



**QUANTUM INTERNATIONAL INCOME CORP**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE TWELVE MONTHS ENDED FEBRUARY 28, 2018**

**GENERAL**

*The following Management Discussion and Analysis ("MD&A") should be read in conjunction with the consolidated financial statements (the "Financial Statements") and the notes contained therein of Quantum International Income Corp (the "Company" or "Quantum") for the years ended February 28, 2018 and February 28, 2017.*

*The consolidated financial statements are prepared by management and reported in U.S. dollars, in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").*

*This MD&A was prepared effective June 28, 2018.*

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## FORWARD LOOKING INFORMATION

Certain statements contained in this MD&A constitute forward-looking statements and forward-looking information (collectively, "**Forward-Looking Statements**") and Quantum cautions investors about important factors that could cause Quantum's actual results to differ materially from those expressed, implied or projected in any Forward-Looking Statements included in this MD&A. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will likely result", "are expected to", "expects", "will continue", "is anticipated", "anticipates", "may", "could", "believes", "estimates", "intends", "plans", "forecast", "projection" and "outlook") are not historical facts and may be Forward-Looking Statements that involve projections, estimates, assumptions, known and unknown risks and uncertainties which could cause actual results or outcomes to differ materially from those expressed in such Forward-Looking Statements or otherwise materially inaccurate. No assurance can be given that these expectations or assumptions will prove to be correct and such Forward-Looking Statements included in this MD&A should not be unduly relied upon. These Forward-Looking Statements speak only as of management's beliefs and expectations as of the date of this MD&A. In addition, this MD&A may contain Forward-Looking Statements drawn from or attributed to third party sources. Accordingly, any such statements are qualified in their entirety by reference to the information discussed throughout this MD&A.

In particular, this MD&A contains Forward-Looking Statements regarding anticipated future financial, structural, growth and operating performance of Quantum, including as it pertains to the operations detailed in this MD&A and the deployment of capital into new acquisitions.

Actual results may differ materially due to a number of risks and uncertainties faced by Quantum, including, but not limited to: general economic and business conditions; global financial conditions; the failure of Quantum to identify future acquisition targets; third parties honouring their contractual obligations with Quantum and its subsidiaries; relationships with operating and/or joint venture partners; inaccuracy, incompleteness or omissions in any of the financial and other information upon which management bases its analysis of potential acquisitions; the failure to realize the anticipated benefits of Quantum's current and future acquisitions; factors relating to the gaming industry, including reliance on third-party payors for revenue; licensing, certification and accreditation risk; litigation, liability claims; insurance coverage limitations and uninsured risks; dependence on key personnel at the Quantum and operations level; competition from other gaming companies; including ability to deliver services in a timely manner; changes in technology, consumer markets or demand for gaming; changes in federal, provincial and foreign content laws and regulations; dependence on third party content producers; competition for, among other things, capital, equipment and skilled personnel; the inability to generate sufficient cash flow from operations to meet future obligations; the inability to obtain required debt and/or equity financing for future acquisitions on suitable terms; competition for acquisition targets; fluctuations in results; and limited diversification of Quantum's business industries, structures and operations.

Quantum cautions that the list and description of Forward-Looking Statements, risks, assumptions and uncertainties set out above is not exhaustive. Quantum will update the Forward-Looking

Statements as required by securities law. All Forward-Looking Statements contained in this MD&A are qualified by these cautionary statements.

Unless otherwise specified in this MD&A, information contained in this MD&A is current as of the date of this MD&A. Unless otherwise specified, all dollar amounts herein refer to U.S. dollars. Additional information on these and other factors that could affect the operations or financial results of Quantum and its subsidiaries are included in disclosure documents filed by Quantum with the securities regulatory authorities, available under Quantum's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

## BUSINESS OVERVIEW

Quantum International Income Corp's ("**Quantum**", "**QIIC**" or the "**Company**") mandate is to identify and acquire control positions, provide management oversight, acquisition strategies, and growth capital in gaming, skill gaming, and gaming related markets. Prior to October 2016, Quantum's focus was in the healthcare space in the U.S. as the Company owned a 50% interest in a surgery center in New Jersey, U.S. In February 2017, Quantum divested of this asset and shifted its focus to gaming and gaming related markets. Quantum's vision is to build a diversified portfolio of world class gaming operations. The Company looks to enhance the shareholder value by growing organically and through acquisitions.

On October 21, 2016, the Company acquired a 51% controlling interest in Lucky Bucks, LLC ("**LB**"), which owns and operates coin operated amusement machines ("**COAMs**") in the State of Georgia, United States of America through arrangements with location owners. The Company is executing its acquisition strategy in Georgia, U.S. through LB with a particular focus on cash-flows and high margins. Currently, LB is the largest operator of skill-based gaming machines in State of Georgia based on machine count.

### Operating entities as at February 28, 2018 and 2017:

	<u>2018 Ownership Interest</u>	<u>2017 Ownership Interest</u>
Quantum Gaming Corp (" <b>QGC</b> ")	100%	100%
Southern Star Gaming, LLC (" <b>SSG</b> ")	100%	100%
Lucky Bucks HoldCo, LLC (" <b>LBH</b> ")	51%	51%
Lucky Bucks, LLC (" <b>LB</b> ")	51%	51%

### Address

The Company's head office/registered and records office is located at 79 Wellington Street West, Suite 1630, Toronto, Ontario, Canada, M5K 1H1.

### Overview of the Georgia COAM Route Operator Market

COAMs are, as defined by the Georgia Lottery Corporation ("**GLC**"), redemption devices used by the public to provide amusement or entertainment. It requires the payment of a coin, bill, token, ticket, card or similar object and the result of whose operation depends in whole or in part upon the skill of the player. Redemption of the players' winnings can only be made for non-cash business

merchandise (including fuel, etc) or lottery tickets at the location where the game is played. Alcohol, tobacco, or firearms cannot be redeemed as COAM prizes.

