Unaudited Condensed Consolidated Interim Financial Statements of

KDA Group Inc.

For the second quarter ended January 31, 2018 and 2017

Management's Report

January 31, 2018 and 2017

Management's Statement of Responsibility for Financial Information

The condensed consolidated interim financial statements contained in this Quarterly Report are the responsibility of Management, and have been prepared in accordance with International Financial Reporting Standards. Where necessary, Management has made judgments and estimates of the outcome of events and transactions, with due consideration given to materiality. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information and data included in the condensed consolidated interim financial statements.

The Corporation maintains a system of internal controls to provide reasonable assurance as to the reliability of the financial records and safeguarding of its assets. The condensed consolidated interim financial statements are unaudited and have not been reviewed by the Corporation's independent auditor.

The Board of Directors is responsible for overseeing Management in the performance of its responsibilities for financial reporting. The Board of Directors exercises its responsibilities through the Audit Committee, which is comprised of a majority of independent directors. The Audit Committee meets from time to time with Management and the Corporation's independent auditor to review the condensed consolidated financial statements and matters relating to the audit. The Corporation's independent auditor has full and free access to the Audit Committee. The condensed consolidated financial statements have been reviewed by the Audit Committee, who recommended their approval by the Board of Directors.

(signed)	(signed)
Marc Lemieux	Michael W. Kinley
President and Chief Executive Officer	Chief Financial Officer

KDA Group Inc.
Condensed consolidated interim statements of financial position

(in Canadian dollars)	Note	At January 31, 2018	At July 31, 2017
		Unaudited	Audited
ASSETS			
Current assets			
Cash		**518,370**	289,830
Restricted cash		**-**	105,000
Trade and other receivables	**5**	**5,083,824**	7,323,018
Prepaid expenses		**586,459**	432,137
Inventories		**2,012,763**	3,397,083
Income taxes receivable		**892,421**	974,990
Loans receivable		**2,480**	22,480
		9,096,317	12,544,538
Non-current assets			
Property and equipment	**6**	**345,728**	194,171
Intangible assets	**7**	**6,750,812**	7,691,920
Goodwill	**8**	**10,483,895**	11,033,263
Deferred tax assets		**248,478**	260,513
		17,828,913	19,179,867
TOTAL ASSETS		**26,925,230**	31,724,405
LIABILITIES			
Current liabilities			
Bank indebtedness	**9**	**2,260,000**	2,420,000
Trade and other payables	**10**	**6,820,384**	9,973,882
Shares to be issued		**-**	105,000
Current maturity of long-term debt	**11**	**13,595,980**	13,774,752
		22,676,364	26,273,634
Non-current liabilities			
Interest rate swap	**11**	**(212,015)**	139,033
Long-term debt	**11**	**1,403,911**	1,235,963
Preferred shares	**12**	**2,159,385**	1,684,580
Deferred tax liabilities		**1,550,506**	1,550,339
		4,901,787	4,609,915
TOTAL LIABILITIES		**27,578,151**	30,883,549
EQUITY (DEFICIENCY)			
Share capital		**12,621,560**	12,450,993
Contributed surplus		**373,137**	349,179
Equity (Deficiency) attributable to shareholders		**(13.650,761)**	(11,965,343)
Equity attributable to non-controlling interest		**3,143**	6,027
TOTAL EQUITY (DEFICIENCY)		**(652,921)**	840,856
TOTAL LIABILITIES AND EQUITY		**26,925,230**	31,724,405

Going concern **1**
Commitments **18**

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

On behalf of the Board:

(signed)
Marc Lemieux, Director

(signed)
Michael W. Kinley, Director

KDA Group Inc.
Condensed consolidated interim statements of loss and comprehensive loss

