



QUANTUM INTERNATIONAL INCOME CORP

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended May 31, 2017

(in U.S. Dollars)

(Unaudited)

Management Comments	2
Condensed Interim Consolidated Statements of Financial Position	3
Condensed Interim Consolidated Statements of Income and Comprehensive Income	4
Condensed Interim Consolidated Statements of Changes in Equity	5
Condensed Interim Consolidated Statements of Cash Flows	6
Notes to the Condensed Interim Consolidated Financial Statements	7 - 23

QUANTUM INTERNATIONAL INCOME CORP
Condensed Interim Consolidated Financial Statements
(Unaudited)

Management Comments

These condensed Interim Consolidated Financial Statements of Quantum International Income Corp. for the three month period ended May 31, 2017 and all the information contained in this condensed interim financial report are the responsibility of management and have been approved by the Board of Directors.

In accordance with National Instrument 51-102, the Company discloses that its external auditors have not reviewed the accompanying condensed interim consolidated financial statements, notes to the condensed interim consolidated financial statements and the related Management's Discussion and Analysis.

July 27, 2017

Signed: (signed) Manu Sekhri
Manu Sekhri
Chief Executive Officer

QUANTUM INTERNATIONAL INCOME CORP
Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

(All amounts in U.S. dollars)

	May 31, 2017	February 28, 2017
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,451,150	\$ 3,396,787
Restricted cash	856,220	855,748
Accounts receivable	614,967	540,569
Related party balances (Note 15)	211,442	-
Current portion of note receivable (Note 6)	297,452	356,952
Prepaid expense and other assets	28,787	31,946
Total current assets	6,460,018	5,182,002
Non-current assets		
Property and equipment	2,830,419	2,047,813
Provisional goodwill and intangible assets (Note 3 and 4)	31,142,201	26,400,255
Note receivable (Note 6)	302,548	302,548
Total non-current assets	34,275,168	28,750,616
TOTAL ASSETS	\$ 40,735,186	\$ 33,932,618
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,671,112	\$ 6,724,079
Distribution payable (Note 15)	1,250,022	970,318
Current portion of long-term debt (Note 9)	18,061	18,061
Short-term promissory notes (Note 8)	624,334	290,417
Deferred consideration (Note 4)	500,000	500,000
Contingent consideration (Note 4)	206,142	206,142
Derivative liability (Note 10)	555,812	61,391
Loan Payable (Note 7)	310,000	310,000
Total current liabilities	9,135,483	9,080,408
Long-term debt (Note 9)	17,383,198	8,925,101
Total liabilities	26,518,681	18,005,509
Equity		
Share capital (Note 10)	31,018,318	30,695,521
Contributed surplus	1,916,336	1,685,627
Deficit	(31,674,538)	(29,870,077)
Equity attributable to owners of the parent	1,260,116	2,511,071
Non-controlling interest	12,956,389	13,416,038
Total equity	14,216,505	15,927,109
TOTAL LIABILITIES AND EQUITY	\$ 40,735,186	\$ 33,932,618
ON BEHALF OF THE BOARD		

(signed) Manu Sekhri
 Manu Sekhri, Director

(signed) Peter Shippen
 Peter Shippen, Director

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements

QUANTUM INTERNATIONAL INCOME CORP
Condensed Interim Consolidated Statements of Income and Comprehensive Income
(Unaudited)
(All amounts in U.S. dollars)

	May 31, 2017	May 31, 2016
	\$	\$
		(Restated)
Revenue		
Gaming revenue	\$ 8,771,251	\$ -
Location costs	(4,385,626)	-
Revenue after location costs	4,385,625	-
Operating and other expenses		
Fair value loss on derivative liabilities	(40,541)	-
Amortization of property, equipment and intangible assets	(1,099,988)	
General and administrative expenses (Note 12)	(2,271,227)	(451,848)
Finance costs	(1,395,791)	(28,511)
Gain (loss) on foreign exchange	-	(59,792)
	(4,807,547)	(540,151)
LOSS FROM CONTINUING OPERATIONS BEFORE TAXES	(421,922)	(540,151)
Income taxes		
Current	-	-
NET LOSS FROM CONTINUING OPERATIONS	(421,922)	(540,151)
Gain (loss) from discontinued operations (Note 5 and 6)	-	(414,485)
NET LOSS	(421,922)	(954,636)
Attributable to:		
Owners	(1,804,461)	(945,331)
Non-controlling interest	1,382,539	(9,305)
	(421,922)	(954,636)
Other comprehensive income		
Foreign currency translation reserve	-	3,585
NET LOSS AND COMPREHENSIVE LOSS	(421,922)	(951,051)
Attributable to:		
Owners	(1,804,461)	(942,941)
Non-controlling interest	1,382,539	(8,110)
	\$ (421,922)	\$ (951,051)
Earnings (loss) per share attributable to owners		
Basic and diluted (Note 13)	(0.03)	(0.03)
Weighted average common shares issued and outstanding (Note 13)	60,811,666	28,910,730

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements

QUANTUM INTERNATIONAL INCOME CORP
Condensed Interim Consolidated Statements of Changes in Equity
(Unaudited)
(All amounts in U.S. dollars)