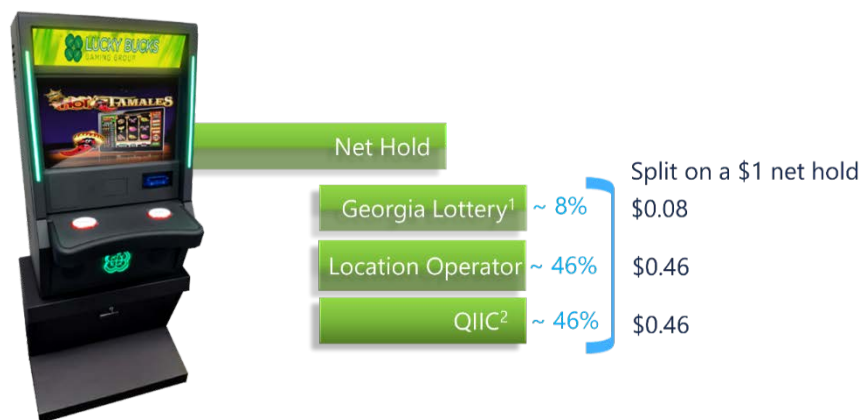
**There are two types of COAMs:**

1. **Class A machines:** which include jukeboxes, crane machines, coin operated pool tables, arcade games, skee ball or similar machines.
2. **Class B machines:** are line-up or match-up video games requiring some skill with successful players able to accrue points or carry over points won on one play to subsequent plays. The player must utilize his/her own skill level in order to win (i.e. hitting the nudge button). COAMs with poker, card games, or non-Georgia lottery keno are considered illegal under state law. **All of the Company's machines are classified as Class B.**

**The Class B COAM Gaming Industry is Comprised of Four Segments**

1. **Manufacturers:** a person or business that manufactures or assembles the video gaming machines or sell major components or parts (including software or hardware or both) to Class B machine distributors or route operators.
2. **Distributor:** a person or business that buys, sells, leases, or distributes Class B machines or major components or parts of machines to or from the route operators.
3. **Establishment/Location Owner:** is an owner or operator of business establishments where one or more COAMs are available for commercial use and play by the public (i.e. convenience stores, bars/lounges, fraternal organizations and veterans clubs).
4. **Route Operators:** is a person or business that owns, services, and maintains the gaming machines for placement in the establishments other than their own. **This is the segment of the market that LB's operations are focused on.**

**Economics of a typical COAM**



**Notes:**

- (1) 8% of the daily hold goes to GLC and increases each fiscal year by 1% to a maximum of 10% on July 1, 2019
- (2) Operated by Lucky Bucks

**Gaming revenues from COAMs are incurred as follows.** The GLC receives a set percentage of the machine's net revenues (i.e. all monies put into a machine minus credits paid out to players). The GLC's share is currently 8% and increases each fiscal year (July 1 to June 30 the following year) by 1% up to a maximum of 10% on July 1, 2019. The Class B master license holder (i.e. COAM route operator) enters into an agreement with the location operator (i.e. establishment) where the COAM route operator acts as a principal as it controls the service before the service is provided to the customer.

## **OVERALL PERFORMANCE**

Gaming revenue for annual fiscal year 2018 was \$51.5M, which represents 396% year over year growth. Gaming revenue for Q4 2018 was \$16.4M, which represented quarter over quarter growth of 16%.

Highlights of activities and results of operations for annual fiscal year 2018 include:

- For the year ended February 28, 2018, LB closed 9 acquisitions for a total purchase price of \$36.6M, which increased LB's footprint in Georgia, U.S. by over 125%.
- For the year ended February 28, 2018, the Company generated Adjusted EBITDA of \$19.1M, compared to \$1.4M for annual fiscal year 2017.
- On February 23, 2018, the Company was recognized in the 2018 TSX Venture 50™

**Note:**

- (1) Part of the comparative period pre-dates Quantum's acquisition of its 51% interest in Lucky Bucks, LLC (the "**Lucky Bucks Acquisition**"). The Corporation completed the Lucky Bucks Acquisition without having to issue any equity, other than (i) \$3 million in common shares of the Corporation issued to the vendor of the business as partial consideration for the Lucky Bucks Acquisition, and (ii) \$1.5 million in common shares of the Corporation issued to Quantum's lead lender in connection with the Lucky Bucks Acquisition (which shares were included in the transaction at the insistence of the lead lender).

## **RECENT DEVELOPMENTS**

### **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.

### **Stock option grants**

On May 4, 2017 the Company announced a grant of stock options pursuant to its stock option plan. A total of 2,432,709 stock options were granted at an exercise price of \$0.15375 per share to

officers, directors and consultants of the Company. Each of the stock options entitles the holder to purchase one common share of the Company until May 4, 2022.

On July 12, 2017, the Company announced a grant of stock options pursuant to its stock option plan. A total of 3,916,526 options were granted at an exercise price at \$0.3525 per share to officers, directors and consultants of the Company. Each of the stock options entitles the holder to purchase one common share of the Company until July 12, 2022.

On November 14, 2017, the Company announced a grant of stock options pursuant to its stock option plan. A total of 2,695,979 options were granted at an exercise price at \$0.5025 per share to officers, directors and consultants of the Company. Each of the stock options entitles the holder to purchase one common share of the Company until November 14, 2022.

### **Acquisitions completed in the Georgia gaming market**

#### ***Triple 7s Amusement LLC and Lucky Star Amusement, Inc.***

On May 18, 2017, LB, 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 \$1,620,000 in respect of the Lucky Star assets. \$4,000,000 of the Triple 7s purchase price was paid on the closing of the acquisitions, 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 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. The contingent consideration pertaining to these acquisitions was \$Nil. No amounts were required to be paid as a result of the condition.

These acquisitions were financed by a \$9,200,000 term-loan with an affiliate of Trive Capital. The financing was provided by Trive Capital pursuant to the financing agreement dated October 21, 2016 to which both the Company and the Trive Capital are parties. In connection to the financing, the Company and Trive Capital amended and restated the financing agreement dated May 17, 2017.

