

Management Discussion and Analysis of



For the three months and the nine months ended
April 30, 2018 and 2017

The following management's discussion and analysis (the "MD&A") objective is to help the reader better understand the activities of KDA Group Inc., ("KDA" or the "Corporation"), and the highlights of its consolidated financial situation. It explains the consolidated financial situation and the results of its operations for the three-month period (the "Third quarter") and for the nine-month period ended April 30, 2018 and the comparison of the Corporation's consolidated statement of financial position as at July 31, 2017.

The MD&A has been prepared in accordance with Regulation 51-102 and should be read in conjunction with the audited consolidated financial statements of the Corporation for the fiscal year ended July 31, 2017 and the related notes thereto.

The audited consolidated financial statements and this MD&A have been reviewed by the Audit Committee and approved by the Corporation's Board of Directors on June 29, 2018. Unless otherwise indicated, all the amounts in this MD&A are in Canadian dollars.

The context otherwise required, all references to "KDA", "Corporation", "our", "us", "we" refers to KDA Group Inc. as consolidated with its subsidiaries. Further information about the Corporation, projects, annual and quarterly reports are available for consultation on the website of SEDAR at the following address: www.sedar.com.

FORWARD-LOOKING STATEMENTS

Some statements contained in this MD&A, specially the opinions, the projects, the objectives, the strategies, the estimates, the intent and the expectations of the Corporation that are not historical data, are forward-looking statements. Such statements can be recognized by the terms "forecast", "anticipate", "consider", "foresee" and other terms and similar expressions. The statements are based on information available at the time they are made, on assumptions established by the management and on the management expectation, acting in good faith, concerning future events and concerning, by their nature, known and unknown risks and uncertainties mentioned herein (see the section Risks and uncertainties). The real results for the Corporation could differ materially. Consequently, it is recommended not to rely upon unduly these forward-looking statements. The forward-looking statements do not reflect the potential incidence of special events which could be announced or take place after the date of this MD&A. Except if the applicable legislation requires it, the Corporation does not intend to update these prospective statements to reflect new information or future events, and it is by no means committed doing so.

REPORTING ENTITY, NATURE OF OPERATIONS AND SCOPE OF ACTIVITIES

The Corporation is domiciled in Canada, and incorporated under the *Business Corporations Act (Québec)*. Its shares are listed for trading on the TSX Venture Stock Exchange under the symbol KDA.

The Corporation started as a provider of pharmacy personnel replacement and vocational training services and then evolved, using an acquisition strategy, to become a leading solution and services provider to pharmacies and pharmaceutical companies in Canada.

HIGHLIGHTS FOR THE THIRD QUARTER ENDED APRIL 30, 2018

REGULATORY CHANGES

On July 19, 2017, the Quebec Government announced having reached an agreement in Principle with the *Association québécoise des pharmaciens propriétaires* ("AQPP") in order to determine various components of their compensation but also set expected savings from the Quebec Government of \$1.5 billion over a 5-year period. These savings would be achieved through additional price reductions and the launch of new generic drugs. This Agreement will allow the Quebec Government, during those five years, to prevent the application of the calls for tender process permitted by law. It is a significative change as compared with all the uncertainty created in January 2017 when the Government decided to "uncap" the allowance returned to the pharmacists from generic drug distribution companies, such decision causing significant disruption in the industry as distribution companies started offering higher returns which directly impacted their profitability, including Pharmapar and Biomed, two wholly-owned subsidiaries of the Corporation involved in the generic drug distribution in Quebec.

On September 20, 2017, the regulation to restate the 15% cap was published in the "Gazette officielle du Québec". This regulation has been in effect starting October 19, 2017.

On October 5, 2017, Bill 148 entitled «An Act to regulate generic medication procurement by owner pharmacists and to amend various legislative provisions» was introduced to the National Assembly of Quebec. The bill provides that an owner may not, in a calendar year, procure generic medications entered on the list of medications from the same manufacturer more than 50% of the monetary value of all the generic medications purchased by the pharmacist during that year. The implementation date remains to be determined.

FORBEARANCE AGREEMENT

On October 16, 2017, main shareholders, in accordance with the forbearance agreement injected \$1,690,000 in the form of convertible promissory notes bearing interest at 18% annually. The notes are convertible into Class A Shares of the Corporation anytime at a conversion price equal to the 20-day average trading period prior conversion.

On December 11, 2017, the forbearance agreement has been subsequently extended until June 1, 2018 with the same conditions as described previously. The Corporation remains current in terms of debt repayment but was in breach of its financial covenant considered in the latest extended forbearance agreement.