(unaudited, in Canadian dollars, except per share amounts)	Note	**Three months ended January 31, 2018**	Three months ended January 31, 2017	**Six months ended January 31, 2018**	Six months ended January 31, 2017
Revenues	**16**	**7,174,710**	8,160,821	**13,728,638**	15,170,837
Cost of revenues		**5,430,179**	1,949,892	**10,646,535**	10,561,662
		1,744,531	2,235,809	**3,082,103**	4,609,175
Selling and administrative expenses		**1,478,673**	2,672,611	**2,865,886**	4,762,689
Impairment charges	**6,7**	**18,882**	-	**18,882**	-
Loss on the sale of a subsidiary	**4,8**	**364,307**	-	**364,307**	-
Charges related to business combinations		**-**	-	**-**	1,304,356
		1,861,862	2,672,611	**3,249,075**	6,067,045
Income (loss) before depreciation, amortization, finance costs and income taxes:		**(117,331)**	(436,802)	**(166,972)**	(1,457,870)
Depreciation of property and equipment	**6**	**11,088**	15,288	**21,812**	30,820
Amortization of intangible assets	**7**	**347,212**	452,138	**687,376**	752,676
Operating loss before the following:		**(475,631)**	(904,228)	**(876,160)**	(2,241,366)
Net finance costs	**15**	**356,545**	(122,647)	**818,262**	1,199,582
Loss before income tax		**(832,176)**	(781,581)	**(1,694,422)**	(3,440,948)
Deferred income tax expense (recovery)		**4,931**	(169,001)	**13,314**	(271,901)
Net loss and comprehensive loss for the period		**(837,107)**	(612,580)	**(1,707,736)**	(3,169,047)
Net income (loss) attributable to:					
Equity holders of KDA Group Inc.		**(835,563)**	(606,402)	**(1,704,852)**	(3,158,698)
Non-controlling interest		**(1,544)**	(6,178)	**(2,884)**	(10,349)
		(837,107)	(612,580)	**(1,707,852)**	(3,169,047)
Earnings (loss) per share					
Basic earnings (loss) per share	**13**	**(0.02)**	(0.03)	**(0.04)**	(0.11)
Diluted earnings (loss) per share	**13**	**(0.02)**	(0.03)	**(0.04)**	(0.11)

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

KDA Group Inc.
Condensed consolidated interim statements of changes in Equity
(Unaudited)
For the six months ended January 31, 2018 and 2017

	Number of shares	Class "A" Common shares	Contributed surplus	Convertible Debenture in shares	Warrants reserve	Premium on convertible shares	Equity (Deficiency)	Total	Non-Controlling Interest	Total Equity (Deficiency)
				Total Equity (Deficiency) attributable to shareholders						
(in Canadian dollars, except number of shares)										
Balance at July 31, 2017	42,387,757	12,450,993	349,179	43	21,802	(1,621,406)	(10,365,782)	(11,965,343)	6,027	**840,856**
Issuance of units	542,860	170,567	-	-	19,433	-	-	19,433	-	**190,000**
Fair value of options issued		-	23,958	-	-	-	-	-	-	**23,958**
Net loss and comprehensive loss for the period	-	-	-	-	-	-	(1,704,852)	(1,704,852)	(2,884)	**(1,707,736)**
Balance at January 31, 2018	**42,930,617**	**12,621,560**	**373,137**	**43**	**41,235**	**(1,621,406)**	**(12,070,633)**	**(13,650,761)**	**3,143**	**(652,921)**
Balance at July 31, 2016	25,568,935	2,907,570	349,179	43	98,173	(1,621,406)	(2,613,195)	(4,136,385)	16,409	(863,227)
Warrants exercised	1,536,600	466,589	-	-	(98,173)	-	-	(98,173)	-	368,416
Shares issued for business acquisitions	15,032,222	7,215,467	-	-	-	-	-	-	401,115	7,616,582
Net loss and comprehensive loss for the period	-	-	-	-	-	-	(3,169,047)	(3,169,047)	(10,349)	(3,179,396)
Balance at January 31, 2017	42,137,757	10,589,626	349,179	43	-	(1,621,406)	(5,782,242)	(7,403,605)	407,175	3,942,375

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

KDA Group Inc.
Condensed consolidated interim statements of cash flows
For the six months ended January 31, 2018 and 2017

(unaudited, in Canadian dollars)

	Note	2018	2017
Cash flows from operating activities:			
Net loss for the period		**(1,707,736)**	(3,169,047)
Adjustments for:			
Depreciation of property and equipment	**6**	**21,812**	30,820
Amortization of intangible assets	**7**	**687,376**	752,676
Impairment charges	**6,7**	**18,882**	-
Loss on the sale of a subsidiary	**4,8**	**364,307**	-
Stock-based compensation	**14**	**23,958**	-
Unrealized gain (loss) on derivative financial instruments	**15**	**(351,048)**	(42,876)
Accreted interest	**15**	**545,006**	11,880
Fair value adjustment of the Conversion Option	**15**	**(70,205)**	(506,286)
Issuance of shares in lieu of finder's fees		**-**	1,108,000
		(467,648)	(1,814,033)
Changes in non-cash elements of working capital		**(986,786)**	(307,169)
		(1,454,434)	(2,121,202)
Cash flows from investing activities:			
Additions to property and equipment	**6**	**(175,721)**	(53,384)
Additions to intangible assets	**7**	**(32,663)**	(84,123)
Increase in loan receivable		**22,480**	254,590
Sale of a subsidiary	**4**	**1,850,000**	-
Business combinations		-	(14,800,817)
		1,664,096	(14,683,734)
Cash flows from financing activities:			
Proceeds from long-term debt	**11**	**2,006,930**	15,633,907
Repayment of long-term debt	**4,11**	**(2,017,752)**	(3,302,445)
Proceeds from issuance of units		**85,000**	2,452,277
Proceeds from issuance of shares		-	368,416
Repayment of note payable		**-**	(141,304)
Decrease in restricted cash		**105,000**	-
(Decrease) Increase in the bank indebtedness	**9**	**(160,000)**	2,259,312
		19,178	17,270,163
Net increase in cash		**228,840**	465,227
Cash, beginning of the period		**289,830**	164,143
Cash, end of the period		**518,370**	629,370
Supplemental information			
Interest paid		**(694,509)**	(523,451)