In connection with the acquisition financing, the Company issued Trive Capital warrants to purchase 418,600 common shares of the Company at an exercise price of \$0.3068 per common share until November 17, 2019. The Company also paid World Equity Group, Inc. ("**WEG**") \$368,000 as consideration for the services provided by WEG in connection with the Company receiving the acquisition financing.

#### ***American Amusement LLC and AM/PM Management, Inc.***

On June 30, 2017 LB, acquired certain operating assets of American Amusement LLC ("**AA**") and AM/PM Management, Inc. ("**AMPM**").



The respective purchase price was \$4,000,000 in respect of the AA assets and \$11,923,599 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 \$17,100,000 term-loan with an affiliate of Trive Capital. The financing was provided by Trive Capital pursuant to the financing agreement dated October 21, 2016 to which both the Company and Trive Capital are parties. In connection to the financing, the Company and Trive Capital amended and restated the financing agreement dated June 30, 2017.

In connection with the acquisition financing, the Company issued Trive Capital 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 WEG \$639,000 as consideration for the services provided by WEG in connection with the Company receiving the acquisition financing.

#### ***Fun Games Inc.***

On October 6, 2017 LB, acquired certain operating assets of Fun Games Inc ("**Fun Games**"). The respective purchase price was \$5,069,504 and was fully paid on the closing of the transaction.

The acquisition was financed by a \$5,650,000 term-loan with an affiliate of Trive Capital. The financing was provided by Trive Capital pursuant to the financing agreement dated October 21, 2016 to which both the Company and Trive Capital are parties. In connection to the financing, the Company and Trive Capital amended and restated the financing agreement dated October 6, 2017.

In connection with the acquisition financing, the Company issued Trive Capital warrants to purchase 257,075 common shares of the Company at an exercise price of \$0.65 per common share until April 6, 2020. The Company also paid WEG \$169,500 as consideration for the services provided by WEG in connection with the Company receiving the acquisition financing.

#### ***FarEast Amusement Games and WildHorse Amusement Company L.L.C.***

On November 27, 2017, LB, acquired certain operating assets of FarEast Amusement Games, LLC, ("**FarEast**") and WildHorse Amusement Company L.L.C. ("**WildHorse**").

The purchase price of FarEast assets was \$3,190,006, from which \$2,772,679 was paid on closing of the transaction. The remaining \$417,327 is payable to FarEast upon the satisfaction of certain post-closing obligations.

The purchase price of WildHorse assets was \$2,229,915, from which \$1,929,947 was paid on closing of the transaction. The remaining \$299,968 is payable to WildHorse upon the satisfaction of certain post-closing obligations. These post-closing obligations were satisfied and the remaining amount was paid on January 10, 2018.

These acquisitions were financed by a \$6,450,000 term-loan with an affiliate of Trive Capital. The financing was provided by Trive Capital pursuant to the financing agreement dated October 21, 2016 to which both the Company and Trive Capital are parties. In connection to the financing, the Company and Trive Capital amended and restated the financing agreement dated June 30, 2017.

In connection with the acquisition financing, the Company issued Trive Capital warrants to purchase 293,475 common shares of the Company at an exercise price of \$1.041 per common share until May 27, 2020. The Company also paid WEG \$193,500 as consideration for the services provided by WEG in connection with the Company receiving the acquisition financing.

#### ***Lee Caudell, Inc and Wise Amusement LLC***

On December 15, 2017, LB, acquired certain operating assets from two digital skill based gaming terminal operators based in Georgia, USA. The combined purchase price was \$4,350,000 in respect of the gaming contracts acquired.

The acquisition was financed by a \$4,600,000 term-loan with an affiliate of Trive Capital. The financing was provided by Trive Capital pursuant to the financing agreement dated October 21, 2016 to which both the Company and Trive Capital are parties. In connection to the financing, the Company and lender amended and restated the financing agreement dated December 15, 2017.

In connection with the acquisition financing, the Company issued Trive Capital warrants to purchase 209,300 common shares of the Company at an exercise price of \$0.9423 per common share until June 15, 2020. The Company also paid WEG \$138,000 as consideration for the services provided by WEG in connection with the Company receiving the acquisition financing.

#### **Non-brokered 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 \$0.17 per unit for aggregate gross proceeds of \$600,000. Each unit was 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.

The net proceeds of the Offering was used by the Company to strengthen its' balance sheet, including the reduction of outstanding payables, and for general corporate and working capital purposes.

#### **Advisory services agreement**

On June 27, 2017, the Company's subsidiary Quantum Gaming Corp. ("**QGC**"), James Boyden and Southern Star Gaming Consultants Inc. (the "**Consultant**"), formalized an advisory services agreement which is effective October 21, 2016.

Pursuant to the terms of the Advisory Agreement, QGC pays the Consultant a monthly fee of US\$14,000 to perform certain advisory services to QGC 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 QGC 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 QGC 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 QGC equal to 10% or greater internal rate of return ("IRR") to the shareholders of QGC. 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 QGC are payable by QGC in excess of the amount required to achieve an IRR of 15 %, 25 % and 35% respectively. In addition, a cash payment shall be payable by QGC to the Consultant in the event of a liquidation event, which includes: (i) a share sale which amounts to a change of control of QGC or Quantum; (ii) a sale of all or substantially all of the assets of the QGC or Quantum; or (iii) an initial public offering of QGC 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 QGC 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 QGC to pay a termination payment or QGC 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 QGC's shareholders equals a 10% or greater IRR to the shareholders of QGC, 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 QGC to Consultant. Additional amounts are payable by QGC when the aggregate net distribution amounts of all equity distributions to the shareholders of QGC hit certain thresholds. If the aggregate net distribution amount of all equity distributions paid by QGC 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 QGC 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.

### **Appointment of Chairman of the Board of Directors**

On July 17, 2017, the board of directors of the Company appointed Chad Williams as a director. Mr. Williams is the President and Chief Executive Officer of Red Cloud Klondike Strike, Inc.

On October 19, 2017, the Company appointed Chad Williams as the Chairman of the Board of Directors, effective immediately.

