

Condensed Consolidated Interim Financial Statements of

KDA GROUP INC.

For the three-month period ended October 31, 2020

(Unaudited)

KDA GROUP INC.

Condensed Consolidated Interim Financial Statements

For the three months ended October 31, 2020

Condensed Consolidated Interim Financial Statements

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KDA GROUP INC.

Consolidated Interim Statements of Financial Position
(Unaudited)

	October 31, 2020	July 31, 2020
	\$	\$
ASSETS		
Current assets		
Cash	2,315,555	1,807,969
Trade and other receivables	3,499,014	3,669,360
Inventories	211,899	149,905
Prepaid expenses	180,957	126,075
Income taxes receivable	113,657	104,040
Loans receivable from shareholders, without interest	326,751	285,639
Loan receivable from a minority subsidiary	150,000	150,000
	6,797,833	6,292,988
Non-current assets		
Investment	700,000	700,000
Property and equipment	1,393,302	1,349,814
Intangible assets	1,888,713	1,963,582
Goodwill	6,310,861	6,310,861
Deferred tax assets	986,465	986,465
Right of use assets	2,236,837	2,311,208
	13,516,178	13,621,930
TOTAL ASSETS	20,314,011	19,914,918

Accompanying notes form an integral part of these Condensed Consolidated Interim financial statements

KDA GROUP INC.

Consolidated Interim Statements of Financial Position
(Unaudited)

	October 31, 2020 \$	July 31, 2020 \$
LIABILITIES		
Current liabilities		
Bank indebtedness (note 4)	1,010,000	1,350,000
Trade and other payables	3,224,442	3,275,181
Deposits (note 5)	505,500	-
Due to third-party	1,093,903	1,093,903
Deferred revenues	817,510	239,796
Due to shareholders, without interest	290,561	290,561
Income taxes payable	-	17,289
Current maturity of long-term debts (note 6)	3,710,627	4,043,054
Current maturity of lease liabilities	240,773	248,287
	10,893,286	10,558,071
Non-current liabilities		
Long-term debts (note 6)	517,432	530,050
Lease liabilities	2,418,903	2,476,534
Preferred shares	9,886,835	9,646,835
Deferred tax liabilities	358,157	358,157
	13,181,327	13,011,576
TOTAL LIABILITIES	24,074,613	23,569,647
DEFICIENCY (note 7)		
Share capital	25,089,855	25,089,855
Contributed surplus	958,689	911,524
Other comprehensive loss	(220,500)	(220,500)
Deficiency attributable to shareholders	(28,873,572)	(28,768,923)
Equity attributable to non-controlling interest	(715,074)	(666,685)
TOTAL DEFICIENCY	(3,760,602)	(3,654,729)
TOTAL LIABILITIES AND DEFICIENCY	20,314,011	19,914,918

Going concern (note 1)
Contingent liability (note 14)
Subsequent events (note 17)

Approved on behalf of the Board:

(Signed)

Michael W. Kinley, Director

(Signed)

Pierre Monet, CFO

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KDA GROUP INC.

Consolidated Interim Statements of Loss and Comprehensive Loss
(Unaudited)

	Three-months period ended October 31, 2020 \$	Three-months period ended October 31, 2019 \$
Revenues (note 8)	5,317,979	5,513,442
Cost of revenues	3,823,807	4,535,282
Gross Margin	1,494,172	978,160
Selling and administrative expenses (note 9)	918,392	1,809,082
Income (loss) before depreciation, amortization, net finance costs and income taxes:	575,780	(830,922)
Depreciation of right of use assets	70,521	-
Depreciation of property and equipment	16,752	30,341
Amortization of intangible assets	140,394	148,784
Operating loss before the following	347,573	(1,010,047)
Net finance costs (note 10)	500,611	1,783,834
Loss before income tax (recovery) expense	(153,038)	(2,793,881)
Income tax expense	-	(5,000)
Deferred income tax (recovery) expense	-	-
	-	(5,000)
Net loss and other comprehensive loss	(153,038)	(2,788,881)
Net loss and comprehensive loss attributable to:		
Equity holders of KDA Group Inc.	(104,649)	(2,700,715)
Non-controlling interest	(48,389)	(88,166)
	(153,038)	(2,788,881)
Loss per share to equity holders of KDA Group Inc		
Basic and diluted (note 11)	(0.00)	(0.02)

Accompanying notes form an integral part of these Condensed Consolidated Interim financial statements

KDA GROUP INC.