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

(Unaudited, tabular amounts in Canadian dollars, unless otherwise noted)

1. Reporting entity and going concern

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

The condensed consolidated interim financial statements of the Corporation for the six months ended January 31, 2018 and 2017 comprise the Corporation and its subsidiaries. The Corporation provides a range of solutions and services to pharmacies and pharmaceutical companies in Canada.

These condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of operations as they become due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period.

For the six months ended January 31, 2018, the Corporation reported a loss of $1,707,736, has negative working capital of $13,580,047 and has an accumulated deficit of $12,070,633 at that date. As discussed in note 17, the Corporation is in breach of its financial covenants with respect to its secured credit financing as at January 31, 2018, and has, therefore, reclassified the Loan from a Canadian chartered bank under current liabilities. The Corporation is presently in discussions with its banker to remediate the situation. The Corporation remains current in terms of debt repayment but was in breach of certain of its financial covenants contained in the latest extended forbearance agreement. The Bank could recall its credit facility and its loan should the Corporation fail with its remediation plan.

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

1. The Corporation completed a private placement involving the issuance of 542,860 units (comprised of one Class "A" common shares and one full warrant) at a price of $0.35 per unit for net proceeds of $190,000;
2. The Corporation sold Biomed (2002) Inc. for a cash consideration of $1,950,000 (reduced by the payment of accrued professional allowances of $722,622) generating a loss of $364,307 (note 4);
3. Following the above-mentioned transaction, the Corporation reimbursed partially its term loan by $1,127,378 (note 11);
4. The Corporation hired a new Chief Executive Officer for its subsidiary involved in the generic drugs distribution.

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

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

The Corporation's recent operating results, combined with the financial covenants breach, lend significant doubt as to the ability of the Corporation to meet its obligations as they come due and, accordingly the appropriateness of the use of the accounting principles applicable to a going concern.

Management is currently implementing several initiatives to improve its cost structure, drive increased revenues and improve operating profitability. The ability of KDA to ultimately achieve profitable operations in the longer terms is dependent on some factors outside KDA management's control including, but not limited to, the external legislative changes in the generic drugs distribution industry. In addition, as discussed in note 11 the Corporation has agreed with its main lender on the terms of a forbearance agreement under which the lender has agreed not to request immediate reimbursement of the loan until June 1, 2018. These undertakings, while significant, may not be sufficient in and of themselves to enable the Corporation to fund all aspects of its operations and, accordingly, management may need to pursue other financing alternatives to fund the Corporation's operations, so it can continue as a going concern. There is no assurance that these initiatives will be successful and that such forbearance extension will be granted.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Corporation were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2. Basis of preparation

a) Statement of compliance

These condensed consolidated interim financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by International Accounting Standard Board ("**IASB**") and with IAS 34 Interim Financial Reporting. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the most recent audited annual consolidated financial statements and the notes thereto for the year ended July 31, 2017.

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on March 29, 2018.

b) Basis of measurement

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

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

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

c) Functional and presentation currency

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

d) Use of estimates and judgments

The preparation of the accompanying condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions about future events. These estimates and the underlying assumptions affect the reported amounts of assets and liabilities, the disclosures about contingent assets and liabilities, and the reported amounts of revenues and expenses. These estimates and assumptions are based on management's best estimates and judgments.

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

In preparing these condensed interim consolidated financial statements, the significant judgments made by management applying the Corporation's accounting policies and the key sources of estimation uncertainty are the same as those described in the Corporation's audited consolidated financial statements for the year ended July 31, 2017.

3. Significant accounting policies

The accounting policies described in the annual audited consolidated financial statements for the year ended July 31, 2017 have been applied consistently to all periods presented in these condensed consolidated interim financial statements, unless otherwise indicated. The accounting policies have been applied consistently by all the subsidiaries. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Corporation's condensed consolidated interim financial statements.