### **Company recognized in 2018 TSX Venture 50™**

On February 23, 2018, the Company announced that they had been recognized in the 2018 TSX Venture 50™ as one of the top performing companies in the diversified industries sector.

The TSX Venture 50™ is an award given to the top 10 companies listed on the TSX Venture Exchange in each of the five major industry sectors; mining, oil and gas, clean technology and life sciences, diversified industries and technology.

## **Commitment letter with Goldman Sachs Specialty Lending Group, L.P**

On February 26, 2018, LB signed a commitment letter with Goldman Sachs Specialty Lending Group, L.P. ("**GSSLG**") for a \$75,000,000 multi draw credit facility. The multi draw credit facility consists of a term loan ("**Term Loan Facility**") and a multi-draw term facility ("**MTDL Facility**"). The proceeds will be used for refinancing existing debt facility, financing future acquisitions, working capital and other general corporate purposes.

The credit facility is available upon the following agreed upon terms:

- The full amount of the Term Loan Facility was drawn on the initial funding date.
- The MDTL Facility will be available to be drawn for permitted acquisitions from the Initial Funding Date to the date that is 24 months afterwards. Draws under the MDTL Facility will be subject to pro forma compliance with, among other things, the financial maintenance covenants set forth in the documentation for the credit facilities.
- The interest rate is based on a pricing grid tied to the Lucky Bucks, LLC leverage ratio. The interest rate at close was approximately 9% based on LIBOR funding plus the applicable margin (with LIBOR subject to a floor of 1% per annum).
- The Maturity Date is 5 years after the Initial Funding Date.

LB's ability to draw on the credit facilities is subject to, among other things, borrowing covenants and conditions precedent typical to these credit facilities of this type and size, including the execution of definitive credit documentation. LB will pay GSSLG a facility fee, undrawn facility commitment fee under the MDTL Facility, and an annual administration fee, all of typical to these arrangements.

## **KEY PERFORMANCE INDICATORS**

Key performance indicators that the Company uses to manage its business and evaluate its' financial results and operating performance include: revenue, net income (loss) and adjusted EBITDA.

## **NON-IFRS MEASURES**

To supplement our consolidated financial statements presented in accordance with International Financial Reporting Standards ("**IFRS**"), we use Adjusted EBITDA, a measure we believe is appropriate to provide meaningful comparison with, and to enhance an overall understanding of, our past financial performance and prospects for the future. We believe Adjusted EBITDA provides useful information to both management and investors by excluding specific expenses and items that we believe are not indicative of our core operating results. Adjusted EBITDA is a financial measure that does not have a standardized meaning under IFRS. Adjusted EBITDA is defined as earnings from continuing operations before financing costs, income taxes, depreciation, amortization of property and equipment and intangible assets, stock-based compensation, foreign

exchange, impairment, gain/loss on settlement of accounts payable, financing income, business acquisition costs, warrant fair value adjustment and derivative asset fair value adjustment.

As there is no standardized method of calculating Adjusted EBITDA, it may not be directly comparable with similarly titled measures used by other companies. The Company considers Adjusted EBITDA to be a relevant indicator for measuring trends in performance and its ability to generate funds to service its debt and to meet its future working capital and capital expenditure requirements. Adjusted EBITDA is not a generally accepted earnings measure and should not be considered in isolation or as an alternative to net income (loss), cash flows or other measures of performance prepared in accordance with IFRS.

The following table presents a reconciliation of the Company's net loss to Adjusted EBITDA:

	<b>Year ended February 28, 2018</b>	<b>Q4 2018</b>	<b>Q3 2018</b>	<b>Q2 2018</b>	<b>Q1 2018</b>	<b>Year ended February 28, 2017</b>
	\$	\$	\$	\$	\$	\$
<b>Net Loss</b>	(4,507,530)	(2,886,497)	(805,927)	(393,184)	(421,922)	(2,388,189)
<b>Adjustments</b>						
Amortization of property and equipment and intangible assets	6,756,431	2,111,634	2,133,187	1,411,622	1,099,988	1,564,911
Financing costs	11,973,602	6,675,901	2,289,379	1,612,531	1,395,791	1,169,505
Business acquisition costs	2,722,099	56,620	1,462,778	994,781	207,920	1,011,321
Stock based compensation	1,406,393	(1,748,198)	1,374,851	1,414,031	365,709	550,487
Impairment	212,000	212,000	-	-	-	-
Write down of note receivable	-	-	-	-	-	126,217
Financing income	(31,192)	(31,192)	-	-	-	-
Gain on settlement of accounts payable	(309,678)	-	(297,069)	(12,609)	-	(416,013)
Warrant fair value adjustment	1,440,760	966,094	273,201	160,924	40,541	490,962
Derivative asset fair value adjustment	(572,000)	(572,000)	-	-	-	-
Gain for the year from discontinued operations	-	-	-	-	-	(727,450)
Foreign exchange	3,531	(29,452)	(4,651)	37,634	-	(22,188)
<b>Adjusted EBITDA</b>	<b>19,094,416</b>	<b>4,754,910</b>	<b>6,425,749</b>	<b>5,225,730</b>	<b>2,688,027</b>	<b>1,359,563</b>

### SELECTED ANNUAL INFORMATION

	<b>Year ended February 28, 2018</b>	<b>Year ended February 28, 2017</b>	<b>Year ended February 29, 2016</b>
	\$	\$	\$
Revenue <sup>(1)</sup>	51,488,496	10,372,496	160,929
Net loss for the year <sup>(2)</sup>	(4,507,530)	(2,388,189)	(10,674,567)
Loss per common share from continuing operations, basis and diluted <sup>(3)</sup>	(0.012)	(0.082)	(0.368)

Total assets <sup>(4)</sup>	72,186,697	33,932,618	2,841,392
Non-current liabilities <sup>(5)</sup>	57,163,626	8,925,101	-

**Notes:**

(1) Revenue increased from \$10,372,496 in fiscal 2017 to \$51,488,496 in fiscal 2018. The increase is due to the following reasons:

- a. The fiscal 2018 revenue includes gaming revenue for the entire year (12 months) from the LB acquisition whereas the fiscal 2017 revenue only includes revenue from the acquisition date - October 21, 2016 to February 28, 2017.
- b. The 2018 revenue includes gaming revenue that the Company earned from over 1,000 revenue generating COAM machines that LB acquired from the nine business acquisition it closed in the 2018 fiscal year. Please refer to the acquisition note in the 2018 audited financial statements to see the breakdown of the revenue earned from each acquisition since the date of acquisition.

