Consolidated Financial Statements of

KDA GROUP INC.

For the years ended July 31, 2020 and 2019

KDA GROUP INC.
Consolidated Financial Statements

For the years ended July 31, 2020 and 2019

Consolidated Financial Statements

INDEPENDANT'S AUDITOR REPORT

To the shareholders of
KDA GROUP INC.,

Opinion

We have audited the accompanying consolidated financial statements of KDA GROUP INC. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at July 31, 2020 and July 31, 2019, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in deficiency and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Group as at July 31, 2020 and 2019, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1 to the financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, in the light of the work we have done on this other information, we conclude that there is a material misstatement in this other information, we are required to report this fact in the auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statement, including the disclosures, and whether the financial statement represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is David Bédard.

Guimond Lavallée inc.[1]

Chartered Professional Accountant Corporation

Brossard (Quebec)
November 30, 2020

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[1] CPA auditor, CA, public accountancy permit No. A128615

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KDA GROUP INC.

Consolidated Statements of Financial Position
As at July 31, 2020 and 2019

	2020	2019
	$	$
ASSETS		
Current assets		
Cash	**1,807,969**	1,233,334
Trade and other receivables (note 7)	**3,669,360**	3,243,109
Inventories	**149,905**	-
Prepaid expenses	**126,075**	93,886
Income taxes receivable (note 15)	**104,040**	-
Loans receivable from shareholders, without interest	**285,639**	989,664
Loans receivable from a minority subsidiary (note 5)	**150,000**	-
	6,292,988	5,559,993
Non-current assets		
Investment (note 5)	**700,000**	700,000
Property and equipment (note 9)	**1,349,814**	605,543
Intangible assets (note 10)	**1,963,582**	2,626,010
Goodwill (note 10)	**6,310,861**	6,310,861
Deferred tax assets (note 15)	**986,465**	283,487
Right of use assets (note 8)	**2,311,208**	-
	13,621,930	10,525,901
TOTAL ASSETS	**19,914,918**	16,085,894

Accompanying notes form an integral part of these consolidated financial statements

KDA GROUP INC.

Consolidated Statements of Financial Position
As at July 31, 2020 and 2019

	2020	2019
	$	$
LIABILITIES		
Current liabilities		
Bank indebtedness (note 11)	**1,350,000**	1,251,250
Trade and other payables (note 12)	**3,275,181**	3,674,901
Due to third-party (note 5)	**1,093,903**	1,844,335
Deferred revenues	**239,796**	243,350
Due to shareholders, without interest	**290,561**	1,000,000
Income taxes payable (note 15)	**17,289**	142,493
Current maturity of long-term debts (note 14)	**4,043,054**	7,545,789
Current maturity of lease liabilities (note 13)	**248,287**	-
	10,558,071	15,702,118
Non-current liabilities		
Long-term debts (note 14)	**530,050**	472,458
Lease liabilities (note 13)	**2,476,534**	-
Preferred shares (note 16)	**9,646,835**	5,972,762
Deferred tax liabilities (note 15)	**358,157**	519,004
	13,011,576	6,964,224
TOTAL LIABILITIES	**23,569,647**	22,666,342
DEFICIENCY (note 16)		
Share capital	**25,089,855**	18,439,819
Share to be issued	**-**	575,000
Contributed surplus	**911,524**	712,830
Other comprehensive loss	**(220,500)**	(220,500)
Deficiency attributable to shareholders	**(28,768,923)**	(25,667,901)
Equity attributable to non-controlling interest	**(666,685)**	(419,696)
TOTAL DEFICIENCY	**(3,654,729)**	(6,580,448)
TOTAL LIABILITIES AND DEFICIENCY	**19,914,918**	16,085,894

Going concern (note 1)
Contingent liability (note 24)
Commitments (note 27)
Subsequent events (note 28)

Approved on behalf of the Board:

(Signed)	*(Signed)*
Michael W. Kinley, Director	Pierre Monet, CFO

Accompanying notes form an integral part of these consolidated financial statements

KDA GROUP INC.

Consolidated Statements of Loss and Comprehensive Loss

For the years ended July 31, 2020 and 2019	**2020**	2019
	$	$
Revenues (note 18)	**22,891,505**	23,093,827
Cost of revenues (note 19)	**17,027,024**	17,538,009
Gross Margin	**5,864,481**	5,555,818
Expenses:		
Selling and administrative expenses (note 20)	**4,859,393**	5,160,596
Impairment charges (note 10)	**-**	602,678
Loss on the sale of a subsidiary (note 5)	**-**	2,225,979
	4,859,393	7,989,252
Income (loss) before depreciation, amortization, net finance costs and income taxes:	**1,005,088**	(2,433,434)
Depreciation of right of use assets (note 8)	**286,762**	-
Depreciation of property and equipment (note 9)	**69,956**	84,872
Amortization of intangible assets (note 10)	**727,665**	431,006
Operating loss before the following	**(79,295)**	(2,949,312)
Net finance costs (note 21)	**5,267,636**	4,488,620
Loss before income tax (recovery) expense	**(5,346,931)**	(7,437,932)
Income tax expense (note 15)	**73,705**	321,176
Deferred income tax (recovery) expense (note 15)	**(863,824)**	562,974
	(790,119)	884,150
Net loss from continuing operations	**(4,556,812)**	(8,322,082)
Net loss from discontinued operations (note 5)	**-**	(536,507)
Net loss	**(4,556,812)**	(8,858,589)
Other comprehensive loss		
Change in the fair value of investment (note 5)	**-**	(300,000)
Deferred income tax recovery (note 15)	**-**	79,500
Total net loss and comprehensive loss	**(4,556,812)**	(9,079,089)
Net loss and comprehensive loss attributable to:		
Equity holders of KDA Group Inc.	**(4,309,823)**	(8,736,437)
Non-controlling interest	**(246,989)**	(342,652)
	(4,556,812)	(9,079,089)
Loss per share from continued operations		
Basic and diluted (note 17)	**(0,04)**	(0,11)
Loss per share from discontinued operations		
Basic and diluted (note 17)	**-**	(0,01)
Loss per share to equity holders of KDA Group Inc		
Basic and diluted (note 17)	**(0,04)**	(0,12)

Accompanying notes form an integral part of these consolidated financial statements

KDA GROUP INC.

Consolidated Statements of Changes in Deficiency
For the years ended July 31, 2020 and 2019