Consolidated Interim Statements of Changes in Deficiency
For the three months ended October 31, 2020 and 2019
(Unaudited)

	Number of shares #	Class "A" Common shares \$	Shares to be issued \$	Contributed surplus \$	Total Deficiency attributable to shareholders							Total Deficiency \$
					Convertible Debentures In shares \$	Warrants reserve \$	Premium on Convertible shares \$	Deficiency \$	Total \$	Other Comprehen- sive Loss \$	Non- Controlling Interest \$	
Balance at August 1, 2020	118,420,947	25,089,855	-	911,524	-	2,205,390	(2,371,363)	(28,602,950)	(28,768,923)	(220,500)	(666,685)	(3,654,729)
Stock-based compensation	-	-	-	47,165	-	-	-	-	-	-	-	47,165
Net loss	-	-	-	-	-	-	-	(104,649)	(104,649)	-	(48,389)	(153,038)
Balance at October 31, 2020	118,420,947	25,089,855	-	958,689	-	2,205,390	(2,371,363)	(28,707,599)	(28,873,572)	(220,500)	(715,074)	(3,760,602)
Balance at August 1, 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	-	-	-	-	-	-	-	(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)

Accompanying notes form an integral part of these Condensed Consolidated Interim financial statements

KDA GROUP INC.

Consolidated Interim Statements of Cash Flows

(Unaudited)

	Three-months period ended October 31, 2020 \$	Three-months period ended October 31, 2019 \$
Cash flows from operating activities:		
Net loss for the period	(153,038)	(2,788,881)
Adjustments for:		
Depreciation of property and equipment	16,752	30,341
Depreciation of right of use assets	70,521	-
Amortization of intangible assets	140,394	148,784
Share-based compensation	47,165	76,861
Accrued interest (note 9)	240,000	927,502
Fair value adjustment of the conversion option (note 10)	-	542,397
	361,794	(1,062,995)
Changes in non-cash elements of working capital (note 16)	1,059,009	(642,047)
	1,420,803	(1,705,042)
Cash flows from investing activities:		
Additions to property and equipment	(62,130)	(203,136)
Disposal of property and equipment	1,890	-
Additions to intangibles assets	(65,525)	-
Additions to right of use of assets	(17,875)	-
Disposal of right of use of assets	21,725	-
Increase in loan receivable	(41,112)	(436,659)
	(163,027)	(639,795)
Cash flows from financing activities:		
Repayment of long-term debt (note 6)	(345,045)	(1,933,374)
Repayment of lease liabilities	(65,145)	-
Proceeds from issuance of shares	-	4,514,250
Shares to be issued	-	(575,000)
Increase (decrease) in the bank indebtedness (note 4)	(340,000)	780,000
	(750,190)	2,785,876
Net increase in cash	507,586	441,039
Cash, beginning of the period	1,807,969	1,233,334
Cash, end of the period	2,315,555	1,674,373
Supplemental information		
Interest paid	(141,641)	(1,241,437)

Refer to note 16 for non-cash transactions.

Accompanying notes form an integral part of these Condensed Consolidated Interim financial statements

KDA GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the three months period ended October 31, 2020
(Unaudited)

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, 2020 include 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 based on the 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-month period ended October 31, 2020, the Corporation reported a net loss and comprehensive loss of \$153,038, a negative working capital of \$4,095,453 and an accumulated deficit attributable to shareholders of \$28,873,572 at that date. As discussed in note 6, the Corporation is in breach of its financial covenants with respect to its secured credit financing as at October 31, 2020, and has, therefore, reclassified the Loan from a Canadian chartered bank under current liabilities. The Corporation has agreed with its main lender on the terms of an extended forbearance agreement under which the lender has agreed not to request immediate reimbursement of the loan until January 29, 2021. The Corporation remains current in terms of debt repayment.