(Unaudited, tabular amounts in Canadian dollars, unless otherwise noted)

4. Sale of a subsidiary

On November 15, 2017, the Corporation sold one of its subsidiaries, Biomed (2002) Inc,. for gross proceeds of $1,950,000 reduced by direct payment of the accrued professional allowances of $722,622. The sale resulted in a cash consideration of $1,127,378 and a balance of $100,000, payable in June 2018 net of adjustments concerning the working capital. The Corporation recorded a loss of $364,307 on this transaction. The allocation of the gross proceeds was based on the Corporation's estimates, along with carrying values of the assets and liabilities disposed of amounting to $2,314,307.

The carrying values of assets and liabilities as of the date of the transaction are summarized below:

Current assets	**1,482,990**
Intangible assets	**269,915**
Goodwill	**549,367**
Deferred tax assets	**12,035**
	2,314,307

5. Trade and other receivables

	At January 31, 2018	At July 31, 2017
Trade receivables	**4,658,258**	6,984,477
Sales tax receivable	**21,926**	41,763
Other receivables	**403,640**	296,778
	5,083,824	7,323,018

The Corporation's exposure to credit risk related to trade and other receivables is disclosed in note 17.

6. Property and equipment

	Leasehold improvements	**Computer equipment**	**Furniture and fixtures**	**Vehicles**	**Total**
Cost					
Balance at July 31, 2017	12,634	102,228	134,918	29,127	278,907
Additions	75,923	6,707	5,798	87,293	175,721
Impairment charges	-	(566)	(2,605)	-	(3,171)
Balance at January 31, 2018	**88,557**	**108,369**	**138,111**	**116,420**	**451,457**
Depreciation					
Balance at July 31, 2017	6,979	37,803	32,929	7,025	84,736
Depreciation for the period	858	6,251	11,242	3,461	21,812
Impairment charges	-	(146)	(673)	-	(819)
Balance at January 31, 2018	**7,837**	**43,908**	**43,498**	**10,486**	**105,729**
Net carrying value					
At July 31, 2017	5,655	64,425	101,989	22,102	194,171
At January 31, 2018	**80,720**	**64,461**	**94,613**	**105,934**	**354,728**

Management periodically reviews the property and equipment carrying value considering the Corporation's strategic plan and the business environment. During the period, the Corporation determined that the carrying value of certain assets consisting mostly of computer equipment and furniture and fixtures were no longer recoverable. Consequently, property and equipment with a carrying value of $2,352 (2016 –$nil) were impaired.

(Unaudited, tabular amounts in Canadian dollars, unless otherwise noted)

7. Intangible assets

	Training courses	Software	Web sites	Customer relation-ships	Commer-cialization rights	Non-compete agree-ments	Total
Cost							
Balance at July 31, 2017	91,236	1,580,710	115,315	4,800,000	1,443,100	1,551,000	9,581,361
Additions	-	1,063	-	-	31,600	-	32,663
Disposal	-	-	-	-	(265,100)	(60,000)	(325,100)
Impairment charges	-	(22,219)	-	-	-	-	(22,219)
Balance at January 31, 2018	**91,236**	**1,559,554**	**115,315**	**4,800,000**	**1,209,600**	**1,491,000**	**9,266,705**
Amortization							
Balance at July 31, 2017	91,236	665,155	43,460	550,992	156,998	381,600	1,889,441
Disposal	-	-	-	-	(37,184)	(18,000)	(55,184)
Amortization for the period	-	167,103	14,565	244,708	88,200	172,800	687,376
Impairment charges	-	(5,740)	-	-	-	-	(5,740)
Balance at January 31, 2018	**91,236**	**826,518**	**58,025**	**795,700**	**208,014**	**536,400**	**2,515,893**
Net carrying value							
At July 31, 2017	-	915,555	71,855	4,249,008	1,286,102	1,169,400	7,691,920
At January 31, 2018	**-**	**733,036**	**57,290**	**4,004,300**	**1,001,586**	**936,600**	**6,750,812**

Management periodically reviews the carrying value considering the Corporation's strategic plan and general business environment. During the period, the Corporation determined that the carrying value of software was no longer recoverable. Consequently, software with a carrying value of $16,530 (2016 –$nil) were impaired.

8. Goodwill

	Pharmacist Services	Pharmaceutical Solutions	Total
Balance at July 31, 2017	6,419,555	4,613,708	11,033,263
Sale of Goodwill	(549,368)	-	(549,368)
Balance at January 31, 2018	**5,870,187**	**4,613,708**	**10,483,895**

During the period, the Corporation recorded a loss on the sale of goodwill of $ 549,368 (2016 - $nil) from the sale of its subsidiary Biomed 2002 Inc.

9. Bank indebtedness

As part of the Corporation's credit facility (as more fully described in note 10 under the Loan from a Canadian chartered bank), the Corporation has authorized operating credits totaling $2,500,000, bearing interest at prime rate plus a spread varying between 2.50% - 4.35% 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, by a $1,000,000 guarantee from certain shareholders and by a $1,000,000 guarantee from the holders of Series A Preferred Shares.