					Total Deficiency attributable to shareholders							
	Number of shares	**Class "A" Common shares**	**Shares to be issued**	**Contributed surplus**	**Convertible Debentures In shares**	**Warrants reserve**	**Premium on Convertible shares**	**Deficiency**	**Total**	**Other Comprehensive Loss**	**Non-Controlling Interest**	**Total Deficiency**
	#	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance at July 31, 2019	86,760,947	18,439,819	575,000	712,830	-	797,526	(2,371,363)	(24,094,064)	(25,667,901)	(220,500)	(419,696)	**(6,580,448)**
Effect of the transition to IFRS 16 (note 3)	-	-	-	-	-	-	-	(199,063)	(199,063)	-	-	**(199,063)**
Balance at July 31, 2019 - Adjusted	86,760,947	18,439,819	575,000	712,830	- -	797,526	(2,371,363)	(24,293,127)	(25,866,964)	(220,500)	(419,696)	**(6,779,511)**
Issuance of units	19,120,000	3,589,523	(575,000)	-	-	1,190,477	-	-	1,190,477	-	-	**4,205,000**
Debt settlement	11,125,000	2,738,032	-	-	-	199,218	-	-	199,218	-	-	**2,937,250**
Warrants exercised	40,000	10,141	-	-	-	(2,141)	-	-	(2,141)	-	-	**8,000**
Options exercised	1,375,000	360,250	-	(154,000)	-	-	-	-	-	-	-	**206,250**
Share issue cost	-	(47,910)	-	-	-	20,310	-	-	20,310	-	-	**(27,600)**
Stock-based compensation	-	-	-	352,694	-	-	-	-	-	-	-	**352,694**
Net loss	-	-	-	-	- -	-	-	(4,309,823)	(4,309,823)	-	(246,989)	**(4,556,812)**
Balance at July 31, 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)**
Balance at July 31, 2018	42,930,614	12,621,560	870,000	382,721	43	41,235	(1,621,406)	(15,578,127)	(17,158,255)	-	(77,044)	**(3,361,018)**
Issuance of units	35,430,333	4,568,919	(870,000)	-	-	745,631	-	-	745,631	-	-	**4,444,550**
Shares to be issued	-	-	575,000	-	-	-	-	-	-	-	-	**575,000**
Debt settlement	8,400,000	1,260,000	-	-	(43)	-	(749,957)	-	(750,000)	-	-	**510,000**
Share issue cost	-	(10,660)	-	-	-	10,660	-	-	10,660	-	-	**-**
Stock-based compensation	-	-	-	330,109	-	-	-	-	-	-	-	**330,109**
Net loss	-	-	-	-	-	-	-	(8,515,937)	(8,515,937)	-	(342,652)	**(8,858,589)**
Other comprehensive loss	-	-	-	-	-	-	-	-	-	(220,500)	-	**(220,500)**
Balance at July 31, 2019	**86,760,947**	**18,439,819**	**575,000**	**712,830**	**-**	**797,526**	**(2,371,363)**	**(24,094,064)**	**(25,667,901)**	**(220,500)**	**(419,696)**	**(6,580,448)**

Accompanying notes form an integral part of these consolidated financial statements

KDA GROUP INC.

Consolidated Statements of Cash Flows
For the years ended July 31, 2020 and 2019

	2020	2019
	$	$
Cash flows from operating activities:		
Net loss for the year	**(4,556,812)**	(8,858,589)
Adjustments for:		
Income tax expense (note 15)	**73,705**	321,176
Deferred income tax (recovery) expense (note 15)	**(863,824)**	562,974
Depreciation of property and equipment (note 9)	**69,956**	94,532
Depreciation of right of use assets (note 8)	**286,762**	-
Amortization of intangible assets (note 10)	**727,665**	481,871
Impairment charges (note 10)	**-**	602,677
Loss on the sale of a subsidiary (note 5)	**-**	381,644
Write-off receivable	**-**	75,000
Share-based compensation (note 20)	**352,694**	330,109
Loss (gain) on derivative financial instruments	**-**	189,489
Accreted interest (note 21)	**2,797,249**	1,043,269
Accrued interest (note 21)	**1,850,404**	1,476,096
Fair value adjustment of the conversion option (note 16)	**(805,689)**	550,168
Loss (Gain) on settlement liabilities (note 20)	**256,991**	(461,661)
Amortization of transaction costs	**12,000**	134,517
Recognition of government grants (note 14)	**(40,000)**	-
Revaluation of the due to third-party (note 5)	**(400,432)**	1,844,335
	(243,331)	(1,232,393)
Changes in non-cash elements of working capital (note 26)	**(1,147,942)**	(1,118,719)
	(1,391,273)	(2,351,112)
Cash flows from investing activities:		
Additions to property and equipment (note 9)	**(890,863)**	(393,587)
Additions to intangible assets (note 10)	**(65,237)**	(280,648)
Disposal of property and equipment (note 9)	**120,870**	111,288
Increase in loan receivable	**(287,768)**	(722,796)
Proceeds from the sale of a subsidiary (note 5)	**-**	3,803,195
	(1,122,998)	2,517,452
Cash flows from financing activities:		
Proceeds from long-term debt (note 14)	**160,000**	203,654
Repayment of long-term debt (note 14)	**(1,219,449)**	(6,413,529)
Repayment of lease liabilities (note 13)	**(349,045)**	-
Proceeds from issuance of units, net of share issue cost (note 16)	**4,177,400**	2,959,550
Exercise of warrants and stock options (note 16)	**214,250**	-
Proceeds from issuance of shares	**-**	3,225,000
Increase in advance from shareholder	**-**	380,000
Proceeds from unclosed private placement	**-**	575,000
Increase (decrease) in the bank indebtedness (note 11)	**98,750**	(834,700)
	3,088,906	94,975
Net increase in cash	**574,635**	261,315
Cash, beginning of the year	**1,233,334**	972,019
Cash and cash equivalents, end of the year	**1,807,969**	1,233,334

Refer to note 26 for non-cash transactions.

Accompanying notes form an integral part of these consolidated financial statements

1. Reporting entity and going concern

KDA Group Inc. ("KDA" or the "Corporation") is incorporated under the Business Corporations Act (Québec). The Corporation is a publicly traded company listed on the TSX Venture Exchange ("TSX.V") under the symbol "KDA". The Corporation's head office is 300-1351 Notre-Dame East, Thetford Mines, Québec, G6G 0G5.

The consolidated financial statements of the Corporation for the years ended July 31, 2020 and 2019 comprise the Corporation and its subsidiaries. The Corporation provides a range of solutions and services to pharmacies and pharmaceutical companies in Canada.

These 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, 2020, the Corporation reported a net loss and comprehensive loss of $4,556,812 ($9,079,089 in 2019), a negative working capital of $4,265,083 ($10,142,125 as of July 31, 2019) and an accumulated deficit attributable to shareholders of $28,768,923 at that date ($25,667,901 as of July 31, 2019). As discussed in note 23, the Corporation is in breach of its financial covenants with respect to its secured credit financing as at July 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 consolidated financial statements does 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.

2. Basis of preparation

a) Statement of compliance:

These consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standard Board ("IASB").

These consolidated financial statements were approved and authorized for issue by the Board of Directors on November 30, 2020.

b) Basis of measurement:

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

- Derivative instruments are measured at fair value;
- Miscellaneous equity investments 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.

c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars ("$"), which is the Corporation's functional currency.

d) Use of estimates and judgments:

The preparation of the accompanying 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 amounts of assets and liabilities, the disclosures about contingent assets and liabilities, and the reported amounts of revenues and expenses. These estimates and assumptions are based on management's best estimates and judgments.

Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate actual results could differ from these estimates. Changes in those estimates and assumptions resulting from changes in the economic environment will be reflected in the consolidated 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:

2. Basis of preparation (continued)

d) Use of estimates and judgments (continued)

Note 5

Establishing the fair value of the investment is estimated by Management using their judgement in assessing the factors and making estimates and assumptions that are supported by quantifiable market information, supplemented by internal analysis as required. These assessment and estimates have been applied in a manner consistent with prior periods.

Note 10

Establishing the fair value of assets and liabilities, intangible assets and goodwill related to business acquisition.

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 15

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 16

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, 2020, are provided in Note 16.

2. Basis of preparation (continued)

d) Use of estimates and judgments (continued)

Note 16

The calculation of the fair value of common shares, stock options and warrants granted require management to make estimates and assumptions about the fair value of the underlying common shares of the Corporation, expected volatility, expected life and expected forfeiture rates, which could affect the Corporation's results if the current estimates change.

Note 24

Provisions 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.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated. The accounting policies have been applied consistently by all the subsidiaries.

BASIS OF CONSOLIDATION

i) Business combination

The Corporation measures goodwill as the fair value of the consideration transferred including the fair value of liabilities resulting from contingent consideration arrangements, less the net recognized amount of the identifiable assets acquired, and liabilities assumed, all Measured at fair value as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in income or loss.Transaction Costs, other than those associated with the issue of debt or equity securities, that the Corporation incurs in connection with a business combination are expensed as incurred.