On March 1st, 2018, a formal notification was received from the Corporation's banker because we were not in compliance with the revised covenants. The notification confirms the default situation and requests a remediation plan to be deposited no later than March 30, 2018.

In May, 2018, the Corporation and its lender amended the forbearance agreement extending it to July 31, 2018. Pursuant thereto, the Corporation agreed to certain budgetary and expenditure restrictions, together with a commitment for an additional \$350,000 shareholder loan (received), and a one-time principal repayment holiday.

SALE OF BIOMED (2002) INC.

On November 15, 2017, the Corporation sold Biomed (2002) Inc., a wholly-owned subsidiary, for a total consideration of \$1,950,000. The sale included cash consideration of \$1,850,000 reduced by immediate payment of accrued pharmacists' compensation valued at \$722,622; a balance of sale of \$ 100,000 remains to be received by June 1, 2018.

FINANCIAL PERFORMANCE

Three months ended April 30, 2018 compared to three months ended April 30, 2017

For the Third quarter ended April 30, 2018, the Corporation has generated \$5,976,215 (2017 - \$6,199,075) of sales with a contribution margin of 28%. Revenue decreased by \$222,860 or 4%, as compared to the same period from the previous year; the decrease was mainly driven by lower purchases from pharmacists of generic drugs following the restatement of the 15% cap. As a result of legislative changes coming into effect on October 19, 2017, pharmacists increased their purchases prior the restatement of the 15% cap to benefit from higher returns. The contribution margin increased by \$265,978 as compared to the same period from the previous year because of the sleazy recovery of market in sector of the generic drug distribution and a high demand for pharmacy services.

Pharmacy Services

For the Third quarter ended April 30, 2018, the Corporation has generated \$4,489,703 (2017 - \$4,415,770) of sales in the Pharmacy Services segment. Revenue lightly increased by \$73,933 or 2%, as compared to the same period from the previous year; the increase was mainly driven by the recently completed acquisitions and the increase in the demand for technical laboratory employees in pharmacies. Gross margin has deteriorated as compared to the previous quarter as a consequence of higher returns being paid to pharmacists and the uncertainty created from the Government. The Corporation had to adjust its pricing and related pharmacist's compensation to maintain its market share in a highly competitive, aggressive and volatile marketplace. Gross margin has deteriorated as compared to the previous year because of higher returns being paid to pharmacists and the uncertainty created from the Government. The Corporation had to adjust its pricing and related pharmacist's compensation to maintain its market share in a highly competitive marketplace.

Pharmaceutical Solutions

For the Third quarter ended April 30, 2018, the Corporation has generated \$1,486,512 (2017 - \$1,783,305) of sales. Such revenues are a consequence of the LIV acquisition for the period between August 19 and April 30, 2017. For the three months ending April 30, 2018 The revenues decrease \$296,793 at \$1,486,512 but income are better with an increase of 204,273 or 55%.

Selling and administrative expenses reached \$1,377,346 (2017 - \$1,375,734) for the three-month period ended April 30,

2018, an increase of \$970,872 as compared to the same period from the previous fiscal year while the Company was still operating as a single segment entity. Finance costs of negative \$637,462, a decrease of \$704,931 as compared with \$67,469 for the same period from the previous year, were mainly driven by the decrease in the calculated fair value adjustment of Conversion option related with the long-term debt contracted at the time of the acquisition. An unrealized loss of derivative financial instrument was also recognized for the first time further to the completion of an interest rate swap agreement with National Bank.

The net income and the comprehensive income for the Third quarter ended on April 30, 2017 was \$373,861 or \$0.01 per share, compared to a loss of \$184,026 or \$ 0.01 per share for the same period during the previous fiscal year.

Nine months ended April 30, 2018 compared to the nine months ended April 30, 2017

For the nine months ended April 30, 2018, the Corporation has generated \$19,704,853 (2017 - \$21,369,912) of sales with a contribution margin of 24%. Revenue decreased by \$1,665,059 or 8%, as compared to the same period from the previous year; the decrease was mainly driven by lower sales in the generic drugs distribution to consider various recent legislative changes. The contribution margin decreased \$323,745 as compared to the same period from the previous year as a consequence of higher professional allowances being returned to pharmacists, partially offset by higher margins from both the staffing and the medical communications businesses.