	Attributable to Owners						
	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total	Non- controlling Interest	Total Equity
	\$	\$	\$	\$	\$	\$	\$
Balance as at February 29, 2016 (restated)	22,765,038	1,110,740	(25,970,524)	(2,723)	(2,097,469)	17,573	(2,079,896)
Sahres issued for settlement of debt (Note 10)	39,559	-	-	-	39,559	-	39,559
Shares issued for credit facility agreement (Note 10)	8,930	-	-	-	8,930	-	8,930
Share based payments (Note 11)	-	181,228	-	-	181,228	-	181,228
Warrants issued for credit facility agreement (Note 10)	-	6,600	-	-	6,600	-	6,600
Net loss for the period	-	-	(945,331)	-	(945,331)	(9,305)	(954,636)
Foreign currency translation reserve	-	-	-	2,390	2,390	1,195	3,585
Balance as at May 31, 2016	22,813,527	1,298,568	(26,915,855)	(333)	(2,804,093)	9,463	(2,794,630)
Balance as at February 29, 2017	30,695,521	1,685,627	(29,870,077)	-	2,511,071	13,416,038	15,927,109
Private placement (Note 10)	44,710	-	-	-	44,710	-	44,710
Warrants exercised (Note 10)	30,572	-	-	-	30,572	-	30,572
Options exercised (Note 10)	247,515	(135,000)	-	-	112,515	-	112,515
Stock based compensation (Note 11)	-	365,709	-	-	365,709	-	365,709
Distributions	-	-	-	-	-	(1,842,188)	(1,842,188)
Net loss for the period	-	-	(1,804,461)	-	(1,804,461)	1,382,539	(421,922)
Balance as at May 31, 2017	31,018,318	1,916,336	(31,674,538)	-	1,260,116	12,956,389	14,216,505

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements

QUANTUM INTERNATIONAL INCOME CORP
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)
(All amounts in U.S. dollars)

	May 31, 2017	May 31, 2016
	\$	\$
OPERATING ACTIVITIES		
Net loss	\$ (421,922)	(Restated) \$ (954,636)
Items not affecting cash		
Amortization of property and equipment and intangible assets	1,099,988	121,924
Fair value change in derivative liability	40,541	-
Accretion expense	400,656	-
Share based payments	-	48,489
Stock based compensation	365,709	187,828
Operating activities from discontinued operations	-	(123,151)
Net change in non-cash operating working capital (Note 12)	(1,276,354)	371,840
Cash flows from (used in) operating activities	208,618	(347,706)
INVESTING ACTIVITIES		
Cash paid for acquisition (Note 3)	(5,810,000)	-
Cash paid for location contracts	(70,000)	-
Additions to property and equipment	(410,623)	-
Cash flows used in investing activities	(6,290,623)	-
FINANCING ACTIVITIES		
Net proceeds from loans payable	-	258,494
Restricted cash	(472)	-
Proceeds from private placement	447,092	-
Proceeds from warrants exercised	24,496	-
Proceeds from options exercised	112,515	-
Cash distributions paid to non-controlling interest	(1,562,263)	-
Debt transaction costs	(1,085,000)	-
Cash held in trust	-	(10,000)
Finance lease repayment	-	(5,186)
Advances from long-term debt	9,200,000	-
Cash flows from financing activities	7,136,368	243,308
Net change in cash and cash equivalents	1,054,363	(104,398)
Cash and cash equivalents, beginning of period	3,396,787	203,986
Foreign exchange impact on cash	-	3,585
Cash and cash equivalents, end of period	\$ 4,451,150	\$ 103,173
Supplemental information		
Interest paid	977,298	14,282

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended May 31, 2017
(amounts in U.S. dollars, unless otherwise stated)

1. REPORTING ENTITY

Quantum International Income Corp (“Quantum” or the “Company”) intends to seek opportunities to acquire and grow businesses in order to generate stable distributions for its shareholders, along with capital appreciation. The Company seeks to acquire operating businesses with a proven track record, an opportunity for growth and whose management wishes to continue to operate the business going forward. The Company’s investment approach will be to grow through the acquisition of “platform” businesses that are consistent with its business strategy and acquisition criteria and then to continue to build revenues and earnings within these businesses. Potential acquisition targets may be private or public companies in a variety of industries. Acquisition of all or a majority of the ownership of each such business is preferred. Value will be created by seeking out high growth, high margin opportunities where the acquired businesses can maintain and develop the deep knowledge, expertise and understanding of their customers’ needs required to deliver superior service and command higher pricing and margins than the competition.

Quantum is a publicly listed company incorporated on August 15, 1995 under the laws of Ontario. The Company changed its name from E.G. Capital Inc. to its present name on March 14, 2014. The Company trades on the TSX Venture Exchange (TSX-V) under the symbol QIC.

The primary office is located at 79 Wellington St. West, Suite 1630, Toronto ON, M5K 1H1.

2. BASIS OF PREPARATION

Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (IAS 34).

These condensed interim consolidated financial statements of the Company were authorized for issue by the Board of Directors on July 27, 2017.

The same accounting policies and methods of computation are followed in these unaudited condensed interim consolidated financial statements as compared with the most recent annual financial statements as at and for the year ended February 28, 2017.

The condensed interim consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Company’s annual consolidated financial statements as at February 28, 2017.

Share Consolidation

On March 17, 2017, the Company completed a share consolidation; each common share holder received one post-consolidation share for every three pre-consolidation shares held. These condensed interim consolidated financial statements retrospectively reflect the impact of the consolidation.