3. Significant accounting policies (continued)

BASIS OF CONSOLIDATION (continued)

ii) 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.

Name	Nature of Services	At July 31, 2020	At July 31, 2019
Campus Elitis Pharma inc.	Pharmacy Services	**80%**	80%
Elitis Pharma inc.	Pharmacy Services	**100%**	100%
Alliance Pharma Operations inc.	Pharmacy Services	**100%**	100%
Pro-J Pharma inc.	Pharmacy Services	**100%**	100%
9287396 Canada inc.	Pharmacy Services	**100%**	100%
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%**	20%
CanNorth Médic inc.	Pharmaceutical Cannabis	**51%**	51%
CanNorth Médic International inc.	Pharmaceutical Cannabis	**80%**	80%

(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 Corporation does not have a notable influence in Pharmapar inc.

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.

3. Significant accounting policies (continued)

BASIS OF CONSOLIDATION (continued)

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.

FINANCIAL INSTRUMENTS

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.

3. Significant accounting policies (continued)

FINANCIAL INSTRUMENTS (continued)

Financial asset (continued)

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.

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

Financial Asset	Classification	Subsequent Measurement
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 income (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.

3. Significant accounting policies (continued)

FINANCIAL INSTRUMENTS (continued)

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.

3. Significant accounting policies (continued)

FINANCIAL INSTRUMENTS (continued)

Financial liabilities and equity instruments issued by the Corporation (continued)

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 consolidated statement of loss and 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 AND EQUITY INSTRUMENTS 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
Due to third-party	Other financial liability	Amortized cost
Due to shareholder, without interest	Other financial liability	Amortized cost
Long-term debt	Other financial liability	Amortized cost
Lease liabilities	Other financial liability	Amortized cost
Preferred shares – host component	Other financial liability	Amortized cost
Preferred shares – conversion option	FVTPL	Fair value

Derecognition of financial liabilities

The Corporation derecognizes financial liabilities when, and only when, the Corporation’s obligations are discharged, cancelled or they expire.

3. Significant accounting policies (continued)

SHARE CAPITAL

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares, stock options and warrants are recognized as a deduction from equity, net of any tax effects.

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity.

All transactions with owners are recorded separately within equity. Dividend distributions payable to equity shareholders are included in trade and other payables when the dividends have been approved in a general meeting prior to the reporting date.

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 amount to be settled will vary based on the timing of the exercise as described in note 16.

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.

3. Significant accounting policies (continued)

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.

PROPERTY AND EQUIPMENT ARE AMORTIZED ON A STRAIGHT-LINE BASIS OVER THE FOLLOWING ESTIMATED USEFUL LIVES:

Categories	Useful Lives
Furniture and fixtures	5 years
Computer equipment	5 years
Leasehold improvements	5 years
Vehicles	5 years
Equipment	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.

3. Significant accounting policies (continued)

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, 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 agreements	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.

3. Significant accounting policies (continued)

IMPAIRMENT OF 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 expenses, 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.

3. Significant accounting policies (continued)

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.

3. Significant accounting policies (continued)

SEGMENTED INFORMATION (continued)

The Corporation has three reportable operating segments: pharmacy services, pharmaceutical solutions and Pharmaceutical cannabis.

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 COSTS

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.

3. Significant accounting policies (continued)

INCOME TAXES (continued)

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.

3. Significant accounting policies (continued)

EMPLOYEE BENEFITS (continued)

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:

	2020	2019
Total presented under cost of revenue	**3,480**	6,924

NEW ACCOUNTING PRONOUNCEMENTS ADOPTED

Certain pronouncements, issued by the IASB or the IFRS Interpretations Committee ("IFRIC"), were adopted by the Corporation as of August 1, 2019. The following pronouncements are relevant to the consolidated financial statements:

i) **IFRS 16 Lease ("IFRS 16")**

On August 1, 2019, the Corporation adopted IFRS 16 – Leases ("IFRS 16") which replaced IAS 17 – Leases and IFRIC 4 – Determining Whether an Arrangement Contains a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead, all leases are treated in a similar way to finance leases as applied under IAS 17. IFRS 16 does not require a lessee to recognize assets and liabilities for short-term leases (leases of 12 months or less) or leases of low-value assets. The Corporation applied IFRS 16 using the modified retrospective method. Under this method, comparative financial information has not been restated and will continue to be reported under the accounting standards in effect for those periods. The Corporation has recognized lease liabilities related to its lease commitments for its building, vehicles and office leases. The lease liabilities were measured at the present value of the remaining minimum lease payments, discounted using the Corporation's estimated incremental borrowing rate as at August 1, 2019, the date of initial application, resulting in an adjustments to the opening balance of deficiency. The associated right-of-use assets were recognized at the lease liabilities amount, adjusted by the amount of accrued lease payments relating to the leases recognized in the statement of financial position immediately before initial adoption on August 1, 2019.

3. Significant accounting policies (continued)

NEW ACCOUNTING PRONOUNCEMENTS ADOPTED (continued)

i) IFRS 16 Lease (“IFRS 16”) (continued)

The Corporation elected to apply the following recognition exemptions and practical expedients, as described under IFRS 16:

- recognition exemption of short-term leases;
- recognition exemption of low-value leases;
- application of a single discount rate to a portfolio of leases with similar characteristics on transition;
- exclusion of initial direct costs from the measurement of the right-of-use assets upon transition;
- application of hindsight in determining the applicable lease term at the date of transition; and
- election to not separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

THE FOLLOWING TABLE SUMMARIZES THE ADJUSTMENTS TO OPENING BALANCES RESULTING FROM THE INITIAL ADOPTION OF IFRS 16:

As at August 1, 2019	Previously Reported Under IAS 17	IFRS 16 Transition Adjustments	As Reported Under IFRS 16
Right-of-use assets	—	2,597,930	2,597,930
Deferred lease inducements	(166,667)	166,667	—
Deficit	(199,063)	199,063	—
Lease liabilities	—	(2,963,660)	(2,963,660)

The incremental borrowing rate for the Company at August 1, 2019 and through July 31, 2020 averaged between 3.49% and 6.5% depending on the classification of its lease commitment.

Operating lease commitments as at July 31,2019	3,546,077
Discounted using the incremental borrowing rate at August 1, 2019	(582,417)
	2,963,660

3. Significant accounting policies (continued)

NEW ACCOUNTING PRONOUNCEMENTS ADOPTED (continued)

i) IFRS 16 Lease ("IFRS 16") (continued)

As a result of adopting IFRS 16, the Corporation updated its lease accounting policies as follows: The Corporation assesses whether a contract is or contains a lease at inception of the contract. A lease is recognized as a right-of-use asset and corresponding liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and an interest expense. Lease liabilities represent the net present value of fixed lease payments (including in-substance fixed payments); variable lease payments based on an index, rate, or subject to a fair market value renewal condition; amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the Corporation is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if it is probable that the lessee will exercise that option.

The Corporation's lease liability is recognized net of lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the Corporation's incremental borrowing rate. The period over which the lease payments are discounted is the expected lease term, including renewal and termination options that the Corporation is reasonably certain to exercise. Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in general and administration and sales and marketing expense in the statement of operations and comprehensive loss. Short-term leases are defined as leases with a lease term of 12 months or less. Variable lease payments that do not depend on an index, rate, or subject to a fair market value renewal condition are expensed as incurred and recognized in costs of goods sold, general and administration or sales and marketing expense, as appropriate given how the underlying leased asset is used, in the statement of operations and comprehensive loss. Right-of-use assets are measured at cost, which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the commencement date, any initial direct costs and related restoration costs.

The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset. The depreciation is recognized from the commencement date of the lease.

ii) IFRIC 23 - Uncertainty over Income Tax Treatments ("IFRIC 23")

This standard clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The Corporation adopted this standard on August 1, 2019, which did not have a significant effect on the Corporation's consolidated financial statements.