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 implementing several initiatives to improve its cost structure, drive increased revenues and improve operating profitability. The ability of KDA to ultimately achieve its business plan in the longer term is dependent on some factors outside KDA management’s control. 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 extension will be granted.

These condensed consolidated interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and financial position 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.

KDA GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the three months period ended October 31, 2020
(Unaudited)

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 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, 2020.

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on December 22, 2020.

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:

- Derivative instruments are measured at fair value;
- Miscellaneous equity investments 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) Use of estimates and judgments:

In preparing these condensed interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates

The significant judgements made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty were the same as those described in the July 31, 2020 audited annual financial statements.

KDA GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the three months period ended October 31, 2020
(Unaudited)

3. Incidence of COVID-19

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a global pandemic, which continues to spread in Canada and around the world. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services for some period have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility. There have been business closures and a substantial reduction in economic activity in the country. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions. Management is closely monitoring the situation and believes that any disturbance may be temporary; however, there is uncertainty about the length and potential impact of the disturbance. There was no material impact on the Corporation's operations at the date of these condensed consolidated interim financial statements.

4. Bank indebtedness

As part of the Corporation's credit facility (as more fully described in note 6), the Corporation has authorized operating credits totaling \$1,300,000 (\$1,400,000 as of July 31, 2020), bearing interest at prime rate plus 3.00% per annum based on certain leverage ratios.

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

5. Deposits

As at October 31, 2020, the Corporation had deposits amounting to \$505,500 related to an equity issue completed in November 2020.

6. 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 13. The Corporation is in breach of its financial covenants with respect to its secured credit financing as at October 31, 2020, and has, therefore, reclassified the Loan from a Canadian chartered bank under current liabilities.

KDA GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the three months period ended October 31, 2020
(Unaudited)

	At October 31, 2020	At July 31, 2020
Long-term debt bearing interest at prime rate plus 1%, repayable monthly by installments of \$1,560 and maturing in February 2021	6,240	10,920
Long-term debt bearing interest at prime rate plus 4%, repayable monthly by installments of \$830, and maturing in October 2021	9,960	12,450
Loan from a Canadian chartered bank ⁽¹⁾ (the “Loan from a Canadian chartered bank”), bearing interest at prime rate plus a spread varying between 2.50% - 4.35% per annum based on certain leverage ratios, repayable by monthly instalments of \$110,000. The loan is currently under a forbearance agreement until January 29, 2021 (note 1) and is net of transaction costs of \$9,000 (\$12,000 as of July 31, 2020)	2,344,247	2,671,247
Balance of purchase price, non-interest bearing and net of accreted interest of \$13,113 (\$13,113 as of July 31, 2020), repayable by annual installments of \$320,000, maturing in August 2021	626,317	621,887
Long-term debt bearing interest at 6.50%, repayable by monthly installments of \$3,852, fully repaid in October 2020	-	11,556
Loan bearing interest at 7.44%, repayable by monthly installments of \$777 including interest, and maturing in December 2025	39,367	40,916
Loan bearing interest at 6.99%, repayable by monthly installments of \$514 including interest, and maturing in October 2025	25,966	27,042
Loan bearing interest at 7.74%, repayable by monthly installments of \$472 including interest, and maturing in December 2025	24,065	25,004
Loan bearing interest at 6.89%, repayable by monthly installments of \$752 including interest, and maturing in November 2025	38,477	40,039
Loan without interest, secured by the federal government, no installments if reimbursement occur before 2022, December 31, the Corporation will receive a subvention of \$40,000 ⁽²⁾	113,420	112,044
Promissory notes ⁽³⁾ with shareholders, bearing interest at 18% calculated and compounded annually, without payment terms	1,000,000	1,000,000
	4,228,059	4,573,104
Less:		
Current portion due to breach of covenants	2,344,247	2,671,247
Current portion due to absence of payment terms debts	1,320,000	1,320,000
Current maturity of long-term debts	46,380	51,807
Long-term portion	517,432	530,050

KDA GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements
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(Unaudited)

- (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 (Refer to note 13 b)). The interest rate swap has been canceled.
- (2) If the loan is not repaid in full by December 31, 2022, the entire loan can be converted in a term loan, bearing interest at the rate of 5%, payable monthly, without payment of capital before maturity, and maturing on December 31, 2025.
- (3) On October 16, 2017, main shareholders, in accordance with the forbearance agreement injected \$1,000,000 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.