Basis of Consolidation

The consolidated financial statements of the Company as at May 31, 2017 and February 28, 2017 comprise the Company and its subsidiaries (collectively the “Group”). The Company’s subsidiaries and ownership interests are as follows for the three months ended May 31, 2017:

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended May 31, 2017
(amounts in U.S. dollars, unless otherwise stated)

	Ownership interest
Quantum US Healthcare Corp. ("QHC")	100%
Columbus LTACH Holdings Corp. ("LTACH")	100%
Quantum Gaming Corp ("QGC")	100%
Southern Star Gaming, LLC ("SSG")	100%
Lucky Bucks HoldCo, LLC ("LBH")	51%
Lucky Bucks, LLC ("LB")	51%

QHC is incorporated in Ontario, LTACH is a Delaware limited liability company, QGC is a Delaware corporation, SSG is a Delaware limited liability company, LBH is a Georgia limited liability company and LB is a Georgia limited liability company

Recent accounting pronouncements

- a) IFRS 9 Financial Instruments was issued in final form in July 2014 by the IASB and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 also includes requirements relating to a new hedge accounting model, which represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.
- b) In May 2014, IASB issued IFRS 15 Revenue from Contracts with Customers. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple element arrangements. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 supersedes the following standards: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC-31 Revenue—Barter Transactions Involving Advertising Services.
- c) Effective for annual periods beginning on or after January 1, 2019, IFRS 16 Leases was issued by the IASB in January 2016 and will replace IAS 17 Leases. IFRS 16 introduces a single accounting model for lessees and for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognize a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. The accounting treatment for lessors will remain largely the same as under IAS 17. Earlier application is permitted only if the Company early adopts IFRS 15.

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended May 31, 2017
(amounts in U.S. dollars, unless otherwise stated)

3. ACQUISITION OF TRIPLE 7s AMUSEMENT LLC AND LUCKY STAR AMUSEMENT, INC.

On May 18, 2017 Lucky Bucks, LLC, a company controlled by the Company, acquired certain operating assets of Triple 7s Amusement LLC (“Triple 7s”) and Lucky Star Amusement, Inc. (“Lucky Star”).

The respective purchase price was \$4,200,000 in respect of the Triple 7s assets and \$1,610,000 in respect of the Lucky Star assets. \$4,000,000 of the Triple 7s purchase price was paid on closing of the acquisition, with the remaining \$200,000 payable to Triple 7s upon the satisfaction of certain post-closing obligations. These post-closing obligations were satisfied and the remaining amount was paid on May 31, 2017. The total Lucky Star purchase price was paid on closing. In addition to the foregoing cash payments, an additional one-time payment is payable to each of the seller following the closing date if, within six months of the closing date, revenue is generated by assets acquired from the sellers that were not generating revenue as of the closing date. As at May 31, 2017, the company estimates that the contingent consideration pertaining to these acquisitions is \$Nil.

These acquisitions were financed by the long-term debt as described in Note 9.

The company has preliminarily allocated the purchase price as follows:

Property and equipment	\$	200,000
Goodwill and intangible assets		5,610,000
	\$	<u>5,810,000</u>

Provisional consideration is comprised of a cash payment of \$5,810,000.

The Company has followed guidance provided by IFRS 3 - Business Combinations, which allows the Company one year to finalize the purchase price allocation of an acquired company’s tangible assets, and intangible assets and goodwill. The Company will analyze the acquired assets, contingent consideration, intangibles and goodwill and will make the final allocation within the 12 month period.

4. ACQUISITION OF LUCKY BUCKS, LLC

On October 21, 2016, the Company completed the acquisition of a controlling interest of 51% in the business of Lucky Bucks, LLC, a skill-based gaming terminal operator based in the U.S. state of Georgia. Lucky Bucks, LLC assembles, distributes, owns and operates skill-based digital gaming terminals in multiple locations throughout Georgia. The total purchase price for the acquisition was \$14,697,472.

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended May 31, 2017
(amounts in U.S. dollars, unless otherwise stated)

The Company has preliminarily allocated the purchase price as follows:

Property and equipment		\$	1,204,075
Owner/operator gaming machine contracts			18,290,000
Brand			190,000
Master license			1,770,000
Goodwill	(a)		7,589,159
Accounts payable and other liabilities			(224,661)
Non-controlling interest	(b)		(14,121,101)
		\$	14,697,472

Provisional consideration is comprised of:

Cash Payment		\$	10,039,043
Deferred consideration	(c)		500,000
Contingent consideration	(c)		206,142
Shares issued			3,952,287
		\$	14,697,472

- (a) Goodwill for this acquisition represents the acquired employee knowledge of the Georgia gaming market.
- (b) Non-controlling interest is measured at its fair value.
- (c) As additional consideration for the acquisition, the Company will pay in cash an amount equal to the sum of (i) \$500,000 plus (ii) an amount equal to the aggregate new COAM location revenue after location costs determined pursuant to the membership interest purchase agreement. The amount is calculated based on revenue from each new COAM location between the 91st day subsequent to the installation date and 180th day subsequent to the installation date, annualized over 365 days, multiplied by 64% and multiplied by a range of factors depending on the length of the contract term of the new COAM location, less any capital expenditures attributable to the new COAM location within the first 180 days and multiplied by the ownership interest of 51%. This amount is to be paid within 30 days following the first anniversary of the closing date.

The Company has followed guidance provided by IFRS 3 - Business Combinations, which allows the Company one year to finalize the purchase price allocation of an acquired company's tangible assets, assumed liabilities, non-controlling interest, intangible assets and goodwill. The Company will analyze the acquired assets, liabilities, non-controlling interest, contingent consideration, intangibles and goodwill and will make the final allocation within the 12 month period.

Included in the condensed interim consolidated statements of comprehensive income is revenue of \$8,771,251 and net income of \$3,759,118 resulting from the operating results of Lucky Bucks, LLC, from March 1, 2017 to May 31, 2017.