3. Significant accounting policies (continued)

STANDARDS ISSUED BUT NOT YET EFFECTIVE

At July 31, 2020, a number of new standards, amendments to standards and interpretations have been issued but are not yet effective. Accordingly, they have not been applied in preparing these consolidated financial statements. The Corporation is currently assessing the impact that these standards will have on the consolidated financial statements.

The standards issued but not yet effective that are expected to be relevant to the Corporation's consolidated financial statements are provided below.

Management anticipates that all of the pronouncements will be adopted in the Corporation's accounting policies for the first period beginning after the effective date of each pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Corporation's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Corporation's consolidated financial statements and are not listed.

i) Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the consolidated statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after January 1, 2023, with early application permitted.

ii) Amendments to IFRS 3 – Reference to the Conceptual Framework

The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

3. Significant accounting policies (continued)

STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

iii) Amendments to IAS 37 – Onerous Contracts – Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after January 1, 2022, with early application permitted.

iv) Annual Improvements to IFRS Standards 2018–2020

IFRS 9 Financial Instruments

The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.

The amendment is effective for annual periods beginning on or after January 1, 2022, with early application permitted.

IFRS 16 Leases

The amendment removes the illustration of the reimbursement of leasehold improvements. As the amendment to IFRS 16 only regards an illustrative example, no effective date is stated.

4. 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. The Canadian Government has implemented policies giving aid to businesses due to COVID-19, as a result the Corporation has received $120,000 which was recognized as revenues. 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 audited consolidated financial statements.

5. DISCONTINUED OPERATIONS

On February 15, 2019, KDA completed the sale of 80% of the issued and outstanding shares of Pharmapar Inc. Resulting to the completion of the sale, the Corporation has kept 20% of the issued and outstanding shares of Pharmapar Inc. to Strides Pharma Canada Inc. ("Strides"), for $4,000,000. The consideration has been received in two payments: the first one, on December 5, 2018, for $1,000,000 and the second one of $2,803,195 on the closing date. The amount received at the closing date represent the due balance of the sale price minus the amounts of taxes payable of $46,805 by Pharmapar Inc. ("Pharmapar") and an adjustment on the net working capital of $150 000 as of December 31, 2018. The transaction is effective as of January 1, 2019. The adjustment of $150,000 is presented as a loan receivable from a minority subsidiary, without interest.

Under the share sale agreement, KDA could pay to Strides 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, 2020, following the non-achievement of the target EBITDA by Pharmapar, KDA must pay $1,093,903 to Strides. The provision was initially estimated to $1,844,335 as of July 31, 2019. Following the completion of the EBITDA statement of Pharmapar for the 12 months period ending December 31, 2019, the Corporation revaluated its provision resulting in a diminution of $400,432 (note 20). The Corporation also offset advances of $350,000 made to Pharmapar against the due to Strides.

5. DISCONTINUED OPERATIONS (continued)

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 at the date of the transaction, which was remeasured as at July 31, 2019 to $700,000 recognizing a loss of $300,000 in the other comprehensive loss. As at July 31, 2020, KDA remeasured his investment and noted no change in its fair value.

STATEMENTS OF LOSS AND COMPREHENSIVE LOSS FOR DISCONTINUED OPERATIONS YEAR ENDED JULY 31, 2019

	2019
Revenues	1,966,229
Cost of revenues	1,342,589
Selling and administrative expenses	1,160,147
Loss before income tax	**(536,507)**
Deferred income tax expense	—
Net loss and comprehensive loss for the year	**(536,507)**

6. INVESTMENT IN CANNORTH MEDIC INTERNATIONAL

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 int'l are at arm's length to the Corporation (Refer to note 27).

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

7. TRADE AND OTHER RECEIVABLES

	At July 31, 2020	At July 31, 2019
Trade receivables	**3,569,360**	3,243,109
Other receivables	**100,000**	—
	3,669,360	3,243,109

The Corporation's exposure to credit risk related to trade and other receivables is disclosed in note 23 a).

8. RIGHT OF USE ASSETS

	Rental lease	Vehicules	Printer	Total
Gross book value				
Balance at July 31, 2019	—	—	—	—
IFRS 16 translation adjustment (note 3)	2,766,008	33,517	19,016	2,818,541
Balance at July 31, 2020	**2,766,008**	**33,517**	**19,016**	**2,818,541**
Depreciation				
Balance at July 31, 2019	—	—	—	—
IFRS 16 translation adjustment (note 3)	200,482	10,055	10,034	220,571
Depreciation for the year	276,601	6,703	3,458	286,762
Balance at July 31, 2020	**477,083**	**16,758**	**13,492**	**507,333**
Book Value				
Balance at July 31, 2019	—	—	—	—
Balance at July 31, 2020	**2,288,925**	**16,759**	**5,524**	**2,311,208**

9. PROPERTY AND EQUIPMENT

	Leasehold improvements	Computer equipment	Furniture and fixtures	Equipment	Vehicules	Total
Balance at July 31, 2019	289,202	291,648	52,749	162,424	141,860	937,883
Additions [1]	756,379	18,271	8,000	29,067	87,107	898,824
Disposal	—	(6,268)	(30,476)	—	(78,947)	(115,691)
Balance at July 31, 2020	**1,045,581**	**303,651**	**30,273**	**191,491**	**150,020**	**1,721,016**
Depreciation						
Balance at July 31, 2019	32,378	229,506	41,056	—	29,400	332,340
Disposal	—	(6,268)	(22,515)	—	(2,311)	(31,094)
Depreciation for the year	14,452	23,777	2,030	—	29,697	69,956
Balance at July 31, 2020	**46,830**	**247,015**	**20,571**	—	**56,786**	**371,202**
Net carrying value						
Balance at July 31, 2019	256,824	62,142	11,693	162,424	112,460	605,543
Balance at July 31, 2020	**998,751**	**56,636**	**9,702**	**191,491**	**93,234**	**1,349,814**

[1] The additions of leasehold improvements and equipment are not amortized because they were not ready to be in use. These additions are related to the CanNorth Medic Inc. subsidiary.

10. INTANGIBLE ASSET AND GOODWILL

i) Intangible assets

	Training courses	Software	Web sites	Customer relationships	Non-compete agreements	Total
Balance at July 31, 2019	91,236	1,844,391	95,384	2,478,998	1,074,999	5,585,008
Additions	—	—	65,237	—	—	65,237
Balance at July 31, 2020	**91,236**	**1,844,391**	**160,621**	**2,478,998**	**1,074,999**	**5,650,245**
Amortization						
Balance at July 31, 2019	91,236	1,420,746	82,816	676,400	687,800	2,958,998
Amortization for the year	—	179,256	14,109	247,900	286,400	727,665
Balance at July 31, 2020	**91,236**	**1,600,002**	**96,925**	**924,300**	**974,200**	**3,686,663**
Net carrying value						
Balance at July 31, 2019	—	423,645	12,568	1,802,598	387,199	2,626,010
Balance at July 31, 2020	—	**244,389**	**63,696**	**1,554,698**	**100,799**	**1,963,582**

10. INTANGIBLE ASSET AND GOODWILL (continued)

ii) Goodwill

	Pharmacist Services	Pharmaceutical Solutions	Total
Balance at July 31, 2016	**2,291,930**	—	**2,291,930**
Addition through business acquisitions	10,812,625	4,613,708	15,426,333
Impairment charges	(6,685,000)	—	(6,685,000)
Balance at July 31, 2017	**6,419,555**	**4,613,708**	**11,033,263**
Divestiture of a subsidiary	(549,368)	—	(549,368)
Impairment charges	(2,295,652)	—	(2,295,652)
Balance at July 31, 2018	**3,574,535**	**4,613,708**	**8,188,243**
Deconsolidation of a subsidiary	(1,282,666)	—	(1,282,666)
Impairment charges	(594,716)	—	(594,716)
Balance at July 31, 2019	**1,697,153**	**4,613,708**	**6,310,861**
Balance at July 31, 2020	**1,697,153**	**4,613,708**	**6,310,861**

Impairment of intangible asset and goodwill

On an annual basis as at July 31, the Corporation assesses the Corporation's CGUs for indicators of impairment or when facts or circumstances suggest that the carrying amount may exceed the recoverable amount. Goodwill is tested for impairment annually. For the purpose of impairment testing, goodwill is allocated to the Corporation's CGUs within operating segments that represent the lowest level within the Corporation at which the goodwill is monitored for internal management purposes.