Pharmacy Services

For the nine months ended April 30, 2018, the Corporation has generated \$13,957,977 of sales. Revenue decreased by \$1,868,254 or 12%, as compared to the same period from the previous year; the decrease was mainly driven by the turmoil the generic drug industry is facing and the loading experienced by the pharmacists for their generic drugs supply prior the restatement of the 15% cap. The segment income decreased by \$722,599 as compared to the same period from the previous year.

Pharmaceutical Solutions

For the nine months ended April 30, 2018, the Corporation has generated \$5,746,876 of sales in the Pharmaceutical Solutions segment. Such revenues are a consequence of the sales initiatives to expend the operations in United States as well as various additional therapeutic areas.

Selling and administrative expenses reached \$4,243,232 (2017 - \$5,201,074) for the nine months ended April 30, 2018, a decrease of \$957,842 as compared to the same period from the previous fiscal year. Finance costs of \$1,156,082, a decrease of \$479,198 as compared with \$1,635,280 for the same period from the previous year. The interest costs were mainly driven by the long-term debt contracted at the time of the acquisition. The Corporation also recorded accreted interest and a fair value adjustment for the Conversion Option to account for the newly created Preferred Shares.

The net loss and the comprehensive loss for the nine months ended April 30, 2018 was \$2,100,739 or \$ 0.05 per share, compared to a loss of \$3,868,345 or \$ 0.09 per share for the same period during the previous fiscal year.

Selected Financial Information

The following table summarizes the Corporation's selected key financial data taken from the consolidated statements of loss for the periods ended April 30, 2018 and 2017 as well as the consolidated statement of financial position as at April 30, 2018, and April 30, 2017.

<i>(unaudited)</i> <i>(in \$)</i>	For the three months ended April 30		For the nine months ended April 30	
	2018	2017	2018	2017
Revenues	5,975,215	6,199,075	19,704,853	21,369,912
Cost of revenue	4,281,352	4,770,190	14,927,887	16,269,201
Selling and administrative expenses	1,377,346	1,375,734	4,626,421	5,201,074
Transactions charges related to business combinations	-	-	-	1,304,356
Depreciation of property and equipment	11,109	16,440	32,921	47,260
Amortization of intangible assets	380,684	301,072	1,068,061	1,053,748
Net finance costs	337,820	(637,462)	1,156,082	1,635,280
Net income (loss)	(393,003)	373,861	(2,100,739)	(3,868,345)
Net loss per share	(0.01)	(0.01)	(0.05)	(0.09)

<i>(unaudited)</i>	At April 30,	At July 31,
<i>(in \$)</i>	2018	2017
Net cash	(1,441,912)	(2,025,170)
Working capital, excluding net cash	(11,664,379)	(11,703,926)
Total assets	25,229,447	31,724,405
Total liabilities	26,270,580	30,883,549
Net equity (deficiency)	(1,041,133)	840,856

Statement of financial position as at April 30, 2018

As at April 30, 2018, total assets of the Corporation were at \$25,229,447 a decrease of \$6,494,958 when compared to April 30, 2017. The decrease in the total assets is related to the impairment recognized in July 2017 combined with the selling of a subsidiary during the precedent quarter.

Management estimates that the net cash deficiency at the end of the third quarter is serious and recognizes the requirement for a restructuring plan in order to improve operating margins, additional financing will also be required; such actions should provide the Corporation with adequate funding in order to meet its short-term obligations and to continue its ongoing efforts in order to grow the business.

FINANCING ACTIVITIES FOR THE THREE MONTHS ENDED APRIL 30, 2018

During the nine months ended April 30, 2018, \$19,178 was provided by the financing activities principally due to the proceeds received from the issuance of promissory notes, partially offset by large bank repayment after the sale of the subsidiary. The Corporation also decreased its bank indebtedness by \$325,000.

INVESTING ACTIVITIES FOR THE THREE MONTHS ENDED APRIL 30, 2018

During the nine months ended April 30, 2018, a net amount of \$1,664,096 was provided in investing activities, mainly driven by the sale of a subsidiary.

SELECTED QUARTERLY DATA

Operating results for each of the last 8 quarters are presented in the table below. The data related to these quarters were prepared in the same manner as that of the audited financial statements for the fiscal year ended January 31, 2017 and 2016.

	2018			2017				
<i>(in \$)</i>	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	5,976,215	7,174,710	6,553,927	8,246,122	6,199,075	8,160,821	7,010,016	2,098,179
Net Income								
(loss)	(393,003)	(832,107)	(870,629)	(5,709,192)	771,654	(612,580)	(2,556,466)	(1,049,649)
Net Income								
(loss) per	(0.01)	(0.02)	(0.02)	(0.13)	0.02	(0.02)	(0.07)	(0.04)
share								

RELATED PARTY TRANSACTIONS AND COMMERCIAL OBJECTIVES

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

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

All balances of advances receivable and due are measured at fair value and occurred in the normal course of business.