As discussed in note 17, the Corporation is in breach of its financial covenants with respect to its secured credit financing as at January 31, 2018 and remains in discussions with its banker to remedy the situation. The Bank could recall its credit facility should the Corporation fail with its remediation plan.

(Unaudited, tabular amounts in Canadian dollars, unless otherwise noted)

10. Trade and other payables

	At January 31, 2018	At July 31, 2017
Trade payables and accrued expenses	**4,300,082**	4,394,923
Accrued professional allowances	**1,824,622**	4,295,355
Salaries and vacations payable	**515,686**	543,483
Sales tax payable	**104,994**	258,227
Advance from a shareholder, non-interest bearing	**-**	236,894
Dividend payable[1]	**75,000**	245,000
	6,820,384	9,973,882

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

The Corporation's exposure to liquidity risk related to trade and other payables is disclosed in note 17.

(Unaudited, tabular amounts in Canadian dollars, unless otherwise noted)

11. Long-term debt

	At January 31, 2018	At July 31, 2017
Long-term debt bearing interest at prime rate plus 1%, repayable monthly by installments of $1,560 and maturing in February 2021.	**57,720**	67,080
Loan bearing debt bearing interest at rates between 5.73% and 6.5%, repayable by monthly installments of $5,568 including interest, and maturing in May 2023.	**233,463**	23,810
Long-term debt bearing interest at prime rate plus 4%, repayable monthly by installment of $830, and maturing in October 2021	**37,350**	42,330
Loan from a Canadian chartered bank[(1)] [(2)] (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 quarterly installments varying between $543,750 and $634,375 and a final payment of $2,521,973 maturing in August 2021, net of transaction costs of $204,790	**10,527,703**	12,520,255
Balance of purchase price bearing interest at 8% repayable by bi-annual installments, maturing in May 2018, repayment requires permission under the Loan from a Canadian chartered bank	**938,538**	938,538
Balance of purchase price, non-interest bearing and net of accreted interest of $261,303, repayable by annual installments of $320,000, maturing in June 2021, repayment requires permission under the Loan from a Canadian chartered bank	**1,418,702**	1,418,702
Promissory notes, bearing interest at 18% calculated and compounded annually, convertible into Class "A" common shares anytime at a conversion price equal to the 20-day average trading period prior conversion	**1,786,415**	-
	14,999,891	15,010,715
Less: Current maturity of long-term debt	**13,595,980**	13,774,752
	1,403,911	1,235,963

(1) The loan is secured by a first mortgage on the Corporation's present and future accounts receivable, tangible and intangible properties, by a $1,000,000 guarantee from certain shareholders and by a $1,000,000 guarantee from the holders of Series A Preferred Shares. On October 17, 2017, these 2 guarantees were called upon resulting in the issuance of promissory notes. The loan is subject to certain covenants regarding the maintenance of financial ratios on a quarterly basis and requires the Corporation to maintain hedging and interest rate swap arrangements that converts the variable rate of interest to a fixed annual rate of 4.66% for the hedged portion of the loan (see below).

(2) On June 30, 2017, the Corporation agreed on the terms of a forbearance agreement with its lenders. The agreement was required since the Corporation did not meet its financial covenants during the previous year. The agreement, amongst other things, better defines calculations of the borrowing base, limits operating credit to $2,500,000, requires from main shareholders to inject up to $1,000,000 each, and requires the appointment of an external consultant. The lender has agreed not to request immediate reimbursement of the loan assuming no breach on terms of the forbearance agreement. On December 11, 2017, the forbearance agreement has been extended until June 1, 2018 with the same conditions as described with the addition of a revised financial covenant based on projected earnings before interest, income tax, depreciation and amortization. The Corporation remains current in terms of debt repayment but was in breach of its financial covenant contained in the latest extended forbearance agreement. The Corporation remains in discussions with its banker to remedy to the situation. The Bank could recall its credit facility and its loan should the Corporation fail with its remediation plan.

This note provides information about the contractual terms of the Corporation's interest-bearing long-term debts,

(Unaudited, tabular amounts in Canadian dollars, unless otherwise noted)

11. Long-term debt, cont'd

which are measured at amortized cost. The Corporation's exposure to interest rate and liquidity is disclosed in note 17.