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended May 31, 2017
(amounts in U.S. dollars, unless otherwise stated)

5. DIVESTURE OF MULTIPLE MEDIA ENTERTAINMENT

On October 17, 2016 the Company closed a transaction with an arm's length third party to sell its 66.7% investment in Multiple Media Entertainment Inc. The proceeds of the sale were CAD\$150,000 which was settled through of a secured promissory note due in August 17, 2018 at a rate of 12% interest per annum.

Accordingly, the operating results and operating cash flows for this previously reported subsidiary are presented as discontinued operations separate from the Company's continuing operations. Prior period information has been reclassified to present the subsidiary Multiple Media Entertainment Inc. as a discontinued operation.

	For the period ended May 31, 2017	For the period ended May 31, 2016
Revenue	-	2,208
Expenses	-	(30,124)
Gain (loss) from discontinued operations	-	(27,916)

6. DIVESTURE OF CENTERS FOR SPECIAL SURGERY

On February 1, 2017 the Company entered into an agreement with an arm's length third party to sell its 20% investment in CSS. The proceeds of the sale were \$3,000,000 which comprised cash of \$2,400,000 and a promissory note in the amount of \$600,000 due in monthly instalments, maturing on November 30 2018 at a rate of 6.5% interest per annum.

Accordingly, the operating results and operating cash flows for the investment in associate are presented as discontinued operations separate from the Company's continuing operations. Prior period information has been reclassified to present the investment in CSS as a discontinued operation. The transaction closed on February 28, 2017.

	For the period ended May 31, 2017	For the period ended May 31, 2016
Revenue	-	383,714
Expenses	-	(770,283)
Gain (loss) from discontinued operations	-	(386,569)

7. LOAN PAYABLE

On October 2, 2015 the Company obtained a \$300,000 unsecured promissory note from a third party. The note was issued at a discount for consideration of \$250,000. The principal was to be repaid on October 31, 2015. The Company did not repay the principal amount to the Lender on or before October 31, 2015, therefore the Principal Amount was deemed to be \$310,000. If the Company repaid the principal amount on or before the maturity date, the interest rate was to be 0% per annum.

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended May 31, 2017
(amounts in U.S. dollars, unless otherwise stated)

After the maturity date, the principal amount outstanding at any time, and from time to time, and any overdue interest, shall bear interest at 15% per annum, both before and after demand, default, and judgment. Such interest shall be calculated monthly not in advance when not in default and, after default, payable on demand. As at May 31, 2017, the total interest that has been accrued is \$82,525 (as at May 31, 2016 - \$27,125) and is included in accounts payable and accrued liabilities.

8. SHORT-TERM PROMISSORY NOTES

On November 9, 2016 and December 29, 2016, the Company entered into short-term promissory note agreements with an arms-length party for \$85,000 and \$72,000, for equipment purchases. The promissory notes are repayable in monthly principal amounts of \$14,167 and \$12,000 respectively, beginning February 1, 2017. The notes are non-interest bearing and will mature on July 1, 2017. These promissory notes were fully paid subsequent to May 31, 2017.

On January 27, 2017, the Company entered into a short-term promissory note agreement with an arms-length party for \$72,000, for equipment purchases. The promissory note is repayable in monthly principal amounts of \$12,000, beginning March 1, 2017. The note is non-interest bearing and will mature on August 1, 2017. This promissory note was fully paid subsequent to May 31, 2017.

On February 21, 2017, the Company entered into a short-term promissory note agreement with an arms-length party for \$72,000, for equipment purchases. The promissory note is repayable in monthly principal amounts of \$12,000, beginning May 23, 2017. The note is non-interest bearing and will mature on October 23, 2017. This promissory note was fully paid subsequent to May 31, 2017.

On March 15, 2017, the Company entered into a short-term promissory note agreement with an arms-length party for \$72,000, for equipment purchases. The promissory note is repayable in monthly principal amounts of \$12,000, beginning June 15, 2017. The note is non-interest bearing and will mature on November 15, 2017. This promissory note was fully paid subsequent to May 31, 2017.

On April 13, 2017, the Company entered into a short-term promissory note agreement with an arms-length party for \$72,000, for equipment purchases. The promissory note is repayable in monthly principal amounts of \$12,000, beginning July 13, 2017. The note is non-interest bearing and will mature on December 13, 2017. This promissory note was fully paid subsequent to May 31, 2017.

On May 9, 2017, the Company entered into a short-term promissory note agreement with an arms-length party for \$260,000, for equipment purchases. The promissory note is repayable in monthly principal amounts of \$43,333, beginning August 9, 2017. The note is non-interest bearing and will mature on January 9, 2018. This promissory note was partially paid subsequent to May 31, 2017.

On May 22, 2017, the Company entered into a short-term promissory note agreement with an arms-length party for \$72,000, for equipment purchases. The promissory note is repayable in monthly principal amounts of \$12,000, beginning August 22, 2017. The note is non-interest bearing and will mature on January 22, 2018.

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended May 31, 2017
(amounts in U.S. dollars, unless otherwise stated)

9. LONG-TERM DEBT

Senior Secured first lien term loan ^{(1) (2) (3)}	17,285,009
Vehicle finance loans ⁽⁴⁾	116,250
	17,401,259
Less: current portion of long-term debt	(18,061)
Long-term debt	17,383,198

- (1) On October 21, 2016 (“Closing Date”), the Company obtained a senior secured first lien term loan in the amount of \$11,956,521 to the fund acquisition of Lucky Bucks, LLC (Note 4). The term loan was issued with an 8% original issue discount over the term of the term loan, bears interest at a fixed rate of 16% per annum and will mature on April 21, 2019. The lenders have the option to sweep monthly amounts, which shall not exceed the sum of, for the month covered by such monthly cash and cash equivalents balance report, 1) 75% of the monthly excess cash amount, plus 2) 75% of the monthly overage amount. After the one year anniversary of the Closing Date, the Company has the option to repay the initial term loan in full. If the voluntary prepayment is exercised the Company would be subject to pay the full original issue discount amount.