The Corporation performed its annual impairment test and estimated the recoverable amount of its goodwill and intangible assets based on the higher of fair value less cost of disposal (FVLCD) and Value in Use (VIU).

10. INTANGIBLE ASSET AND GOODWILL (continued)

Impairment of intangible asset and goodwill (continued)

As the operating segment is comprised of various CGUs, management tested the individual CGUs for impairment before the operating segment which contains the associated goodwill. The recoverable amount of all CGUs was determined based on the FVLCD using level 3 inputs in a Discounted Cash Flow (DCF) methodology (with the exception of Pharmaceutical Cannabis, which was based on a subsequent letter of intent to buy the operating segment).

The significant assumptions applied in the determination of the recoverable amount are described below:

- Cash flows: Estimated cash flows were projected based on actual operating results from internal sources as - well as industry and market trends. The forecasts are extended to a total of five-years (and a terminal year thereafter);
- Terminal value growth rate: The terminal growth rate was based on historical and projected consumer price inflation, historical and projected economic indicators; and
- Post-tax discount rate: The post-tax discount rate is reflective of the CGUs Weighted Average Cost of Capital ("WACC"), from a market participant perspective. The WACC was estimated based on the risk-free rate, equity risk premium, beta adjustment to the equity risk premium based on a direct comparison approach, an unsystematic risk premium, and aftertax cost of debt based on corporate bond yields.

KEY ASSUMPTIONS USED IN CALCULATING THE RECOVERABLE AMOUNT FOR EACH CGU TESTED FOR IMPAIRMENT AS AT JULY 31, 2020 AND 2019 ARE OUTLINED IN THE FOLLOWING:

As at July 31, 2020	**Pharmacy Services**	**Pharmaceutical Solutions**
Terminal value growth rate	3.0%	3.0%
Discount rate	17.0%	17.0%
Five-year compound annual revenue growth rate	49.3%	49.3%
As at July 31, 2019	**Pharmacy Services**	**Pharmaceutical Solutions**
Terminal value growth rate	4.8%	2.0%
Discount rate	18.0%	17.8%
Five-year compound annual revenue growth rate	47.5%	47.9%

10. INTANGIBLE ASSET AND GOODWILL (continued)

Impairment of intangible asset and goodwill (continued)

Pharmacy Services

Management concluded that the recoverable amount was higher than the carrying value at July 31, 2020 and no impairment was recognized within the Pharmacy Services CGU.

Pharmaceutical Solutions

Management concluded that the recoverable amount was higher than the carrying value at July 31, 2020 and no impairment was recognized within the Pharmaceutical Solutions CGU.

Pharmaceutical Cannabis

Subsequent to year end (note 27), the Corporation's received a letter of intent regarding the purchase of this CGU for a minimum consideration of $2,400,827. The Corporation used the sale price, less disposal costs as the recoverable amount at July 31, 2020. As a result of the impairment test, management concluded that the recoverable amount was higher than the carrying value and no impairment was recognized within the Pharmaceutical Cannabis CGU.

11. BANK INDEBTEDNESS

As part of the Corporation’s credit facility (as more fully described in note 14), the Corporation has authorized operating credits totaling $1,400,000 ($1,800,000 as of July 31, 2019), 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.

12. TRADE AND OTHER PAYABLES

	At July 31, 2020	At July 31, 2019
Trade payables and accrued expenses	**2,056,670**	2,487,353
Provision	**—**	65,761
Salaries and vacations payable	**394,180**	364,367
Sales tax payable	**161,906**	147,085
Interest payable to shareholders	**587,425**	368,668
Dividend payable (note 25)	**75,000**	75,000
Lease inducement	**—**	166,667
Total	**3,275,181**	3,674,901

13. LEASE LIABILITIES

	Rental lease	Vehicles	Printer	Total
Gross book value				
Balance at July 31, 2019	—	—	—	—
IFRS 16 transition adjustment (note 3)	2,929,727	24,153	9,780	2,963,660
Principal repayment	228,688	6,561	3,590	238,839
Balance at July 31, 2020	**2,701,039**	**17,592**	**6,190**	**2,724,821**
Balance at July 31, 2020				
Short-term portion	237,630	6,827	3,830	248,287
Long-term portion	2,463,409	10,765	2,360	2,476,534

Total expenses during the year ended July 31, 2020 relating to short-term leases and low value leases as well as leases excluded from the application of IFRS 16 totaled $55,000 and $35,000, respectively.

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

	At July 31, 2020	At July 31, 2019
Balance of purchase price bearing interest at 12% repayable by bi-annual installments, matured in May 2018, converted in common shares in October 2019 (note 16)	**—**	825,259
Long-term debt bearing interest at prime rate plus 1%, repayable monthly by installments of $1,560 and maturing in February 2021	**10,920**	29,640
Long-term debt bearing interest at prime rate plus 4%, repayable monthly by installments of $830, and maturing in October 2021	**12,450**	22,410
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 installments of $110,000. The loan is currently under a forbearance agreement until January 29, 2021 (note 1) and is net of transaction costs of $12,000 ($24,000 as of July 31, 2019)	**2,671,247**	3,749,247
Balance of purchase price, non-interest bearing and net of accreted interest of $13,113 ($57,400 as of July 31, 2019), repayable by annual installments of $320,000, maturing in August 2021	**621,887**	1,357,600
Long-term debt bearing interest at 6.50%, repayable by monthly installments of $3,852 and maturing in October 2020	**11,556**	57,779
Loan bearing interest at 6.99%, repayable by monthly installments of $589 including interest, reimbursed totally in November 2019	**—**	29,736
Loan bearing interest at 7.44%, repayable by monthly installments of $777 including interest, and maturing in December 2025	**40,916**	46,832
Loan bearing interest at 6.99%, repayable by monthly installments of $514 including interest, and maturing in October 2025	**27,042**	31,162
Loan bearing interest at 7.74%, repayable by monthly installments of $472 including interest, and maturing in December 2025	**25,004**	28,582
Loan bearing interest at 6.89%, repayable by monthly installments of $752 including interest, and maturing in November 2025	**40,039**	—

14. LONG-TERM DEBTS (continued)

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)]	**112,044**	—
Promissory notes [(3)] with shareholders, bearing interest at 18% calculated and compounded annually, without payment terms	**1,000,000**	1,690,000
Unsecured loan with a shareholder, with 6% of interest and no payment terms, converted in common shares in October 2019 (note 16)	**—**	150,000
	4,573,104	8,018,247
Less:		
Current portion due to breach of covenants	**2,671,247**	3,749,247
Current portion due to absence of payment terms debts	**1,320,000**	3,702,859
Current maturity of long-term debts	**51,807**	93,683
Long-term portion	**530,050**	472,458

(1) The loan is secured by a first mortgage on the Corporation's present and future accounts receivable, tangible, and intangible properties. The loan is subject to certain covenants regarding the maintenance of financial ratios (Refer to note 23 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.