Transactions with key management personnel

Key management personnel 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. During the nine-month period, the key management personnel received a total remuneration of \$330,000 (January 31, 2017 - \$245,000).

The Corporation has the following amounts owing to key management personnel as at April 30:

	2018	2017
Trade and other payables	405,702	420,004
Advance from a shareholder, without interest	-	237,388
Promissory note	1,786,415	-
	1,192,117	657,392

OFF-BALANCE SHEET AGREEMENTS

The Corporation has not concluded any off-balance sheet agreements.

OBLIGATIONS AND CONTRACTUAL COMMITMENTS

The Corporation entered into operating leases expiring on various dates through August 2021, with respect to leased premises and other leases. The total future minimum lease payments under non-cancellable operating leases as at April 30 are as follows:

	2018	2017
Less than 1 year	263,400	72,387
Between 1 and 5 years	1,009,862	209,981
More than 5 years	619,592	-
	1,892,854	282,368

The Corporation also rents part of the office which is under operating leases expiring on July 31, 2018 and which represent minimum lease revenues under a non-cancellable operating lease as at April 30 are as follows:

	2018	2017
Less than 1 year	-	4,590
Between 1 and 5 years	-	-
More than 5 years	-	-
	-	4,590

SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Going concern

These unaudited 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 nine months ended April 30, 2018, the Corporation reported a loss of \$2,100,739 has negative working capital of \$13,106,291 and has an accumulated deficit of \$12,462,207 at that date. As discussed in note 16, the Corporation is in breach of its financial covenants with respect to its secured credit financing as at April 30, 2018, and has, therefore, reclassified the Loan from a Canadian chartered bank under current liabilities. The Corporation remains in discussions with its banker to remediate to the situation. The Bank could recall its credit facility and its loan should the Corporation fails with its remediation plan.

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

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 \$105,000;
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:

- Investigating a range of alternatives to streamline its Pharmacy Services and Pharmaceutical Solutions business units and focus its efforts toward selected niche markets with the objective of ensuring the Corporation can generate sustainable, long-term profitability;

- Approaching potential lenders and investors to secure additional debt and/or equity financing.

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 10 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 30, 2018. Discussions remain underway with the main lender to further extend the forbearance agreement until operating profitability improves as stated above. These undertakings, while significant, may not be sufficient in and of themselves to enable the Corporation to fund all aspects of its operations and, accordingly, management may need to pursue other financing alternatives to fund the Corporation's operations, so it can continue as a going concern. There is no assurance that these initiatives will be successful and that such forbearance extension will be granted.

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

Basis of preparation

Statement of compliance

These unaudited 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 unaudited 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 there to for the year ended July 31, 2017.

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

Basis of measurement

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

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

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

Functional and presentation currency

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

Use of estimates and judgments

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

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:

- Notes 6, 7 & 8 – 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;
- 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 12 – 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.

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 interim consolidated financial statements.

New standards and interpretations not yet adopted

There has been no change in future accounting changes from those previously described in the Corporation's July 31, 2017 Consolidated Financial Statements

FINANCIAL RISK, MANAGEMENT OBJECTIVES AND POLICIES

Risks

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

- credit risk
- liquidity risk
- market risk

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

Risk management framework

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

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 75% (April 30, 2017 – 86%) 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 April 30, 2018		At April 30, 2017	
	Total	Impairment	Total	Impairment
Not past due	1,538,425	-	4,234,146	-
Past due 1 – 30 days	556,500	-	776,725	-
Past due 31 – 60 days	307,315	-	(97,842)	-
Past due more than 60 days	389,189	(178,532)	651,601	(178,532)
	2,791,429	(178,532)	5,564,630	(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 the Corporation and its subsidiaries are monitored closely and separately to ensure the Corporation optimizes its cash return on investment. Typically, the Corporation ensures that it has sufficient cash to meet expected operational expenses. The Corporation monitors its short and medium-term liquidity needs on an ongoing basis using forecasting tools.

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

	Less than 1 year	Between 1 and 5 years	More than 5 years
Bank indebtedness	2,292,500	-	-
Trade and other payables	5,464,830	-	-
Long-term debt	13,134,131	2,034,389	3,323
	20,891,461	2,034,389	3,323

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 April 30, 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.

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 is recognized in earnings as a gain or loss in the year it occurs.