The transactions costs relating to the first advance were \$3,486,523 which consists of \$956,521 for original issue discount, \$1,900,509 for legal fees and commissions, \$115,351 of warrants of the Company and \$475,765 of shares of the Company. These transaction costs are amortized from the date of the first advance and recorded as finance costs over the term of the senior secured first lien term loan using the effective interest method.

- (2) On May 18, 2017, the Company obtained an additional advance from the same lender of \$9,200,000 to fund the acquisition of Triple 7s Amusement LLC, Lucky Star Amusement, Inc (Note 3) and to fund capital expenditures. In connection to the additional advance, the Company and the lender amended and restated the financing agreement dated May 17, 2017.

The transactions cost relating to the additional advance were \$1,142,559 which consists of \$1,085,000 for legal fees and commissions and \$57,559 of warrants of the Company. These transaction costs are amortized from the date of the additional advance and recorded as finance costs over the term of the senior secured first lien term loan using the effective interest method.

- (3) The term loan is secured by first priority mortgage liens and first priority security interests in all of the tangible and intangible assets of the Company, including the equity interest in Lucky Bucks, LLC, as well as all permits and contracts with the State of Georgia and all owner/operator gaming machine contracts. The loan is guaranteed by the Company.

Throughout the period ending May 31, 2017, the Company was in compliance with its financial covenants under the terms of its senior secured first lien term loan agreement.

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended May 31, 2017
(amounts in U.S. dollars, unless otherwise stated)

- (4) The Company has two vehicle finance loans that are non-interest bearing with monthly principals' payments of \$557 and \$560 and will mature on June 30, 2021. The Company has a third and fourth vehicle finance loan bearing interest at 4.40% and 4.99% respectively with monthly blended payments of \$491 and \$512 respectively and will mature on November 8, 2023 and June 1, 2023 respectively.

10. CAPITAL AND OTHER COMPONENTS OF EQUITY

Share capital and warrants

The authorized share capital of the Company consists of an unlimited number of voting common shares without par value.

		Number of common shares	Number of warrants	Share Capital Value
Balance as at February 29, 2016		28,678,911	2,115,331	\$ 22,765,038
Share based payments	c	521,356	220,000	48,489
Balance as at May 31, 2016		<u>29,200,267</u>	<u>2,335,331</u>	<u>\$ 22,813,527</u>
Balance as at February 29, 2017		60,669,628	2,740,160	\$ 30,695,521
Private placement	a	3,529,404	3,529,404	44,710
Warrants issued	b	-	418,600	-
Warrants exercised		219,999	(219,999)	30,572
Warrants expired		-	(1,587,333)	-
Common shares cancelled	d	(3,000,000)	-	-
Options exercised	d	3,000,000	-	247,515
Balance as at May 31, 2017		<u>64,419,031</u>	<u>4,880,832</u>	<u>\$ 31,018,318</u>

a) Private placement

On May 29, 2017, the Company completed a non-brokered private placement of 3,529,404 units of the Company at a price of CAD\$0.17 per unit for aggregate gross proceeds of CAD \$600,000. Each unit is comprised of one common share of the Company and one common share purchase warrant, with each warrant entitling the holder thereof to initially purchase one common share of the Company at a price of \$0.215 per warrant share at any time on or prior to May 29, 2020.

b) Warrants issued

Concurrent to the additional advance described in Note 9, the company issued 418,600 warrants to the lender with an exercise price of CAD \$0.307 and an expiry of 30 months from the date of issuance.

c) Share based payments

The Company paid a finder's fee in relation to the drawdowns on of the credit facility agreement on March 16, 2016, April 25, 2016 and May 17, 2016. The finder's fee included cash commission of \$6,298, 165,000 common shares valued at \$8,930 and 220,000 warrants valued at \$6,600.

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended May 31, 2017
(amounts in U.S. dollars, unless otherwise stated)

On March 16, 2016, the Company entered into an agreement with Merrill Corporation pursuant to which Merrill has agreed to accept, in full satisfaction of an outstanding liability of the Company, an issuance of 41,149 common shares of the Company, representing an implied price of \$0.15 CDN per common share.

On April 1, 2016, the Company entered into separate shares for debt arrangements with Roy L. Booth, former Chief Financial Officer of the Company. Mr. Booth agreed to accept, in full satisfaction of an outstanding liability of the Company, an issuance of 54,666 common shares of the Company, representing an implied price of \$0.15 CDN per common share.

On April 1, 2016, the Company entered into separate shares for debt arrangements with Richardson GMP Limited. Richardson GMP Limited agreed to accept, in full satisfaction of an outstanding liability of the Company, an issuance of 260,541 common shares of the Company, representing an implied price of \$0.15 CDN per common share.

d) Options exercised

During the period ended May 31, 2017, an entity controlled by a director and officer of the Company, exercised the options to acquire 3,000,000 common shares. The Company had originally issued these common shares as a part of consideration for the Anesthesia transaction, hence they had to be cancelled and reissued to the entity controlled by a director and officer of the Company.

