	572,960	607,771

	2019	2018
Trade and other payables	177,195	425,632
Dividend payable ⁽¹⁾	75,000	75,000
	252,195	500,632

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

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:

	2019
Less than 1 year	469,930
Between 1 and 5 years	1,383,838
More than 5 years	181,732
	2,035,500

SUPPLY CONTRACTS

On June 21, 2019, the Corporation signed an agreement with Chaineum, a French corporation, as part of a blockchain 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.

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 \$65,000 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 (refer to note 27).

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 year ended July 31, 2019, the corporation reported a loss of \$9,298,500. As discussed in note 22 to its consolidated financial statements, the Corporation is in breach of its financial covenants with respect to its secured credit financing as of July 31, 2019, 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:

- Sold 80% of its participation of Pharmapar.
- Completed a private placement with accredited investors totaling 13,930,333 units for gross proceeds of \$2,089,550.
- Realized, another private placement of 26,666,666 Class A Shares of KDA Group at a price of \$0.15 per Common share. The Corporation plans to use the proceeds of the financing for its cash flow activities and for general corporate purposes.
- Reached an agreement to settle indebtedness to creditors totaling \$510,000 in exchange of 3,400,000 Class A Shares of KDA Group at a price of \$0.15 per common share.
- Completed a conversion of a convertible debenture for a total consideration of \$750,000.

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.
3. Expanding its type of products with recent acquisition of subsidiaries in the Pharmaceutical cannabis sector.

Management is also 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, 2019. 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 November 28, 2019.

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 ("C\$"), which is the Corporation's functional currency.

USE OF ESTIMATES AND JUDGMENTS

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

- Note 8 & 9 - Establishing the fair value of assets and liabilities, intangible assets and goodwill related to business acquisition.
- Notes 9 - 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 13 - 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 14 - The Series A Preferred Shares issued by the Corporation include conversion and redemption options, which are considered as Level 3 financial instruments. The derivative is measured at fair value through profit and loss, and its fair value must be measured at each reporting period, with subsequent changes in fair value recorded in the consolidated statement of loss and comprehensive loss. A derivative valuation model is used, and includes management's assumptions, to estimate the fair value. Detailed assumptions used in the model to determine the fair value of the embedded derivative as at July 31, 2019, are provided in Note 13.

- Note 24 - Recognized in the consolidated financial statements involve judgments on the occurrence of future events, which could result in a material outlay for the Corporation. In determining whether an outlay will be material, the Corporation considers the expected future cash flows based on facts, historical experience and probabilities associated with such future events. Uncertainties exist with respect to estimates made by management and as a result, the actual expenditure may differ from amounts currently reported.

They were no other 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.

SIGNIFICANT ACCOUNTING POLICIES

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.

BASIS OF CONSOLIDATION

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.

iii) Transactions eliminated on consolidation

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

iv) Non-controlling interests

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

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

FINANCIAL INSTRUMENTS

1. FINANCIAL ASSETS

Financial assets are recognized and derecognized on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'at amortized cost' and 'fair value through other comprehensive income' (FVOCI). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling it in the near term; if on initial recognition it is part of a portfolio of identified financial instruments that the Corporation manages together and has a recent actual pattern of short-term profit-taking; or it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Corporation's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss.

Financial assets at FVOCI are stated at fair value, with any gains or losses arising on re-measurement recognized through other comprehensive income.

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'debt instruments'. Debt instruments are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Financial Asset	Classification	Subsequent Measurement
Cash and restricted cash	Debt instruments	Amortized cost
Trade and other receivables	Debt instruments	Amortized cost
Loans receivable from shareholders	Debt instruments	Amortized cost
Loan receivable from minority subsidiary	Debt instruments	Amortized cost
Investment ⁽¹⁾	FVOCI	Fair value

⁽¹⁾ At the initial recognition of this financial asset, the Corporation made the irrevocable election to designate this financial asset as fair value through other comprehensive loss (FVOCI).

IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

DERECOGNITION OF FINANCIAL ASSETS

The Corporation derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Corporation recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Corporation retains substantially all the risks and rewards of ownership of a transferred financial asset, the Corporation continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS ISSUED BY THE CORPORATION

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the

Corporation are recognized at the proceeds received, net of direct issue costs.

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if it has been acquired principally for the purpose of repurchasing it in the near term; or if on initial recognition it is part of a portfolio of identified financial instruments that the Corporation manages together and has a recent actual pattern of short-term profit-taking; or if it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; if the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Corporation's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or if it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statement of comprehensive loss.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

THE CORPORATION HAS CLASSIFIED ALL OF ITS FINANCIAL LIABILITIES AS FOLLOWS:

Financial liability	Classification	Subsequent measurement
Bank indebtedness	Other financial liability	Amortized cost
Trade and other payables (excluding sales tax payable)	Other financial liability	Amortized cost
Provision	Other financial liability	Amortized cost
Due to shareholder, without interest	Other financial liability	Amortized cost
Long-term debt	Other financial liability	Amortized cost
Preferred shares – host component	Other financial liability	Amortized cost
Preferred shares – conversion option	FVTPL	Fair value

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.

PROPERTY AND EQUIPMENT

Property and equipment are accounted for at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in net income or loss.

Depreciation is based on the cost of an asset less its residual value and is recognized in income or loss over the estimated useful life of each component of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term.