14. LONG-TERM DEBTS (continued)

As at July 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 July 31, 2020	At July 31, 2019
Less than 1 year	**4,063,010**	7,569,789
Between 1 and 5 years	**523,242**	445,275
More than 5 years	**6,808**	27,183
Total amounts payable	**4,593,060**	8,042,247
Less: Financing fees	**(19,956)**	(24,000)
Total	**4,573,104**	8,018,247

15. CURRENT AND DEFERRED INCOME TAXES

	At July 31, 2020	At July 31, 2019
Income tax recognized in loss		
Current tax expense	**73,705**	321,176
Deferred tax (recovery) expense	**(863,824)**	562,974
	(790,119)	884,150

15. CURRENT AND DEFERRED INCOME TAXES (continued)

The income tax expense reported differs from the amount computed by applying Canadian Federal and Provincial income tax rate to income before taxes of 26.54% (2019 – 26.6%). The reason for the difference and the related tax effects are as follows:

	At July 31, 2020	At July 31, 2019
Net loss before income taxes	**(5,346,931)**	(7,437,932)
Statutory income tax rate	**26,54%**	26,6%
Expected income tax recovery	**(1,419,076)**	(1,978,490)
Adjustments:		
Loss on disposal of investments	**—**	589,925
Non-capital losses not tax effected	**197,557**	1,109,456
Non-deductible impairment charges	**—**	159,710
Non-deductible expenses	**1,179,587**	975,555
Unrecognized loss from previous years	**(675,486)**	—
Others	**(72,701)**	27,995
Income tax (recovery) expense	**(790,119)**	884,150

	At July 31, 2020	At July 31, 2019
Income tax recognized in other comprehensive loss		
Deferred income tax recovery	**—**	(79 500)

15. CURRENT AND DEFERRED INCOME TAXES (continued)

THE TAX EFFECTS OF TEMPORARY DIFFERENCES AND NET OPERATING LOSSES THAT GIVE RISE TO DEFERRED INCOME TAX ASSETS AND LIABILITIES ARE AS FOLLOWS:

	At July 31, 2020	At July 31, 2019
Deferred tax assets		
Net operating losses carried forward	**197,177**	—
Financial expenses	**709,788**	203,987
Change in fair value of investment	**79,500**	79,500
	986,465	283,487
Deferred tax liabilities		
Carrying value of intangibles assets in excess of tax basis	**346,832**	496,774
Tax basis of capital assets in excess of carrying value	**11,325**	22,231
	358,157	519,005

As of July 31, 2020, the Corporation had non-capital losses of $1,797,571 (2019 - $2,901,340). Of these non-capital losses, $1,053,507 was not recognized. These unrecognized non-capital losses will expire gradually between 2029 and 2040.

As of July 31, 2020, the Corporation had capital losses of $11,169,168 (2019 - $11,169,168) for which no deferred tax benefit has been recorded.

16. Share capital and other components of equity

SHARE CAPITAL

The Corporation's share capital consists only 118,420,947 of 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.

On September 20, 2019, KDA announced a debt settlement with Marc Lemieux, President and Chief of the operation of KDA for a total amount of $925,000 totaling 4,625,000 Class A Share of KDA at a price of $0,20 per Class A share. In accordance with IFRIC 19, KDA report a loss on debt settlement of $231,250.

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

From these placements, an amount of $150,000 totaling 600,000 Class A Share of KDA was for a debt settlement with an investor.

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

The Corporation paid a cash commission of $27,600 in relation to this Private Placement and issued 110,400 non-transferable share purchase warrants (the "Broker warrants"). Each Broker warrant entitles the holder to purchase one Common share at an exercise price of $0.25 per Common share for a period of 12 months ending October 22, 2020.

At the same date, the Corporation completed a debt settlement with a creditor totaling $825,000 with the same terms as the Private Placement subscribers as disclosed above, meaning in exchange for the issuance of 3,300,000 Common shares at a price of $0.25 per Common share and 1,650,000 Warrants. No gain or loss were recognized under IFRIC 19 following the debt settlement.

On November 8, 2019 completed and debt settlement with a creditor totaling $780,000 in exchange for the issuance 2,600,000 common shares of KDA. Under IFRIC 19, the settlement created a loss on debt settlement of $26,000.

On January 8, 2020 options granted at Directors, employees and consultants were exercised at the expiry date for the issuance of 1,375,000 common stock of KDA and a gross proceed of $206,250.

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

SHARE CAPITAL (continued)

During the year, 40,000 common stock of KDA were issued following the exercise of 40,000 warrants at $0.20.

On June 30, 2016, the Corporation entered into a subscription agreement that provided for the issuance of Series A Preferred Shares upon completion of the business acquisitions. The creation and issuance of the new preferred shares (the “Preferred Shares”) were approved by the Shareholders of the Corporation at a special meeting of shareholders. The Series A Preferred Shares are convertible into Class A Shares of the Corporation anytime up to June 29, 2021, at a conversion price of $0.35 per share. Furthermore, the Series A Preferred Shares are entitled to vote as a separate class of shares and are also entitled to vote on an “as converted” basis at any special or general meeting of the shareholders of the Corporation. The Series A Preferred Shares shall not be entitled to any fixed dividend entitlement but shall participate in all dividends declared on the Class A Shares on an “as converted” basis.

In the event of a change of control of the Corporation, and at any time after June 29, 2020, the holder may demand that the Corporation redeem its Series A Preferred Shares at a redemption price equal to the greater of (i) the subscription price of the Series A Preferred Shares plus a preferred return equal to 24%, compounded annually from June 30, 2016, less any amounts previously distributed as dividends and (ii) their fair market value. In the event of liquidation, holders of Series A Preferred Shares will be entitled to receive, in priority to holders of other shares of the Corporation, an amount per Series A Preferred Share equal to the product of three times the subscription price less any amounts previously distributed as dividends see note 24, Contingent liabilities.

In accordance with IAS 32, Financial Instruments: Presentation (“IAS 32”), the issuer of a non-derivative financial instrument shall evaluate the terms of the financial instrument to determine whether it contains both a liability and an equity component. In application of this standard, the issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.

Relative to the Series A Preferred Shares referred to above and the application of IAS 32, the Corporation has determined that the conversion option together with the redemption option feature (collectively the “Conversion Options”) constitute an embedded derivative financial instrument. Upon a conversion into common shares of the Corporation, the carrying amount of the host debt instrument recorded at amortized cost and the fair value of the related embedded derivative will be transferred to Equity. Upon a conversion into debt, the carrying amount of the host debt instrument and the fair value of the related embedded derivative will be transferred as a normal liability carried at amortized cost.

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

SHARE CAPITAL (continued)

The Preferred Shares are a hybrid instrument, which are in their entirety regarded as a financial liability. The initial carrying amount of $996,354 for the debt host represents the residual amount of the proceeds after separating out the $2,732,441 fair value of the derivative, which represent the estimated fair value of the conversion options, and the $21,802 of the warrants valuation. All transaction costs were allocated to the host.

As at July 31, 2020, the Corporation reviewed the estimated fair value of the Preferred shares embedded derivatives and adjusted the initial fair value to $nil using the same valuation technique.

The fair value of the Conversion Options was estimated using a Black-Scholes valuation model using the following assumptions at inception: estimated life: 4 years, actual stock price: $0.60, volatility: 15%, dividend yield: 0%, risk-free rate: 0.68% and on July 31, 2020: estimated life: 1 year, actual stock price: $0.15, volatility: 94.54%, dividend yield: 0%, risk-free rate: 0.11%.

Expected volatility was based on the Corporation's historical volatility and the volatility of an equity market index in the health-care providers and services for the same period. The credit spread used in the valuation was based on an index for CAD triple-C corporate bonds.