Warrants

As at May 31, 2017, the company had outstanding warrants as follows:

Number of warrants	Exercise price (CAD)	Expiry
3,529,404	\$ 0.215	May 20, 2020
418,600	\$ 0.307	November 17, 2019
500,000	\$ 0.39	April 19, 2019
73,334	\$ 0.15	June 20, 2017
73,334	\$ 0.15	July 26, 2017
286,160	\$ 0.15	August 19, 2017

As of May 31, 2017, there are 4,448,004 warrants outstanding and these are recorded as a derivative liability.

The fair value of the warrants granted is estimated at the time of the grant using the Black-Scholes option pricing model with the following inputs and assumptions:

	May 31, 2017		February 28, 2017	
Exercise price (CAD)	\$	0.22	\$	0.27
Expected volatility (based on historical)		194%		203%
Risk-free interest rate		0.75%		0.56%
Expected life		2.95		2.10
Share price (CAD)	\$	0.24	\$	21

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended May 31, 2017
(amounts in U.S. dollars, unless otherwise stated)

The fair value of the warrants outstanding is estimated at May 31, 2017 using the Black-Scholes option pricing model with the following inputs and assumptions:

	May 31, 2017	February 28, 2017
Exercise price (CAD)	\$ 0.24	\$ 0.36
Expected volatility (based on historical)	194%	196%
Risk-free interest rate	0.75%	0.71%
Expected life	2.87	2.20
Share price (CAD)	\$ 0.24	\$ 0.15

11. SHARE OPTION PLAN

During the period ended May 31, 2017, the Company granted 2,432,709 options to certain key employees, management and directors, which vest immediately.

As at May 31, 2017, the Company had the following stock options outstanding:

	Three months ended May 31, 2017		Year ended February 28, 2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning balance	3,497,907	\$ 0.24	2,675,000	\$ 1.23
Issued	2,432,709	\$ 0.15	2,281,240	\$ 0.24
Expired	(41,667)	\$ 0.42	(325,000)	\$ 1.14
Forfeited	-	\$ -	(1,133,333)	\$ 1.26
Ending balance	5,888,949	\$ 0.20	3,497,907	\$ 0.24
Exercisable	5,497,283	\$ 0.20	3,092,351	\$ 0.24

The Company had the following options issued as at May 31, 2017:

Number of Options Maturity	Exercisable	Exercise Price	Time to Maturity
1,133,333	755,556	\$ 0.15	3.23 years
41,667	27,778	\$ 1.26	3.23 years
1,082,180	1,082,180	\$ 0.18	4.24 years
1,199,060	1,199,060	\$ 0.27	4.45 years
2,432,709	2,432,709	\$ 0.15	4.93 years

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended May 31, 2017
(amounts in U.S. dollars, unless otherwise stated)

The fair value of the options granted is estimated at the time of the grant using the Black-Scholes option pricing model with the following weighted average inputs and assumptions

	May 31, 2017		February 28, 2017	
Exercise price (CAD)	\$	0.15	\$	0.24
Expected volatility (based on historical)		177%		190%
Risk-free interest rate		0.99%		0.77%
Expected life		5.0		5.0
Share price (CAD)	\$	0.215	\$	0.21

12. GENERAL AND ADMINISTRATIVE EXPENSES

Components of general and administrative expenses:

	May 31, 2017	May 31, 2016
	\$	\$
Professional and advisory fees	1,324,002	134,864
Management fees	-	32,829
Regulatory and filing fees	47,460	23,056
Salaries and benefits	277,732	36,514
Administrative fees	256,324	43,357
Stock based compensation	365,709	181,228
	2,271,227	451,848

13. EARNINGS (LOSS) PER SHARE

As the Company incurred a net loss during the three months ended May 31, 2017, the loss and diluted loss per common share are based on the weighted-average common shares outstanding during the period. The following outstanding instruments could have a dilutive effect in the future:

	As at May 31, 2017
Common shares issuable on exercise of warrants	4,880,832
Vested stock options	5,497,283

Earnings (loss) per share from continuing and discontinued operations attributable to owners of the parent for the period ended May 31, 2016 was \$(0.018) and \$(0.014) respectively.

14. OPERATING SEGMENTS

Management has identified the following reportable business segments. Each of these reporting segments are managed separately and their results are based on internal management information that is regularly reviewed by the chief operating decision maker.

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended May 31, 2017
(amounts in U.S. dollars, unless otherwise stated)

The Company's reportable business segments are:

- Multiple Media Entertainment Inc. ("MME") – divested on October 17, 2016 *
- Centers for Special Surgery, LLC ("CSS") – divested on February 28, 2017 *
- Other, including head office expenses and office of the CEO ("Quantum")
- Lucky Bucks, LLC ("LB") - acquired in fiscal year 2017

* This disclosure is included for the 3 month comparative of May 31, 2016.

Assets of LB are held in the USA, all other assets owned at period end are held in Canada.

	May 31, 2016			
	Quantum	MME	CSS	Total
	\$	\$	\$	\$
Gaming revenue	-	-	-	-
Operating expenses	(451,848)	-	-	(451,848)
Net gain (loss) from operations	(451,848)	-	-	(451,848)
Interest and finance charges	(28,511)	-	-	(28,511)
Gain (loss) on foreign exchange	(59,792)	-	-	(59,792)
Net loss from continuing operations	(540,151)	-	-	(540,151)
Net loss from discontinued operations	-	(27,916)	(386,569)	(414,485)
Total assets	170,196	2,856,682	97,652	3,124,530
Total liabilities	5,038,431	645,527	221,282	5,905,240

	May 31, 2017		
	Quantum	LB	Total
	\$	\$	\$
Gaming revenue		8,771,251	8,771,251
Operating expenses	(1,867,381)	(5,889,460)	(7,756,841)
Net gain (loss) from operations	(1,867,381)	2,881,791	1,014,410
Interest and finance charges	(17,837)	(1,377,954)	(1,395,791)
Warrant fair value adjustment	(40,541)	-	(40,541)
Net gain (loss) from continuing operations	(1,925,759)	1,503,837	(421,922)
Total assets	2,607,927	38,127,259	40,735,186
Total liabilities	6,183,544	20,335,137	26,518,681

15. RELATED PARTY TRANSACTIONS AND BALANCES

Key management personnel of the Company include the Chief Executive Officer, the President, Chief Financial Officer and all members of the Board of Directors.