The increase in revenue from fiscal 2016 to fiscal 2017 is largely due to the acquisition of Lucky Bucks, LLC by the Company on October 21, 2016. This acquisition contributed gaming revenue to the Company from over 700 COAM machines.

(2) Net loss increased from (\$2,388,189) in fiscal 2017 to (\$4,507,530) in fiscal 2018. The increase is due to the following reasons:

- a. Increase in amortization expense of \$5,191,520 which is driven by the increase in COAM machines and gaming contracts.
- b. Increase in financing costs of \$10,804,097 which largely relates to interest costs related to the Company's long term debt and costs associated with the 9 business acquisitions closed in the 2018 fiscal year.
- c. Increase in general administrative costs also increased by \$5,511,831. This increase was largely driven by acquisition related costs, salaries and benefits, share based compensation and administrative expenses. Included in this are one time acquisitions costs of \$2,722,099.

The significant decrease in the net loss from fiscal 2016 to fiscal 2017 is due to the gaming revenue that was earned as a result of the acquisition of LB. The revenue that was realized in fiscal 2017 was from October 21, 2016 to February 28, 2017. Also, in fiscal 2016 the Company recorded a loss of \$2,358,146 from its divestiture of Anesthesia and recorded an impairment of \$1,163,141 relating to deposit and an advance in connection to a potential acquisition that the Company was unable to close.

(3) Basic and diluted loss per share fluctuates from year to year and is impacted by the amount of the loss incurred and the number of weighted average number of common shares outstanding. Fiscal 2018 loss per share decreased compared to 2017 mainly due to the increase in the weighted average number of shares outstanding during the year from 38,010,640 in fiscal 2017 to 66,555,241 in fiscal 2018, which was offset by the increase in net loss.

Fiscal 2017 loss per share decreased compared with fiscal 2016 due to a decrease in the net loss for the year and the increase in weighted average number of shares outstanding during the year from 24,141,867 in fiscal 2016 to 38,010,640 in fiscal 2017.

(4) Total assets increased from fiscal 2017 to fiscal 2018 due to the following reasons:

- a. Intangible assets increased by \$29,302,729 due to the intangibles acquired as part of the nine business acquisitions. Intangibles include master licenses, company brands and gaming machine contracts. \*\*
- b. Property and equipment increased by \$3,292,083 as equipment of \$1,088,585 was acquired as part of the nine business acquisitions and equipment of \$2,801,086 was acquired to grow the LB's footprint. \*\*
- c. The company recorded a derivative asset of \$2,765,000 due to the early repayment option of term loan (long term debt) with Trive Capital. The repayment option is considered to be an embedded derivative that is required to be separated from the host contract.

Total assets increased from fiscal 2016 to fiscal 2017 due to the following reasons:

- d. Intangible assets increased by \$26,400,255 due to the intangibles acquired as part of the LB acquisition. Intangibles include master licenses, company brands and gaming machine contracts. \*\*
- e. Property and equipment increased by \$2,037,893 as equipment of \$1,204,075 was acquired as part of the LB acquisitions and equipment of \$959,825 was acquired to grow LB's footprint. \*\*

f. Cash increased by \$3,396,787 due to the proceeds of \$1,500,000 from equity issuance, proceeds of \$2,400,000 from the disposition of Centers for Special Surgery and cash generated of \$386,910 from operating activities.

\*\* The intangible assets and property and equipment balance sheet figure represents value net of amortization.

(5) Non-current liabilities increased from fiscal 2017 to fiscal 2018 due to the advances from long term debt of \$43,000,000 to fund the 9 business acquisitions.

Non-current liabilities increased from fiscal 2016 to fiscal 2017 as a result of a senior secured first lien term loan that was obtained by the Company on October 21, 2016 in the amount of \$11,956,521 to fund the acquisition of LB.

The long-term debt balance sheet figure represents the value of the loan net of unamortized costs.

## SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

The table below summarizes selected unaudited financial data for the Company's last eight quarters. The following information is expressed in USD and is derived from the Company's financial information, using accounting policies consistent with IFRS:

### 2018

	2018-02-28	2017-11-30	2017-08-31	2017-05-31
	\$	\$	\$	\$
Revenue (1)	16,401,311	14,172,534	12,143,400	8,771,251
Net Income (Loss) and comprehensive Income (Loss) (2)	(2,886,497)	(805,927)	(393,184)	(421,922)
Basic Income (Loss) per share (3)	(0.041)	(0.027)	(0.025)	(0.030)
Diluted Income (Loss) per share (3)	(0.041)	(0.027)	(0.025)	(0.030)

### 2017

	2017-02-28	2016-11-30	2016-08-31	2016-05-31
Revenue (1)	7,343,518	3,028,978	-	-
Net Income (Loss) and comprehensive Income (Loss) (2)	1,895,400	(1,744,718)	(1,587,820)	(951,051)
Basic Income (Loss) per share (3)	0.035	(0.016)	(0.048)	(0.030)
Diluted Income (Loss) per share (3)	0.035	(0.016)	(0.048)	(0.030)

### Note:

1) Increase in revenue between 2018 quarters is directly related to the 9 acquisitions LB completed during the year. In Q1 2018 the Company closed the acquisition of Triple 7s and Lucky Star, in Q2 2018 the Company closed the acquisition of AA and AMPM, in Q3 2018 the Company closed an acquisition of Fun Games, FarEast and WildHorse and in Q4 2018 the company closed the acquisition of Lee Caudell Inc and Wise Amusement LLC.