For the year ended July 31, 2020, the change in fair value of derivatives resulted in a reduction of expense of $805,689 (July 31, 2019 – augmentation of $550,168) and was recorded in the consolidated statements of loss and comprehensive loss.

		Liability Component		Equity
	Preferred shares-host	**Conversion Option**	**Total**	**Warrants**
	Carrying Value			
Balance at July 31, 2018	2,682,882	255,521	2,938,403	21,802
Accretion expense	2,484,191	—	2,484,191	—
Change in fair value of the derivative	—	550,168	550,168	—
Balance at July 31, 2019	5,167,073	805,689	5,972,762	21,802
Accretion expense	4,479,762	—	4,479,762	—
Change in fair value of the derivative	—	(805,689)	(805,689)	—
Balance at July 31, 2020	**9,646,835**	—	**9,646,835**	**21,802**

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

ESCROWED SHARES

On July 31, 2020, there was no outstanding Class A common shares that were held under an escrow agreement (3,180,557 outstanding Class A shares as of July 31, 2019, released at 100% 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

On October 22, 2019, the Corporation issued 9,860,000 warrants in connection with the private placement and 1,650,000 warrants in connection with the debt settlement both described above. Each warrant entitles its holder to purchase one common Share at a price of $0.40 at any time until the first anniversary of their issuance. Amounts of $1,190,476 and $199,218 were respectively allocated to the warrants on the basis of the relative fair values using the Black Scholes option pricing model with the following assumptions:

Risk free interest rate	1.59%
Expected volatility	94.54%
Dividend yield	NIL
Expected life	1 year
Grant date fair value	$0.1207

On October 16, 2020, the Corporation extended the expiry date of 13,890,333 warrants to purchase 13,890,333 Class A Shares of KDA at a price of $0.20 per Common share from November 7, 2020 to November 7, 2021 as permitted under the TSX Venture Exchange. These warrants were attached to a private placement of $2,089,550 approved by the TSXV in November 2018. The warrants are not currently in-the-money and 40,000 warrants have been exercised to date by one warrant holder.

On October 22, 2020, the Corporation extended the expiry date of 9,860,000 warrants to purchase 9,860,000 Class A Shares of KDA at a price of $0.40 per Common share from October 22, 2020 to October 22, 2022 as permitted under the TSX Venture Exchange. These warrants were attached to a private placement of $4,930,000 approved by the TSXV in October 2019. The warrants are not currently in-the-money.

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

WARRANTS (continued)

On October, 2019, the Corporation issued 110,400 non-transferable share purchase warrants for finder's fees in connection with the private placement closed on October 22, 2019 described above. 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.The fair value of the warrants totalling $20,310 was determined using the Black Scholes option pricing model with the following assumptions:

Risk free interest rate	1.59%
Expected volatility	94.54%
Dividend yield	NIL
Expected life	1 year
Grant date fair value	$0.1752

THE FOLLOWING IS A CONTINUITY OF THE WARRANTS OUTSTANDING AT JULY 31, 2020:

	Number of warrants	Weighted average exercise price
Balance, at July 31, 2019	26,021,761	0.42
Issued	11,510,000	0.40
Issued	110,400	0.25
Exercised	(40,000)	0.20
Expired during the year	(542,857)	0.45
Balance at July 31, 2020	**37,059,304**	**0.41**

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

WARRANTS (continued)

THE FOLLOWING TABLE PRESENTS THE DETAILS OF THE ISSUED AND OUTSTANDING WARRANTS AS AT:

	At July 31, 2020		At July 31, 2019	
Exercise price	**Expiry date**	**Number**	**Expiry date**	**Number**
0.45	—	—	January 31, 2020	542,857
0.20	November 7, 2020	13,890,333	November 7, 2020	13,930,333
0.25	October 22, 2020	110,400	—	—
0.69	October 22, 2020	11,510,000	—	—
0.15	March 21, 2021	120,000	March 21, 2021	120,000
0.69	October 20, 2021	11,428,571	October 20, 2021	11,428,571
		37,059,304		**26,021,761**

STOCK OPTION PLAN

The Corporation offers a stock option plan for the benefit of its directors, employees, consultants, and persons conducting investor relations activities (the "Plan"). The total number of shares which may be issued under the Plan may not exceed 23,684,189 options (8,477,551 options as of July 31, 2019). The exercise price payable for each option is determined by the Board at the date of grant, and may not be less than the market price of the common share at the closing price of the TSX-V the day preceding the grant date for a minimum amount of $0.10 per option. The options vest over periods ranging between the issue and 2 years.

On November 29, 2019, the Corporation granted 500 000 options to consultants with no vesting period. The fair value was estimated using the Black Scholes option pricing model based on the following weighted average assumptions:

Risk free interest rate	1.54%
Expected volatility	99.89%
Dividend yield	NIL
Expected life	5 years
Grant date fair value	$0.2238

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

STOCK OPTIONS PLAN (continued)

THE TABLE BELOW SUMMARIZES THE CHANGES IN THE OUTSTANDING STOCK OPTIONS:

	At July 31, 2020		At July 31, 2019	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Balance, beginning of the year [(1)]	6,835,000	0.25	3,125,000	0.19
Issuance	500,000	0.30	4,370,000	0.25
Expired	(766,667)	0.20	(600,000)	0.25
Cancelled	(333,333)	0.25	—	—
Exercised	(1,375,000)	0.15	—	—
Balance, end of the year	**4,860,000**	**0.29**	**6,895,000**	**0.25**

(1) The number of options included in balance as at August 1, 2019 was corrected as it was overstated by 60,000 options. This error correction resulted in a change in the number of options but had no monetary impact in the consolidated financial statements. Therefore, no retrospective restatement resulted in this error correction.

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

STOCK OPTIONS PLAN (continued)

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

		Options outstanding	Options exercisable
Exercise price	**Number of options**	**Weighted average remaining contractual life (in years)**	**Number of options**
0.25	650,000	2.48	650,000
0.25	1,010,000	3.58	673,335
0.25	2,700,000	3.85	1,800,000
0.30	500,000	4.33	500,000
	4,860,000	**3.66**	**3,623,335**

Of the options outstanding at July 31, 2020, a total of 2,500,000 (July 31, 2019 –1,900,000) are held by key management personnel.

Share based compensation is a non-cash item and is measured in accordance with a prescribed formula. Share-based compensation expense recognized by the Corporation for the Stock Option Plan for the year ended July 31, 2020 was $352,694 (2019 - $330,109).

17. 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 $4,309,823 (July 31, 2019 – net loss of $8,515,937) and a weighted average number of Class A common shares of 111,278,687 (July 31, 2019 – 73,567,514).

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 July 31, 2020, and 2019.

18. Revenues

	2020	2019
Replacement pharmacists	**12,288,514**	13,210,484
Training	**10,311,820**	9,692,452
Others	**291,171**	190,891
Total	**22,891,505**	23,093,827

19. Cost of revenues

Cost of revenues includes compensation and related employee benefits for a total amount of $10,490,181 (2019 - $10,661,516).

20. Selling and administrative expenses

	2020	2019
Salaries and fringe benefits	**1,355,387**	1,151,486
Donations	**1,094**	2,400
Repairs and maintenance	**35,569**	34,324
Rental fees	**105,006**	379,169
Travel	**77,319**	149,530
Meals and entertainment	**64,164**	118,898
Advertising	**30,765**	50,997
Supplies and office expenses	**334,507**	369,164
Telecommunications	**73,215**	71,776
Bad debt	**19,177**	72,544
Professional fees	**2,759,267**	2,765,434
Share-based compensation	**352,694**	330,109
Regulatory and filing fees	**73,422**	60,555
Provision for litigation	**(21,761)**	65,761
Revaluation of the due to third-party	**(400,432)**	—
Gain on settlement liabilities	**—**	(461,551)
Total	**4,859,393**	5,160,596

21. Net finance expenses

	2020	2019
Accreted interest	**2,797,249**	1,043,269
Fair value adjustment of the Conversion option	**(805,689)**	550,168
Realized gain on derivative financial instrument	**(46,000)**	—
Unrealized loss on derivative financial instrument	**—**	189,489
Financial costs	**3,076,536**	2,515,908
Loss on debts settlement	**245,540**	189,786
Net finance costs	**5,267,636**	4,488,620

22. 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.