As at October 31, 2020, 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.

	At October 31, 2020	At July 31, 2020
Less than 1 year	3,710,627	4,063,010
Between 1 and 5 years	517,432	523,242
More than 5 years	-	6,808
Total amounts payable	4,239,059	4,593,060
Less: Financing fees	(9,000)	(19,956)
Total	4,228,059	4,573,104

7. Share capital and other components of equity

SHARE CAPITAL

The Corporation's share capital consists only of 118,420,947 fully paid Class "A" common shares, voting and participating. The Corporation has authorized an unlimited number of Class "A" common shares without par value.

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.

For the three months ended October 31, 2020, the change in fair value of derivatives resulted in a loss was nil (October 31, 2019 – loss of \$542,367) and was recorded in the condensed consolidated interim statements of loss and comprehensive loss.

KDA GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the three months period ended October 31, 2020
(Unaudited)

7. Share capital and other components of equity (continued)

The following summarizes the carrying values of the host and derivative components of the Preferred Shares for the three-month period ended October 31, 2020:

	Preferred shares-host	Liability Component		Equity
		Conversion Option	Total	Warrants
	Carrying Value			
Balance at July 31, 2020	9,646,835	—	9,646,835	21,802
Accretion expense	240,000	—	240,000	—
Balance at October 31, 2020	9,886,835	—	9,886,835	21,802
Balance at July 31, 2019	9,646,835	805,689	9,646,835	21,802
Accretion expense	927,532	—	927,532	—
Change in fair value of the derivative	—	542,367	542,367	—
Balance at October 31, 2020	6,094,605	1,348,056	7,442,661	21,802

ESCROWED SHARES

At October 31, 2020, there was no outstanding Class A common shares that were held under an escrow agreement. 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.

WARRANTS

No warrants were issued, exercised or expired during the period. 37,059,304 warrants are outstanding as at October 31, 2020 and July 31, 2020 at a weighted average price of \$0.41.

KDA GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the three months period ended October 31, 2020
(Unaudited)

7. Share capital and other components of equity (continued)

THE FOLLOWING TABLE PRESENTS THE DETAILS OF THE ISSUED AND OUTSTANDING WARRANTS AS AT OCTOBER 31, 2020 AND JULY 31, 2020:

Exercise price	Expiry date	Number
0.20	November 7, 2020	13,890,333
0.25	October 22, 2020	110,400
0.69	October 22, 2020	11,510,000
0.15	March 21, 2021	120,000
0.69	October 20, 2021	11,428,571
		37,059,304

STOCK OPTION PLAN

No options were issued, exercised or expired during the period.

4,860,000 options are outstanding as at October 31, 2020 and July 31, 2020 at a weighted average exercise price of \$0.29.

THE FOLLOWING TABLE SUMMARIZES INFORMATION ABOUT STOCK OPTIONS OUTSTANDING AND EXERCISABLE AT OCTOBER 31, 2020:

Exercise price	Number of options	Options outstanding		Options exercisable	
			Weighted average remaining contractual life (in years)		Number of options
0.25	650,000		2.23		650,000
0.25	1,010,000		3.33		673,335
0.25	2,700,000		3.60		1,800,000
0.30	500,000		4.08		500,000
	4,860,000		3.41		3,623,335

KDA GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements
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(Unaudited)

7. Share capital and other components of equity (continued)

Of the options outstanding at October 31, 2020, a total of 2,500,000 (July 31, 2020 – 2,500,000) are held by key management personnel.