The amounts payable for the next five years are as follows:

	At January 31, 2018	At July 31, 2017
Less than 1 year	**13,794,221**	13,989,719
Between 1 and 5 years	**1,530,481**	1,376,847
More than 5 years	**18,469**	4,145
	15,343,171	15,370,720
Less: Financing fees	**(343,280)**	(360,005)
	14,999,891	15,010,715

Interest rate swap **("NBF Loan")**

The NBF Loan requires the Corporation to enter into interest rate swaps to convert the variable rate to a fixed rate as described above for an amount at least of 50% of the NBF Loan. The Corporation has the following interest rate swap at January 31, 2018:

	Notional amount	**Maturity date**	**Floating rate**	**Fixed rate**	**2017**
Term loan	7,657,813	August 19, 2021	CDOR	1.11%	**(212,015)**
					(212,015)

Under the interest rate swap agreements, the notional amount declines at a similar rate as the principal reduction in the loans. A negative amount is in favor of the Corporation. During the six-month period, an unrealized gain of $351,048 (January 31, 2017 – loss of $42,876) was recognized in the Comprehensive loss.

12. Share capital and other components of equity

Share capital

The Corporation's share capital consists only of fully paid Class "A" common shares, voting and participating.

The common shares entitle the holders thereof to one vote per share. The holders of the common shares are entitled to receive dividends as declared from time to time. Subject to the rights, privileges, restrictions and conditions attached to any other class of shares of the Corporation, the holders of the common shares are entitled to receive the remaining property of the Corporation upon its dissolution, liquidation or winding-up.

The Corporation also issued series A preferred shares (the "**Preferred Shares**") convertible into Class "A" common shares of the Corporation at any time up to June 29, 2020 at a conversion price of $0.35 per share. Furthermore, the Preferred Shares are entitled to vote as a separate class of shares and are also entitled to vote on an "as converted" basis at any special or general meeting of the shareholders of the Corporation. The Preferred Shares shall not be entitled to any fixed dividend, but shall participate in all dividends declared on the Class "A" common shares on an "as converted" basis.

For the six months ended January 31, 2018 the change in fair value of derivatives resulted in a gain of $70,201 (January 31, 2017 – loss of $1,145,143) and was recorded in the consolidated statements of loss and comprehensive loss.

(Unaudited, tabular amounts in Canadian dollars, unless otherwise noted)

12. Share capital and other components of equity, cont'd

The following summarizes the carrying values of the host and derivative components of the Preferred Shares for the six months ended January 31, 2018:

	Liability Component			Equity
	Preferred shares - host	**Conversion Option**	**Total**	**Warrants**
Balance at July 31, 2017	1,393,024	291,556	1,684,580	21,802
Accretion expense	545,006	-	545,006	-
Change in fair value of the derivative	-	(70,201)	(70,201)	-
Balance at January 31, 2018	**1,938,030**	**221,355**	**2,159,385**	**21,802**

Escrowed shares
At January 31, 2018, a total of 8,905,556 outstanding Class A common shares are held under an escrow agreement and are to be released on a staged basis as follows: February 18, 2018: 1,908,333, August 18, 2018: 1,908,333, February 18, 2019: 1,908,333 and August 18, 2019: 3,180,557.

Contributed surplus
The contributed surplus account is used to record amounts arising from the issuance of share-based payment awards and the value of the warrants issued in relation to various financings.

Convertible debentures
The convertible debentures issued at the time of the reverse takeover acquisition in 2015 with a face value of $750,000 and a fair value of $43 based on net assets being transferred, are automatically convertible into 5,000,000 Class "A" common shares at such time as the conversion of the debenture will result in at least 20% of issued and outstanding Class "A" common shares being held by holder other than a promoter, an insider, an associate or an affiliate with the debenture holder. The convertible debentures are held by key management personnel.

Warrants
The following is a continuity of the warrants outstanding at January 31, 2018:

	Number of warrants	Weighted average Exercisable price
Balance, at July 31, 2017	**11,428,571**	0.69
Issued	**542,860**	0.45
Balance, at January 31, 2018	**11,971,431**	0.67

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

	At January 31, 2018		At July 31, 2017	
	Expiry date	Number	Expiry date	Number
0.45	**January 31, 2020**	**542,860**	-	-
0.69	**October 20, 2021**	**11,428,571**	**October 20, 2021**	**11,428,571**

Dividends
During the period, the Corporation did not declare any dividend.

(Unaudited, tabular amounts in Canadian dollars, unless otherwise noted)

13. Loss per share

Basic loss per share

The calculation of basic net loss per share was based on the net loss attributable to Class A common shareholders of $1,704,852 (January 31, 2017 – net loss of $3,169,047) and a weighted average number of Class A common shares of 42,387,757 (January 31, 2017 – 41,055,272).

The effect of potential issuances of shares under stock options, warrants and preferred shares would be anti-dilutive for the six months ended January 31, 2018 and 2017, and accordingly, basic and diluted loss per share are the same.