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended May 31, 2017
(amounts in U.S. dollars, unless otherwise stated)

Key management personnel compensation:

	May 31, 2017	May 31, 2016
Management fees paid to corporations controlled by officers	-	(27,171)
Salaries and short term benefits	-	-
Director fees	12,000	6,000
Share based compensation	365,709	181,228
Consulting fees included in professional and advisory fees (Note 12)	844,756	53,151

During the period ended May 31, 2017, the Company incurred consulting fees and reimbursed expenses to a corporation controlled by a director and officer of the Company. These services were incurred in the normal course of operations. As at May 31, 2017, \$347,287 was owed relating to these consulting fees (February 28, 2017 – \$226,000).

During the period ended May 31, 2017, the Company incurred no consulting fees from an accounting firm which carried out duties of the CFO prior to October 31, 2016. These services were incurred in the normal course of operations for general accounting and financial reporting matters. As at May 31, 2017, \$254,939 was owed relating to these consulting fees (February 29, 2017 – \$254,939).

During the period ended May 31, 2017, the Company incurred consulting fees from an accounting firm of which carried out duties of the CFO. These services were incurred in the normal course of operations for general accounting and financial reporting matters. All services were made on terms equivalent to those that prevail with arm's length transactions. As at May 31, 2017, \$30,144 was owed relating to these consulting fees (February 29, 2017 – \$8,529).

During the period ended May 31, 2017, the Company paid rent of \$34,897 (May 31, 2016 – 33,683) to a corporation controlled by a director and officer of the Company.

During the period ended May 31, 2016, the Company settled a debt owing to the prior CEO for \$7,484. The original debt was \$34,655 and the gain on settling the debt is recorded in management fees paid to corporations controlled by officers of the Company.

During the period ended May 31, 2017, total distributions declared by Lucky Bucks Holdco, LLC to its 49% shareholder totaled \$1,841,968 of which \$591,946 were paid and the remaining balance of \$1,250,022 is recorded as a distribution payable. The amount is non-interest bearing, unsecured and due on demand.

As at May 31, 2017, \$136,411 is due from the CEO of Lucky Bucks, LLC and 49% shareholder of Lucky Bucks Holdco, LLC. As at May 31, 2017, \$27,500 is due from 27th Group, a company controlled by the CEO of Lucky Bucks, LLC and 49% shareholder of Lucky Bucks Holdco, LLC. All amounts due from related parties are non-interest bearing, unsecured and due on demand.

As at May 31, 2017, \$38,597 is due from a director of the Company. All amounts due from related parties are non-interest bearing, unsecured and due on demand.

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended May 31, 2017
(amounts in U.S. dollars, unless otherwise stated)

16. SUPPLEMENTAL CASH FLOWS INFORMATION

Changes in non-cash operating working capital:

	Three months ended	
	May 31,	May 31,
	2017	2016
	\$	\$
Accounts receivable	(74,398)	299,479
Prepaid expenses and other	3,159	19,379
Related party balances	(211,422)	-
Notes receivable	59,500	-
Balance receivable from divesture of Anesthesia	-	39,500
Accounts payable and other liabilities	(1,053,193)	13,482
	(1,276,354)	371,840

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company actively manages its liquidity through cash and equity management strategies. Such strategies include continuously monitoring forecasted and actual cash flows from operating, financing and investing activities, seeking to obtain financing through its existing shareholder and related companies.

The Company's cash flow is generated from the distributions received from its interest in Lucky Bucks, LLC. Management expects its working capital deficiency will be eliminated by the end of the first quarter of calendar 2018. The Company monitors cash on a regular basis and reviews expenses and overhead to ensure costs and commitments are being paid in a timely manner. Management has worked with and negotiated with vendors to ensure payment arrangements are satisfactory to all parties and that monthly cash commitments are managed within the Company's operating cash flow capabilities.

Management's goal is to maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments and ultimately dividend payments to shareholders in the future. Management consistently monitors its subsidiaries debt covenants and management attempts to deploy capital to provide an appropriate investment return to its shareholders.

As at May 31, 2017, the Company had cash and cash equivalents balance of \$5,307,370 (includes restricted cash). The Company expects the following maturities of its financial liabilities:

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended May 31, 2017
(amounts in U.S. dollars, unless otherwise stated)

	Within 1 Year	2-3 years	4-5 years	Total
Accounts payable and accrued liabilities	\$ 5,671,112	\$ -	\$ -	\$ 5,671,112
Distribution payable	1,250,022	-	-	1,250,022
Short-term promissory notes	624,334	-	-	624,334
Deferred consideration	500,000	-	-	500,000
Contingent consideration	206,142	-	-	206,142
Long-term debt	18,061	20,707,401	47,309	20,772,771
Loans payable	310,000	-	-	310,000
	8,579,671	20,707,401	47,309	29,334,381

Fair Value Risk

The carrying value of cash and cash equivalents, restricted cash, accounts receivable, related party balances, note receivable, accounts payable and accrued liabilities, distributions payable, short-term promissory notes, loan payable and deferred consideration approximate their respective fair values due to their short term maturities.