8. Revenues

	Three months ended October 31, 2020	Three months ended October 31, 2019
Replacement pharmacists	3,293,467	3,529,992
Training	1,886,033	1,974,346
Others	138,479	14,104
Total	5,317,979	5,513,442

KDA GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements
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9. Selling and administrative expenses

	Three months ended October 31, 2020	Three months ended October 31, 2019
Salaries and fringe benefits	284,552	270,615
Rental fees	21,825	103,160
Travel	7,032	27,021
Meals and entertainment	4,029	39,178
Supplies and office expenses	59,487	70,903
Telecommunications	11,870	12,263
Professional fees	469,247	1,155,391
Share-based compensation	47,165	76,861
Regulatory and filing fees	3,329	38,478
Other	9,356	15,212
Total	918,392	1,809,082

10. Net finance costs

	Three months ended October 31, 2020	Three months ended October 31, 2019
Accreted interest	240,000	927,502
Fair value adjustment of the Conversion option	—	542,397
Financial costs	260,611	313,935
Net finance costs	500,611	1,783,834

KDA GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the three months period ended October 31, 2020
(Unaudited)

11. 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 shares of \$104,649 (October 31, 2019 – net loss of \$ 2,700,715) and a weighted average number of Class A common shares of 118,420,947 (October 31, 2019 – 114,405,947).

DILUTED LOSS PER SHARE

The effect of potential issuances of shares under stock options, warrants and preferred shares would be non-dilutive for periods ended October 31, 2020, and 2019.

12. 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. 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 loss and comprehensive loss which corresponds to loss before depreciation, amortization, finance costs and income taxes.

INFORMATION PERTAINING TO EACH SEGMENT FOR THE THREE MONTHS ENDED OCTOBER 31:

	Pharmacy Services		Pharmaceutical Solutions		Pharmaceutical cannabis		Corporate and others		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Revenues	3,608,322	3,564,043	1,700,689	1,946,538	—	—	8,968	2,861	5,317,979	5,513,442
Segment operating income (loss)	853,934	487,526	304,281	(185,360)	(1,322)	(181,073)	(581,113)	(952,015)	575,780	(830,922)
	Pharmacy Services		Pharmaceutical Solutions		Pharmaceutical cannabis		Corporate and others		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Assets acquisitions	—	—	7,468	4,501	54,662	196,799	—	1,836	62,130	203,136
Property and equipment	—	—	—	—	—	—	65,000	—	65,000	—
Intangibles	—	—	—	—	—	—	—	—	—	—

KDA GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements
For the three months period ended October 31, 2020
(Unaudited)

13. Financial instruments and financial risks management

CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

FINANCIAL ASSETS AND LIABILITIES RECOGNIZED AT AMORTIZED COST

	At October 31, 2020	At July 31, 2020
Cash	2,315,555	1,807,969
Trade and other receivables	3,499,014	3,669,360
Loans receivable from shareholders, without interest	326,751	285,639
Loan receivable from third party	150,000	150,000
Bank indebtedness	1,010,000	1,350,000
Trade and other payables	3,224,442	3,113,275
Deposits	505,500	-
Due to shareholders, without interest	290,561	290,561
Due to third-party	1,093,903	1,093,903
Long-term debts	4,228,059	4,573,104
Lease liabilities	2,659,676	2,724,821
Preferred shares - host component	9,886,835	9,646,835

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.

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13. Financial instruments and financial risks management (continued)

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

	At October 31, 2020	At July 31, 2020
Investment in Pharmapar (level 3)	700,000	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 condensed consolidated interim 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.

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13. Financial instruments and financial risks management (continued)

(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 revenues;
- Approximately 88% (July 31, 2020 – 85%) 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, 2020		At July 31, 2020	
		Impairment		Impairment
Not past due	2,385,733	—	2,269,474	—
Past due 1 - 30 days	695,201	—	758,425	—
Past due 31 - 60 days	131,835	—	321,691	—
Past due more than 60 days	286,245	—	219,770	—
Total	3,499,014	—	3,569,360	—

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 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.