14. Share-based payment arrangements

Stock option plan

The Corporation offers a stock option plan for the benefit of its directors, employees, consultants and persons conducting investor relations activities (the **"Plan"**). The total number of shares which may be issued under the Plan may not exceed 4,894,868 options. The exercise price payable for each option is determined by the Board at the date of grant, and may not be less than the market price of the common share at the closing price of the TSX-V the day preceding the grant date for a minimum amount of $0.10 per option. The options vest over periods ranging between 12 months and 2 years.

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

	At January 31, 2018		At July 31, 2017	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance	**2,575,000**	**0.15**	2,575,000	0.15
Issuance	**1,150,000**	**0.25**	-	-
Balance, end of the period	**3,725,000**	**0.18**	2,575,000	0.15
Options exercisable, end of the period	**2,954,500**	**0.17**	2,575,000	0.15

The fair value of the stock options granted during the period was estimated using a Black-Scholes valuation model using the following assumptions at inception: estimated life: 5 years, actual stock price: $0.12, volatility: 77.5%, dividend yield: 0%, risk-free rate: 2.1%.

The following table summarizes information about stock options outstanding and exercisable at January 31, 2018:

		Options outstanding	**Options exercisable**
Exercise price	**Number of options**	**Weighted average remaining contractual life (in years)**	**Number of options**
0.15	**2,325,000**	**2.06**	**2,325,000**
0.20	**250,000**	**2.33**	**250,000**
0.25	**1,150,000**	**4.98**	**379,500**
	3,725,000	**2.98**	**2,575,000**

Of the options outstanding at January 31, 2018, a total of 1,200,000 (July 31, 2017 – 900,000) are held by key management personnel.

For the six-month period ended January 31, 2018, compensation expense of $23,958 (January 31, 2017 - $nil) was recorded in the Comprehensive loss, with the corresponding amounts recorded in Contributed surplus.

(Unaudited, tabular amounts in Canadian dollars, unless otherwise noted)

15. Finance costs

	2018	2017
Accreted interest	**545,006**	(11,880)
Fair value adjustment of the Conversion Option	**(70,205)**	506,286
Unrealized (gain) loss derivative financial instrument	**(351,048)**	42,876
Financial costs	**694,509**	662,300
	818,262	1,199,582

16. Segmented information

The Corporation provides information on two reporting segments: Pharmacy Services and Pharmaceutical Solutions. The profitability measure employed by the Corporation for assessing segment performance is segment income.

Information pertaining to each segment for the three-month periods ended January 31:

	Pharmacy Services		**Pharmaceutical Solutions**		**Corporate and others**		**Total**	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Revenues	**4,173,728**	5,579,119	**3,000,984**	2,581,702	-	-	**7,147,711**	8,160,821
Segment income (loss)(1) (2)	**(405,602)**	(308,770)	**573,012**	407,721	**(285,141)**	(535,751)	**(117,731)**	(436,802)
Segment income (loss) (2)	**(405,602)**	(308,770)	**573,012**	407,721	**(285,141)**	(535,751)	**(117,731)**	(436,802)

Information pertaining to each segment for the six-month periods ended January 31:

	Pharmacy Services		**Pharmaceutical Solutions**		**Corporate and others**		**Total**	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2076
Revenues	**9,468,274**	11,410,462	**4,260,364**	3,760,375	-	-	**13,728,638**	15,170,837
Segment income (loss)(1) (2)	**(367,144)**	294,316	**370,361**	435,502	**(170,189)**	(883,332)	**(166,972)**	(153,514)
Transactions charges related to business combinations	-	-	-	-	**-**	(1,304,356)	**-**	(1,304,356)
Segment income (loss) (2)	**(367,144)**	294,316	**370,361**	435,502	**(170,189)**	(2,187,688)	**(166,972)**	(1,457,870)

(1) The Corporation uses primarily one measure of profit to make decisions and assess performance being gross margin less operating expenses.
(2) Per consolidated interim statements of loss, corresponds to Loss before depreciation, amortization, finance costs and income taxes.

(Unaudited, tabular amounts in Canadian dollars, unless otherwise noted)

17. Financial instruments and financial risk management

Classification of financial instruments

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

Financial assets classified as loans and receivables

	January 31, 2018	July 31, 2017
Cash	**518,370**	289,830
Restricted cash	**-**	105,000
Trade and other receivables (excluding sales tax receivable)	**5,061,898**	7,281,255
Loan receivable	**2,480**	22,480
	5,582,748	7,698,565

Financial liabilities recognized at amortized cost

	January 31, 2018	July 31, 2017
Bank indebtedness	**2,260,000**	2,420,000
Trade and other payables (excluding sales tax payable)	**6,715,390**	9,715,655
Long-term debt	**14,999,891**	15,010,715
Preferred shares - host component	**2,159,385**	1,393,024
	26,134,666	28,539,394

Fair value

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

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

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

Fair value hierarchy

Fair value estimates are made as of a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and may not be determined with precision. A three-tier fair value hierarchy prioritizes the inputs used in measuring fair value. These tiers include:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The Corporation's cash and bank indebtedness are considered level 1.