22. Segmented information (continued)

INFORMATION PERTAINING TO EACH SEGMENT FOR THE YEARS ENDED JULY 31:

	Pharmacy Services		Pharmaceutical Solutions		Pharmaceutical cannabis		Corporate and others		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Revenues	**12,637,913**	13,402,925	**9,966,592**	9,690,903	—	—	**287,000**	—	**22,891,505**	23,093,827
Segment operating income (loss)	**2,152,852**	4,082,573	**1,732,713**	1,573,522	**(219,597)**	(695,070)	**(2,660,880)**	(4,565,804)	**1,005,088**	395,221
"Impairment charges"	**—**	602,678	**—**	—	**—**	—	**—**	—	**—**	602,678
Loss on a sale of subsidiary	**—**	2,225,979	**—**	—	**—**	—	**—**	—	**—**	2,225,979
"Segment income (loss)"	**2,152,852**	1,253,916	**1,732,713**	1,573,522	**(219,597)**	(695,070)	**(2,660,880)**	(4,565,804)	**1,005,088**	(2,433,436)
	Pharmacy Services		Pharmaceutical Solutions		Pharmaceutical cannabis		Corporate and others		Total	
Assets acquisitions	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Property and equipment	**88,157**	109,570	**14,335**	18,493	**793,446**	252,019	**2,886**	2,796	**898,824**	382,878
Intangibles	**65,237**	10,300	**—**	—	**—**	250,000	**—**	—	**65,237**	260,300

23. 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 July 31, 2020	At July 31, 2019
Cash	**1,807,969**	1,233,334
Trade and other receivables	**3,669,360**	3,243,111
Loans receivable from shareholders, without interest	**285,639**	989,664
Loan receivable from a minority subsidiary	**150,000**	—
Bank indebtedness	**1,350,000**	1,251,250
Trade and other payables (excluding sales tax payable)	**3,113,275**	3,527,816
Due to shareholders, without interest	**290,561**	1,000,000
Due to third-party	**1,093,903**	1,844,335
Long-term debt	**4,573,104**	8,018,247
Lease liabilities	**2,724,821**	—
Preferred shares - host component	**9,646,835**	5,167,073

FAIR VALUE

Fair value is the estimated amount that parties dealing at arm's length would accept to exchange in settlement of a financial instrument based on the current market for instruments with the same risk, principal and maturity date. These fair value estimates are affected by assumptions made about the amount and timing of estimated future cash flows, discount rates and terms of the contract. As a result, the fair values are not necessarily the net amounts that would be realized if such financial instruments were settled.

The Corporation has determined that the carrying amount of its short-term financial assets and liabilities, including, trade and other receivables, bank overdraft and, trade and other payables, approximates their fair value because of the relatively short periods to maturity of these instruments.

Management believes that no significant change occurred in the risk of these instruments.

23. 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 July 31, 2020	At July 31, 2019
Preferred shares - conversion options (level 3)	**—**	(805,689)
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 consolidated financial statements.

23. Financial instruments and financial risks management (continued)

RISK MANAGEMENT FRAMEWORK

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

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

(a) Credit risk

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

- No single customer accounts for more than 10% of the Corporation's revenue;
- Approximately 85% (July 31, 2019 – 94%) of the Corporation's trade receivables are not past due or 30 days or less past due.

IMPAIRMENT LOSSES

THE AGING OF TRADE RECEIVABLES AT THE REPORTING DATE WAS:

	At July 31, 2020		At July 31, 2019	
		Impairment		Impairment
Not past due	**2,269,474**	**—**	2,650,260	—
Past due 1 - 30 days	**758,425**	**—**	410,692	—
Past due 31 - 60 days	**321,691**	**—**	35,282	—
Past due more than 60 days	**219,770**	**—**	146,875	—
Total	**3,569,360**	**—**	3,243,109	—

The impaired trade receivables are mostly due from customers that are experiencing financial difficulties. The Corporation cash balances, and restricted cash balances are maintained at major Canadian banks, which management believes to be creditworthy. The Corporation is also exposed to credit risk trough its derivative financial instrument. The risk is mitigated by using creditworthy counterpart

23. Financial instruments and financial risks management (continued)

RISK MANAGEMENT FRAMEWORK (continued)

(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:

	Less than 1 year	Between 1 and 5 years	More than 5 years
Bank indebtedness	1,350,000	—	—
Trade and other payables (excluding sales tax)	3,113,275	—	—
Due to shareholders	290,561	—	—
Due to third-party	1,093,903	—	—
Long-term debt	4,063,010	523,242	6,808
Lease liabilities	349,045	1,565,899	1,291,472
Total	**10,259,794**	**2,089,141**	**1,298,280**

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 July 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, 2020.

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

23. Financial instruments and financial risks management (continued)

RISK MANAGEMENT FRAMEWORK (continued)

(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.

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

If the variable interest rates had increased by 1% during the year ended July 31, 2020, the Corporation's net loss would have increased by $56,115.

(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 year.

24. 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 (note 12) 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 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 consolidated financial statements.

At the date that the Board of Directors approved these consolidated the financial statements, the Corporation and the Series A Preferred Shares have begun negotiation under these issued.

25. Related party transactions (continued)

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.

THE KEY MANAGEMENT AND DIRECTORS RECEIVED THE FOLLOWING REMUNERATION.

	2020	2019
Professional fees	**679,733**	403,004
Share-based compensation	**113,856**	169,956

THE CORPORATION HAS THE FOLLOWING AMOUNTS OWING TO KEY MANAGEMENT PERSONNEL AS AT JULY 31:

	At July 31, 2020	At July 31, 2019
Trade and other payables	**12,977**	177,195
Dividend payable [1]	**75,000**	75,000

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

26. Changes in non-cash working capital

	2020	2019
Trade and other receivables	**(426,251)**	(216,094)
Inventories	**(149,905)**	1,519,129
Income taxes receivable	**(81,771)**	(67,555)
Prepaid expenses	**(32,190)**	236,261
Trade and other payables	**(233,093)**	(2,833,811)
Income taxes payable	**(221,178)**	—
Deferred revenues	**(3,554)**	243,351
Total	**(1,147,942)**	(1,118,719)

Non-cash transactions

The Corporation has reached agreements to settle debts and advances totaling $2,680,259 in exchange of 11,125,000 Class A shares and 1,650,000 warrants (note 16).

Following an agreement between two shareholders, a $810,000 debt was compensated in diminution to a loan receivable from shareholders for the same amount.

The Corporation issued 110,400 broker warrants following the completion of the private placement in October 2019 (note 16).

The right of use assets of $2,597,930 and related lease liabilities of $2,963,660 recorded in the year ended July 31, 2020 were non-cash (note 3).

The re-allocation upon exercise of stock options and warrants from reserves to share capital for the respective amounts of $154,000 and $2,141.

27. Commitments

On August 1, 2019, the Corporation recognized right of use assets for non-cancellable, operating lease arrangements, except for short-term leases excluded from IFRS 16 transition due to the election of the practical expedient. Refer to note 3. The commitments excluded from IFRS 16 are as follow:

	2020
Less than 1 year	**88,775**
Between 1 and 5 years	**52,450**
More than 5 years	**27,594**
Total	**168,819**

28. 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.