The revenue for the first two quarters and part of the third quarter of 2017 was reclassified as discontinued operations. The Company closed the Lucky Bucks, LLC transaction on October 21, 2016; therefore the third quarter of 2017 includes 41 days of revenue from this acquisition. Q4 2017 includes revenue for the entire quarter from Lucky Bucks, LLC.

2) The fluctuations in the 2018 quarter over quarter losses stem from the volume of business acquisitions closed. In Q1 2018 LB closed two acquisitions, in Q2 2018 LB closed two acquisitions, in Q3 2018 LB closed three acquisitions and finally in Q4 2018 LM closed two acquisitions. The one time deal expenses are tied to the number of acquisitions closed in a quarter and the spike in Q4 2018 relates to the annual performance

incentive accrued to a corporation controlled by the CEO. See Related Party Transactions section. In Q4 2018 the Company incurred more interest charges associated with its long term debt and the accretion expense was accelerated due to the pending refinancing that closed in April 2018.

In fiscal 2017 the Company's healthcare asset in New Jersey accounted for all of the revenue booked in Q1 and Q2 2017. In Q3 2017 the Company closed the LB acquisition and recorded gaming revenue for approximately one month of activity. In Q4 2017 the Company reflects a full quarter of gaming revenue and the healthcare asset in New Jersey was divested in February 2017.

- 3) Basic and diluted loss per share fluctuates from period to period and is impacted by the amount of loss incurred and the number of weighted average number of common shares outstanding.

## **OPERATING SEGMENTS**

Management of the Company has identified four 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.

The Company's reportable business segments are:

- Multiple Media Entertainment Inc. ("MME") - divested in fiscal year 2017
- Centers for Special Surgery, LLC ("CSS") - divested in fiscal year 2017
- QGC, SSG, and LB (acquired in 2017) collectively known as "**LBL**".

Assets of Lucky Bucks, LLC are held in the USA, and all other assets owned at year-end are held in Canada.



	Corporate	LBL	Total 2018
<b>Revenue</b>			
Gaming revenue	\$ -	\$51,488,496	\$51,488,496
Location costs	-	(25,744,248)	(25,744,248)
<b>Revenue after location costs</b>	-	25,744,248	25,744,248
<b>Operating expenses</b>			
Amortization of property, equipment and intangible assets	-	(6,756,431)	(6,756,431)
General administrative costs	(6,869,340)	(4,030,984)	(10,900,324)
Impairment of intangibles	-	(212,000)	(212,000)
	(6,869,340)	(10,999,415)	(17,868,755)
<b>Other expenses</b>			
Finance costs	(42,377)	(11,931,225)	(11,973,602)
Other income	-	122,000	122,000
Finance income	31,192	-	31,192
Gain (loss) on foreign exchange	(3,531)	-	(3,531)
Gain on settlement of accounts payable	309,678	-	309,678
Fair value gain (loss) on derivative liabilities	(1,440,760)	-	(1,440,760)
Fair value gain on derivative assets	-	572,000	572,000
	(1,145,798)	(11,237,225)	(12,383,023)
<b>Net gain (loss) and comprehensive gain (loss)</b>	(8,015,138)	3,507,608	(4,507,530)
<b>Total current assets</b>	\$922,164	\$10,221,653	\$11,143,817
<b>Total non-current assets</b>	\$13,568	\$61,029,312	\$61,042,880
<b>Total liabilities</b>	\$6,254,934	\$60,287,003	\$66,541,937

	Corporate	MME	CSS	LBL	Total 2017
<b>Revenue</b>					
Gaming revenue	\$ -	\$ -	\$ -	\$10,372,496	\$10,372,496
Location costs	-	-	-	(5,186,248)	(5,186,248)
Revenue after location costs	-	-	-	5,186,248	5,186,248
<b>Operating expenses</b>					
Amortization of property, equipment and intangible assets	(2,205)	-	-	(1,562,706)	(1,564,911)
General administrative costs	(4,900,585)	-	-	(487,908)	(5,388,493)
Write down of note receivable	-	-	-	(126,217)	(126,217)
	(4,902,790)	-	-	(2,176,831)	(7,079,621)
<b>Other expenses</b>					
Finance costs	(192,156)	-	-	(977,349)	(1,169,505)
Gain (loss) on foreign exchange	22,188	-	-	-	22,188
Gain on settlement of accounts payable	416,013	-	-	-	416,013
Fair value gain (loss) on derivative liabilities	(490,962)	-	-	-	(490,962)
	(244,917)	-	-	(977,349)	(1,222,266)
Net gain (loss) from continued operations	(5,147,707)	-	-	2,032,068	(3,115,639)
Net loss from discontinued operations	-	225,134	502,316	-	727,450
Net gain (loss) and comprehensive gain (loss)	(5,147,707)	225,134	502,316	2,032,068	(2,388,189)
Total liabilities	\$2,959,762	\$ -	\$ -	\$2,222,240	\$5,182,002
Total non-current assets	\$312,003	\$ -	\$ -	\$28,438,613	\$28,750,616
Total liabilities	\$6,672,430	\$ -	\$ -	\$11,333,079	\$18,005,509

## RESULT OF OPERATIONS

The following discourse highlights changes in selected financial results at the year ended February 28, 2018 compared with the year ended February 28, 2017. The following information is expressed in United States Dollars and is derived from the Company's financial information prepared in accordance with IFRS.

### *Revenue*

Fiscal 2018 revenue was \$51,488,496 (2017 - \$10,372,496). The increase in revenue is due to the following reasons:

- The 2018 revenue includes revenue for the entire year (12 months) from the LB acquisition whereas the 2017 revenue only includes revenue from the acquisition date - October 21, 2016 to February 28, 2017.
- The 2018 revenue includes revenue that the Company earned from over 1,000 revenue generating COAM machines that the company acquired from the 9 business acquisitions it closed in the 2018 fiscal year. Please refer to the acquisition note in the 2018 audited financial statements to see the breakdown of the revenue earned from each acquisition since the date of acquisition.