The Corporation's exposure to interest rate risk is summarized as follows:

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

OTHER RISKS AND UNCERTAINTIES

The following are other risk factors facing the Corporation.

Competition - The pharmacist replacement industry has grown rapidly over last 10 years and so did the number of competitors. Because companies can enter such industry with very little capital or technical expertise, there are a large number of regional and local replacement companies in the industry. The Corporation faces competition from these businesses in the markets and regions it currently serves. Most of competitors in the generic drug industry are significantly larger than the Corporation.

Legislation - The industry is trying to adapt to recent changes and obligations under Bill n°41, n°28 and proposed Bill 81. These bills impact day-to-day operations of pharmacists but will also impact significantly their overall compensation. Proposed Bill 81 relating to Prescription Drug Insurance in Québec is an act to reduce the cost of certain medications covered by the basic prescription drug insurance plan by allowing calls for tender allowing the Minister of Health and Social Services to issue a call for tenders to add drugs to the Drugs List as well as, in relation to drugs having been the object of such a call for tenders, for the services of a wholesaler to supply the pharmacist owners. A draft regulation to determine the conditions and applicable mechanisms to any call for tenders was published in the "Gazette officielle du Québec" on August 24, 2016. The regulation on the call for tenders procedure can be enacted by the Minister of Health and Social Services after a period of 45 days starting on that date.

Operating Environment - The Corporation is subject to changes in its general operating environment. The Corporation is exposed to the following elements affecting its operating environment: the availability of pharmacists, sufficient qualified personnel to provide specialized training, and the average compensation offered on the market.

Compliance - Compliance considers the following areas: pharmacy laws and regulations, laws and regulations on protecting personal information, laws and regulations governing the distribution and sale of drugs (including the ones governing the selling price of drugs), laws and regulations governing health insurance and drug insurance plans, laws and regulations regarding labor, laws and regulations governing product safety, approval and labeling (in particular for drugs and natural health products).

General Economic Conditions - Demand for generic drugs, education and specialized training and replacement pharmacists is closely linked to the state of the health industry and overall economy. Consequently, a decline in general economic growth could adversely affect the Corporation's performance.

Interest Rate Fluctuations - Changes in interest rates may result in fluctuations in the Corporation's future cash flows related to interest payment of its long-term debt.

Acquisitions and Integration Risks - Historically, acquisitions have been a part of the Corporation's growth strategy. This year has shown major acquisitions for the Corporation. Acquisitions involve numerous risks, including potential loss of customers, key employees, and service providers of the acquired company.

Key Personnel - The future success of the Corporation will be based in large part on the quality of its management and key personnel. The loss of key personnel could have a negative effect on the Corporation. There can be no assurance that the Corporation will be able to retain its current personnel or, in the event of their departure, to attract new personnel of equal quality.

Loan Default - The Corporation's current credit facilities and financing agreements impose certain covenant requirements. There is a risk that such loans may go into default if there is a breach in complying with such covenants and obligations which could result in the Corporation being unable to pay dividends to shareholders, and in lenders realizing on their security and causing the Corporation to lose some or all of its assets.

Credit Facilities - The Corporation's credit facilities and financing agreement mature on various dates. There can be no assurance that such credit facilities or financing agreements will be renewed or refinanced, or if renewed or refinanced, that the renewal or refinancing will occur on equally favorable terms to the Corporation.

Credit Risks - The Corporation provides services to clients primarily in Canada. The concentration of credit risk to which the Corporation is exposed is limited due to the significant number of customers that make up its client base and their distribution across different geographic areas. Furthermore, no client accounted for more than 10% of the Corporation's total accounts receivable as of January 31, 2017.

Availability of Capital - The Corporation's future growth may be dependent on the Corporation's ability to fund a portion of its capital expenditures and working capital with the current credit facilities and financing agreement. The Corporation may be required to reduce dividends or sell additional shares in order to accommodate these items. There can be no assurance that sufficient capital will be available on acceptable terms to the Corporation for necessary or desirable capital expenditures or that the amount required will be the same as currently estimated.

CAPITAL MANAGEMENT

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

- To ensure proper capital investment in order to provide stability and competitiveness to its operations;
- To ensure sufficient liquidity to pursue its growth strategy and undertake selective acquisitions;
- To maintain an appropriate debt level so that there 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.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

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

GENERAL INFORMATION

Head office

www.kdagroup.ca

1351, Notre Dame St. East Suite 300
Thetford Mines (Québec) G6G 0G5, CANADA
Tel: (418) 755-0821 – (514) 622-7370
Fax: (418) 755-0822