THE DEPRECIATION METHOD AND USEFUL LIVES ARE AS FOLLOWS:

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

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

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

INTANGIBLE ASSETS

i) Goodwill

Goodwill that arises upon business combinations is included in intangible assets. Goodwill is not amortized and is measured at cost less accumulated impairment losses in accordance with IAS 36 impairment of assets.

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 in accordance with IAS 36 impairment of assets.

INTANGIBLE ASSETS WITH FINITE LIVES ARE AMORTIZED ON A STRAIGHT-LINE BASIS OVER THE FOLLOWING ESTIMATED USEFUL LIVES:

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

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

IMPAIRMENT

2. ii) Non-financial assets

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

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to each acquired business within the Corporation's operating segments, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell ("FVLCS"). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or group of assets.

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

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed

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

■ SHARE-BASED PAYMENT TRANSACTIONS

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

DEFERRED REVENUE

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

DEFERRED FINANCING COSTS

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

REVENUE RECOGNITION

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

DISCONTINUED OPERATIONS

A discontinued operation is a component of the Corporation that has either been disposed of or that is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations; (b) is part of a single plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Assets, liabilities, comprehensive loss, and cash flows relating to a discontinued operation of the Corporation are segregated and reported separately from the continuing operations of the Corporation. The comparative statement of comprehensive loss is re-presented as if the operation had been discontinued from the start of the comparative year.

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 three reportable operating segments: pharmacy services, pharmaceutical solutions and Pharmaceutical cannabis products.

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

FINANCE INCOME AND FINANCE COSTS

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

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

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

INCOME TAXES

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

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business

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

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

EARNINGS PER SHARE

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

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

EMPLOYEE BENEFITS

SHORT-TERM EMPLOYEE BENEFITS

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

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

DEFINED CONTRIBUTION PLANS

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

THE PENSION PLAN EXPENSE DURING THE YEAR AMOUNTS TO THE FOLLOWING:

	2019	2018
Total presented under cost of revenue	6,924	5,936

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.

IMPAIRMENT LOSSES

THE AGING OF TRADE RECEIVABLES AT THE REPORTING DATE WAS:

	2019		2018	
	Total	Impairment	Total	Impairment
Not past due	2,650,260	—	2,225,466	—
Past due 1 - 30 days	410,692	—	460,579	—
Past due 31 - 60 days	35,282	—	261,262	—
Past due more than 60 days	146,875	—	8,106	—
	3,243,109	—	2,955,413	—

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

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 93% (July 31, 2018 – 88%) of the Corporation's trade receivables are not past due or 30 days or less past due.

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	1,251,250	—	—
Trade and other payables (excluding sales tax)	3,527,816	—	—
Long-term debt	1,844,335	—	—
	7,545,789	445,275	27,182
	14,169,190	445,275	27,182

THE FUTURE AMOUNTS PAYABLE, AS OF JULY 31, 2019, ARE AS FOLLOWS:

	At July 31, 2019	At July 31, 2018
Less than 1 year	6,945,844	13,079,323
Between 1 and 5 years	792,534	1,316,207
More than 5 years	211,270	623,057
Total amounts payable	7,949,648	15,018,587
Less: Financing fees	(81,400)	(215,917)
	7,868,248	14,802,670

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 July 31, 2019, the Corporation was not in compliance with its financial covenants, and has, therefore, reclassified the loan from a Canadian chartered bank under current liabilities. The Corporation has entered into a forbearance agreement until November 30, 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 covenants 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 (refer to note 11 to the consolidated financial statements). 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

FINANCING ACTIVITIES FOR THE TWELVE MONTHS ENDED JULY 31, 2019

During the twelve months ended July 31, 2019, the proceeds received from the issuance of private placements was partially offset by large bank repayment after the sale of the subsidiary. The Corporation reduced its bank indebtedness by \$7,248,229.

INVESTING ACTIVITIES FOR THE TWELVE MONTHS ENDED JULY 31, 2019

During the twelve months ended July 31, 2019, a net amount of \$2,803,195 from the sale of a subsidiary was used to reduce the debt.

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.

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 favourable 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, 2019.

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.
- To maintain investors, creditors and market confidence.

In managing capital structure, the Corporation manages its capital through regular reports to the board of directors, as well as management review of monthly or quarterly financial information.

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

- a) August 7, 2019, KDA announced that a letter of intention 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) September 20, 2019, KDA received the approval from the TSXV to complete the settled indebtedness to Marc Lemieux, President and Chief Executive Officer, totaling \$925,000 in exchange for the issuance of 4,625,000 Class A Shares of KDA at a price of \$0.20 per Common share.
- c) October 22, 2019, KDA announced that a private placement, has been completed with accredited investors totaling 19,720,000 units (the "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 from the date of issue. 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.
- d) October 22, 2019, the Corporation announced that it has reached an agreement to settle indebtedness to a creditor totaling \$825,000 with the same terms as the Private Placement 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. All securities to be issued under the Debt Settlement will be subject to a mandatory four-month hold period expiring on February 23, 2020, in accordance with applicable securities regulations.
- e) November 8, 2019, KDA completed a debt settlement with creditor totalling \$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.
- f) November 27, 2019, KDA settle the litigation for \$44,000.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

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

GENERAL INFORMATION

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TSX Venture Exchange under the symbol: KDA

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Isabelle Bégin
Annie Mercier, CPA, CMA, MBA

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