The carrying amounts of long-term debt approximate their fair value since the interest rates on these instruments approximate the current market rates offered to the Company. On initial recognition, the fair value of long-term debt was established based on current interest rates, market values and pricing of financial instruments with comparable terms.

The Company measures the contingent consideration and derivative liability at fair value at the end of the reporting period. The inputs used in determining their fair values of the derivative liability are level 3 inputs.

18. SUBSEQUENT EVENTS

- a) Quantum Gaming Corp. (the "Company"), James Boyden and Southern Gaming Consultants Inc. (the "Consultant") on June 27, 2017 formalized an advisory services agreement which is effective October 21, 2016 (the "Advisory Agreement").

Pursuant to the terms of the Advisory Agreement, the Company will pay the Consultant a monthly fee of US \$14,000 to perform certain advisory services to the Company relating to, among other things, sourcing, negotiating and consummating potential transactions, mergers and acquisitions, the provision of required organizational change management assistance and serving as the representative of the Company or an affiliate thereof in licensing and regulatory capacities.

The Advisory Agreement also contains a cash performance component pursuant to which the Consultant can receive a cash award each time the Company makes a cash distribution to its shareholders by way of a dividend or return of capital (excluding the repayment of debt) once the cumulative aggregate net distribution amounts of all equity distributions to the shareholders of the Company equal a 10% or greater internal rate of return ("IRR") to the shareholders of the Company. The cash award amount is based on the excess of the cumulative net distributions amounts to shareholders over the amounts required to achieve such 10% IRR. Additional amounts equal to 5% of the cumulative aggregate net distribution amounts of all equity distributions to the shareholders of the Company are payable by the Company in excess of the amount required to achieve an IRR of 15%, 25% and 35% respectively.

QUANTUM INTERNATIONAL INCOME CORP

Notes to the Condensed Interim Consolidated Financial Statements

For the Three Months Ended May 31, 2017

(amounts in U.S. dollars, unless otherwise stated)

In addition, a cash payment shall be payable by the Company to the Consultant in the event of a liquidation event, which includes: (i) a share sale which amounts to a change of control of the Company or Quantum International Income Corp.; (ii) a sale of all or substantially all of the assets of the Company or Quantum International Income Corp.; or (iii) an initial public offering of the Company and the amounts which the Consultant can receive on a liquidation event are similar to those set out above.

A termination payment is payable to the Consultant by the Company if: (i) the Advisory Agreement is terminated in certain circumstances; (ii) if James Boyden dies or is disabled; or (iii) the Consultant exercises its right to terminate the Agreement and requires the Company to pay a termination payment or the Company exercises its right to terminate the agreement after October 22, 2018 and make a termination payment. In these situations, if the aggregate net distribution amounts of all equity distributions paid to the Company's shareholders equals a 10% or greater IRR to the shareholders of the Company, an amount equal to 10% of the aggregate net distribution amount for such period in excess of the amount required to achieve a 10% IRR shall be paid by the Company to Consultant. Additional amounts are payable by the Company when the aggregate net distribution amounts of all equity distributions to the shareholders of the Company hit certain thresholds. If the aggregate net distribution amount of all equity distributions paid by the Company equals a 15%, 25% and 35% IRR, or greater, an amount equal to 15%, 20% and 25%, respectively, of the aggregate net distribution amount for such period in excess of the amount required to achieve a 15%, 25% and 35% IRR, as the case may be, shall be paid by the Company to Consultant. No termination payment is payable if the Consultant consummates a change of control transaction or if there is a fundamental breach by the Consultant which includes matters such as if the Consultant were to engage in acts of dishonesty such as fraud, serious misconduct or is in material breach of the standard of care set out in the Advisory Agreement.

- b) On June 30, 2017 Lucky Bucks, LLC, a company controlled by the Company, acquired certain operating assets of American Amusement LLC ("AA") and AM/PM Management, Inc. ("AMPM").

The respective purchase price was \$4.0M in respect of the AA assets and \$11.92M in respect of the AMPM assets. The total AA purchase price and total AMPM purchase price was paid on the closing date of the acquisition.

These acquisitions were financed by a \$17.1M term-loan with an affiliate of the lender described in Note 9. The financing was provided by the lender pursuant to the financing agreement dated October 21, 2016 to which both the Company and the lender are parties. In connection to the financing, the Company and the lender amended and restated the financing agreement dated June 30, 2017.

In connection with the acquisition financing, the Company issued the lender warrants to purchase 778,050 common shares of the Company at an exercise price of \$0.3828 per common share until December 30, 2019. The Company also paid World Equity Group, Inc. ("WEG") \$639,000 as consideration for the services provided by WEG in connection with the Company receiving the acquisition financing.

The initial accounting for these acquisitions is incomplete. Accordingly, a summary of the purchase consideration and the allocation of the fair value of the assets acquired and liabilities assumed have not been disclosed.

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended May 31, 2017
(amounts in U.S. dollars, unless otherwise stated)

- c) On July 12, 2017, the company announced that the board of directors of the Company has appointed Chad Williams as a director. The Company further announced a grant of stock options pursuant to the stock option plan of the Company, whereby the Company has granted a total of 3,916,526 stock options to certain officers, directors, and employees of the Company. Each of the stock options granted entitles the holder to purchase one common share of the Company at a price of \$0.3525 until July 12, 2022.

19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.