### *Location Costs*

Location costs were \$25,744,248 and \$5,186,248 for the years ended February 28, 2018 and February 28, 2017 respectively. The increase in location costs is directly correlated to the increase in gaming revenue.

### *Amortization of property, equipment and intangibles*

Amortization of intangibles for fiscal 2018 was \$6,049,710 (2017 – \$1,438,904) and amortization of property and equipment for fiscal 2018 was \$706,721 (2017 – \$126,007). The Company acquired intangibles and property and equipment as part of its business acquisitions as follows:

	<b>Lucky Bucks, LLC</b>	<b>Triple 7s</b>	<b>Lucky Star</b>	<b>AMPM</b>	<b>AA</b>	<b>Fun Games</b>
<b>Acquisition date</b>	21-Oct-16	17-May-17	17-May-17	30-Jun-17	30-Jun-17	06-Oct-17
<b>Property and equipment</b>	\$ 1,204,075	\$ 98,858	\$ 99,746	\$ 189,208	\$ 140,706	\$ 262,539
<b>Intangibles</b>						
Owner/operator gaming						
machine contracts	18,290,000	2,510,000	590,000	8,220,000	2,600,000	2,970,000
Brand	190,000	30,000	10,000	70,000	20,000	30,000
Master license	1,770,000	700,000	700,000	700,000	700,000	700,000
Goodwill	7,589,159	861,142	220,254	2,744,391	539,294	1,106,965
	<b>\$ 27,839,159</b>	<b>\$ 4,101,142</b>	<b>\$ 1,520,254</b>	<b>\$ 11,734,391</b>	<b>\$ 3,859,294</b>	<b>\$ 4,806,965</b>

	<b>FarEast</b>	<b>WildHorse</b>	<b>LC</b>	<b>Wise</b>	<b>Total</b>
<b>Acquisition date</b>	27-Nov-17	27-Nov-17	15-Dec-17	15-Dec-17	
<b>Property and equipment</b>	\$ 69,128	\$ 82,082	\$ 137,284	\$ 9,034	\$ 2,292,660
<b>Intangibles</b>					
Owner/operator gaming					
machine contracts	1,640,000	930,000	2,150,000	200,000	40,100,000
Brand	20,000	10,000	20,000	2,000	402,000
Master license	-	-	-	-	5,270,000
Goodwill	1,460,878	1,207,833	1,692,716	138,966	17,561,598
	<b>\$ 3,120,878</b>	<b>\$ 2,147,833</b>	<b>\$ 3,862,716</b>	<b>\$ 340,966</b>	<b>\$ 63,333,598</b>

### *General & administrative costs*

General and administrative costs incurred by nature are as follows:

	<b>February 28, 2018</b>	<b>February 28, 2017</b>
	<b>\$</b>	<b>\$</b>
Acquisition cost <sup>(4)</sup>	2,722,099	1,011,322
Professional and advisory fee <sup>(3)</sup>	3,842,485	2,878,507
Regulatory and filing fee	91,684	100,911
Salaries and benefits <sup>(1)</sup>	1,514,831	449,091
Share based compensation <sup>(2)</sup>	1,406,393	415,487
Administrative fees <sup>(1)</sup>	1,322,831	533,175
	<b>10,900,324</b>	<b>5,388,493</b>

**Note:**

- (1) There is an increase in general and administrative expenses and salaries and benefits as the fiscal 2018 expenses include an entire year of expenses from LB whereas the fiscal 2017 expenses only included expenses from the acquisition date - October 21, 2016 to February 28, 2017. Also, these expenses increased due to the growth of LB in 2018 driven by nine business acquisitions. As the LB footprint grew this required the addition to technician staff to service the larger gaming footprint.
- (2) Share based compensation increased due to the three stock option grants in fiscal 2018 whereas in fiscal 2017 there were only two stock option grants.
- (3) Professional and advisory fees increased in fiscal 2018 due to the increase in consulting fees that were paid or accrued to Ascendant Group Holdings Inc. a company controlled by Manu K. Sekhri (CEO of Quantum). The fees included regular consulting, performance incentives tied to acquisitions, an annual performance incentive and a performance incentive related to the 3 for 1 share consolidation that occurred in fiscal 2018. Manu K. Sekhri used \$1,427,137 of the amounts paid in fiscal 2018 to exercise stock options in the Company and to participate in the Company's private placement that occurred in May 2017. Also contributing to the increase year over year is general corporate legal fees.
- (4) Acquisition costs increased in fiscal 2018 as LB completed nine business acquisitions whereas in fiscal 2017 there was only one acquisition. Please refer to the acquisition note in the financial statements to see the breakdown of acquisition cost per each acquisition.

### *Finance costs*

There are two significant components of financing costs; interest expense paid and financing costs that were initially deferred and charged against the loan balance and are expensed over the term of the loan ("**accretion expense**").

Finance costs increased for the following reasons:

- The Company paid interest expense of \$5,539,327 in fiscal 2018 compared to \$630,736 in fiscal 2017 driven by its long term debt. The increase in interest expense is directly correlated with the increase in long term debt of \$43,000,000 to fund the 9 business acquisitions.
- The Company incurred accretion expense of \$6,297,594 in fiscal 2018 compared to \$346,256 in fiscal 2017. The Company was able to refinance its existing debt facility

with Trive Capital subsequent to the 2018 fiscal year end, and as a result the Company accelerated its accretion expense.

#### ***Fair value gain on derivative asset***

The early repayment option tied to the long term debt resulted in an embedded derivative that required separation from the original loan. The aggregate fair value of the repayment options at initial recognition of \$2,193,000 was determined based on the expected interest rate differential, LB's own credit risk and probability of successfully refinancing. The derivatives were revalued at February 28, 2018 at \$2,765,000 with the increase in value of \$572,000 recognized in the statement of income and comprehensive income. This derivative asset was attributed a \$Nil value in fiscal 2017.