KDA GROUP INC.

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13. Financial instruments and financial risks management (continued)

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	1,010,000	-	-
Trade and other payables	3,224,442	-	-
Due to shareholders	290,561	-	-
Due to third-party	1,093,903	-	-
Long-term debt	3,710,627	517,432	-
Lease liabilities	240,773	963,092	1,455,811
Total	9,570,316	1,480,524	1,455,811

The Corporation's loan agreement requires compliance with two ratios on a quarterly basis, starting August 19, 2016. The first is a ratio of Senior debt to earnings before interest, income taxes, depreciation, amortization and permitted expenses ("Adjusted EBITDA") calculated on a rolling four-quarters basis. The second is a fixed charge coverage ratio. At October 31, 2020, 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 January 29, 2021.

The Corporation has sufficient liquidity to continue its operations, but additional financing will be required.

(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.

KDA GROUP INC.

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13. Financial instruments and financial risks management (continued)

THE CORPORATION'S EXPOSURE TO INTEREST RATE RISK IS SUMMARIZED AS FOLLOWS:

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

(d) Capital management

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

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

KDA GROUP INC.

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14. Contingent liability

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 repayment of their pro-rata share of the Promissory notes plus accrued but unpaid interest 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 terminated 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 condensed consolidated interim financial statements.

As at October 31, 2020, the Corporation and the Series A Preferred Shares have begun negotiation under these issued.

15. Related party transactions

Transactions with key management personnel

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.

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.

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15. Related party transactions (continued)

THE KEY MANAGEMENT AND DIRECTORS RECEIVED THE FOLLOWING REMUNERATION.

	Three months ended October 31, 2020	Three months ended October 31, 2019
Professional fees	157,503	92,860
Salaries	73,718	43,750

THE CORPORATION HAS THE FOLLOWING AMOUNTS OWING TO KEY MANAGEMENT PERSONNEL.

	At October 31, 2020	At July 31, 2020
Trade and other payables	19,465	12,977
Dividend payable ⁽¹⁾	75,000	75,000

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

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16. Changes in non-cash working capital

	Three months ended October 31, 2020	Three months ended October 31, 2019
Trade and other receivables	170,346	(272,323)
Inventories	(61,994)	-
Income taxes receivable	(54,882)	-
Prepaid expenses	(9,617)	(23,954)
Trade and other payables	(50,769)	(188,453)
Deposits	505,500	-
Income taxes payable	(17,289)	(26,010)
Deferred revenues	577,714	(131,307)
Total	1,059,009	(642,047)

Non-cash transactions

Three-months period ended October 31, 2020

There were no non-cash transactions during the three-month period ended October 31, 2020.

Three-months period ended October 31, 2019

During the three-month period ended October 31, 2019, the Corporation has reached an agreement to settle debt and advances totalling \$1,900,000 in exchange of 8,525,000 Class A shares.

The Corporation issued 110,400 broker warrants following the completion of a private placement in October 2019.

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17. Subsequent events

On November 13, 2020, the Corporation signed a letter of intent to sell its 51% participation in CanNorth Medic Inc for a minimum consideration of \$2,400,827.

On November 25, 2020, KDA announced that a private placement, has been completed with accredited investors totaling 8,000,000 units (the "Units") at a price of \$0.15 per unit for total gross proceeds of \$1,200,000. Each unit consists of one Class A Share of KDA and one Common share purchase warrant. Each Warrant entitles the holder to purchase one additional Common share of the Corporation at an exercise price of \$0.20 per Common share for a period of 12 months from the date of issue. The Corporation paid a cash commission of \$10,133 in relation to this Private Placement and issued 67,550 non-transferable share purchase warrants (the "Broker warrants"). Each Broker warrant entitles the holder to purchase one Common share at an exercise price of \$0.15 per Common share for a period of 12 months ending November 24, 2021. All securities issued in connection with the Private Placement are subject to a mandatory four-month hold period expiring on March 25, 2022, in accordance with applicable securities regulations.