Financial liabilities recognized at fair value

	January 31, 2018	July 31, 2017
Interest rate swap (level 2)	**(212,015)**	139,033
Conversion Option (level 3)	**221,355**	291,556
	9,340	430,589

Risks

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

(Unaudited, tabular amounts in Canadian dollars, unless otherwise noted)

- credit risk
- liquidity risk
- market risk.

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

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

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

a) Credit risk

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

- No single customer accounts for more than 10% of the Corporation's revenue;
- Approximately 80% (July 31, 2017 – 88%) of the Corporation's trade receivables are not past due or 30 days or less past due.

Impairment losses
The aging of trade receivables at the reporting date was:

	January 31, 2018		July 31, 2017	
	Total	**Impairment**	Total	Impairment
Not past due	**3,036,321**	**-**	5,131,501	-
Past due 1 – 30 days	**678,539**	**-**	1,034,585	-
Past due 31 – 60 days	**177,821**	**-**	432,798	-
Past due more than 60 days	**765,577**	**(178,532)**	385,594	(178,532)
	4,658,258	**(178,532)**	9,984,447	(178,532)

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

b) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

Cash inflows and cash outflows requirements from Corporation's entities are monitored closely and separately to ensure the Corporation optimizes its cash return on investment. Typically, the Corporation ensures that it has sufficient cash to meet expected operational expenses; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. The Corporation monitors its short and medium-term liquidity needs on an ongoing basis using forecasting tools.

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

(Unaudited, tabular amounts in Canadian dollars, unless otherwise noted)

	Less than 1 year	**Between 1 and 5 years**	**More than 5 years**
Bank indebtedness	**2,260,000**	-	-
Trade and other payables	**8,943,610**	-	-
Long-term debt	**13,794,221**	1,530,481	18,469
	25,792,060	1,530,481	18,469

(1) 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 January 31, 2018, the Corporation was not in compliance with its financial covenants, and has, therefore, reclassified the Loan from a Canadian chartered bank under current liabilities. The Corporation remains current in terms of debt repayment but was in breach of its financial covenant considered in the latest extended forbearance agreement. The Corporation remains in discussions with its banker to remediate to the situation. The Bank could recall its credit facility and its loan should the Corporation fails with its remediation plan.

(2) The Corporation has sufficient liquidity to continue its operations, but additional financing will be required. The Corporation remains in discussion with its lender to remediate the breach of the financial covenant in accordance with the Loan from a Canadian chartered bank.

c) Market risk

Interest rate risk
Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument held by the Corporation will fluctuate, because of changes in interest rates. The Corporation's financial liabilities other than current liabilities, is comprised of medium to long-term variable rate debt, concerning which the Corporation has mitigated its risk by entering into interest rate swap contracts for a contracted fixed interest rate (note 10). The interest rate swaps are measured at fair value and changes in interest rates will result in a change in fair value of the interest rate swaps. This change in recognized in earnings as a gain or loss in the year it occurs**.**
The Corporation's exposure to interest rate risk is summarized as follows:

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

d) Capital management

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

- 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; and
- To maintain investors, creditors and market confidence.

The Corporation seeks to maintain a balance between the highest returns that might be possible with higher level of borrowings and the advantages and security by a sound capital position.

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

(Unaudited, tabular amounts in Canadian dollars, unless otherwise noted)

18. Commitments

The Corporation entered into operating leases expiring on various dates through October 2027, with respect to leased premises and other leases. The total future minimum lease payments under non-cancellable operating leases are as follows:

	2018	2017
Less than 1 year	**270,825**	91,587
Between 1 and 5 years	**1,009,862**	204,786
More than 5 years	**650,132**	-
	1,930,819	296,373

The Corporation rent part of the office which is under operating leases and expired on August 31, 2017 are as follows:

	2018	2017
Less than 1 year	**-**	4,590
Between 1 and 5 years	**-**	2,298
More than 5 years	**-**	-
	-	6,888

19. Related parties

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

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

Transactions with key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation as a whole. The Corporation has determined that key management personnel consist of the Corporation's Board of Directors and corporate officers. The key management personnel received a total remuneration of $245,000 (January 31, 2017 - $240,000).

The Corporation has the following amounts owing to key management personnel as at January 31:

	2018	2017
Trade and other payables	**405,702**	420,004
Advance from a shareholder, without interest	**-**	210,685
Promissory note	**786,415**	-
	1,192,117	630,689