#### ***Fair value loss on derivative liabilities***

As of February 28, 2018, there are 5,985,904 (2017 - 2,087,333) warrants outstanding recorded as a derivative liability with a value of \$2,421,726 (2017 - \$61,391). The fair value loss on derivative liabilities of \$1,440,760 (2017 -\$490,962) relates to the fair value change in warrant derivative liability.

### **QUARTER ENDED FEBRUARY 28, 2018**

The fourth quarter of fiscal 2018 saw LB close two business acquisitions (Lee Caudell and Wise Amusement) for a total purchase price of \$4.35M. LB also began the process of engaging prospective loan parties to refinance its long term debt which ultimately culminated in the execution of a commitment letter in the fourth quarter of 2018. Subsequent to fiscal 2018 year end, LB closed this financing, see the notes to the annual 2018 financial statements.

#### ***Revenue***

For the quarter ended February 28, 2018 revenue amounted to \$16,401,311 representing an increase of 123% over the same quarter in fiscal 2017. This significant increase was driven by the 9 business acquisitions closed in the 2018 fiscal year and the full quarter impact of this revenue.

#### ***Financial condition***

As at February 28, 2018 the Company reported working capital of \$1,422,232 compared to a deficiency of \$3,837,015 at February 28, 2017. During the quarter ended February 28, 2018 the Company generated \$4,281,314 cash flow from operations which is derived from the LB distributions. A large portion of the Company's cash flow was used to pay and settle accounts payable from its prior business ventures.

#### ***Financial performance***

The Company incurred a loss of \$2,886,497 for the quarter ended February 28, 2018 compared to net income of \$1,895,400. The increase in the loss for the quarter ended February 28, 2018 was largely a result of one time acquisition costs related to the two business acquisitions closed in the quarter. In addition, the Company accrued an annual performance incentive to a company

controlled by the CEO, see Related Party Transactions section. In Q4 2018 the Company incurred more interest charges associated with its long term debt and the accretion expense was accelerated due to the pending refinancing that closed in April 2018.

## **LIQUIDITY AND CAPITAL RESOURCES**

To date, the Company has financed its operations and growth through debt, equity and internally generated cash flows from gaming revenue.

### ***Cash***

During the year ended February 28, 2018, the Company's cash increased by \$1,139,944. We currently believe that our cash, cash flows from operations and borrowing availability under our long term debt facility will be sufficient to meet our capital requirements during the next 12 months.

Our operating results and performance depend significantly on national, regional and local economic conditions and their effect on consumer spending. Declines in consumer spending would cause revenues generated in our gaming business to be adversely affected.

### ***Cash Used In/Generated from Operating Activities***

Cash generated from operating activities during the year ended February 28, 2018 was \$8,230,893 compared with \$386,910 of cash generated from operating activities during the year ended February 28, 2017. Cash generated in operating activities during the year ended February 28, 2018 consisted of (i) \$10,798,987 of cash generated from revenue net of operating, general and administrative, regulatory compliance and professional fees and (ii) there was a \$2,568,094 decrease in cash due to increased non-cash working capital.

Cash generated from operating activities during the year ended February 28, 2017 consisted of (i) \$203,981 cash was used from revenue net of operating, general and administrative, regulatory compliance and professional fees and (ii) there was a \$590,891 increase in cash due to increased non-cash current working capital.

### ***Cash Used In/Generated from Investing Activities***

Cash used in investing activities during the year ended February 28, 2018 was \$40,433,269, compared with \$8,220,247 of cash used in investing activities during the year ended February 28, 2017. Cash used in investing activities during the year ended February 28, 2018 included additions to property and equipment of \$2,910,086, \$36,583,024 spent on 9 business acquisitions, purchase of two separate location contracts for \$70,000 and cash paid for deferred and contingent consideration of \$781,159.

Cash used in investing activities during the year ended February 28, 2017 included additions to property and equipment for \$581,204, spending \$10,039,043 on the business acquisition of LB and the Company received \$2,400,000 from the sale of Centers for Special Surgery.

***Cash Used In/Generated from Financing Activities***

Cash generated from financing activities during the year ended February 28, 2018 was \$33,433,320 compared to \$11,078,831 of cash was generated from investing activities during the year ended February 28, 2017. Cash generated from financing activities during the year ended February 28, 2018 included advances from long-term-debt of \$43,000,000 to finance 9 business acquisitions, the Company incurred \$2,438,797 of debt transaction costs, proceeds of \$446,253 from the non-brokered private placement, proceeds of \$1,128,031 from options exercised, proceeds of \$75,360 from warrants exercised, proceeds of \$111,105 from share transfer option, repayment of \$272,665 of loans payable (net of repayments of loans of \$500,000) and cash distributions of \$8,615,967 paid to non-controlling interest.

Cash generated from financing activities during the year ended February 28, 2017 included advances from long-term debt of \$11,956,521 to acquire LB, the Company incurred \$1,913,772 of debt transaction costs, proceeds of \$1,500,000 from equity issuance and \$1,246,111 of cash distributions paid to non-controlling interest.

***Working Capital***

As of February 28, 2018, the Company had positive net working capital of \$1,422,232 compared with negative net working capital of (\$3,837,015) as of February 28, 2017. Working capital is calculated by subtracting current liabilities from current assets without taking into consideration the derivative asset and liability. The Company has worked to reduce and settle liabilities that existed from its prior business ventures and it expects positive working capital going forward as a result of the cash flowing nature of its gaming business in Georgia.

***Recent Financings***

<b>Financing</b>	<b>Purpose of Financing</b>	<b>Actual use of proceeds</b>
On October 26, 2016, Southern Star Gaming obtained financing of \$11,956,521.	To fund the acquisition of Lucky Bucks, LLC	Loan proceeds were used as intended.
On May 17, 2017, LB obtained financing of \$9,200,000.	To fund the acquisition of certain assets of Triple 7s Amusement LLC, Lucky Star Amusement, Inc	Loan proceeds were used as intended.
On June 30, LB obtained financing of \$17,100,000.	To fund the acquisition of certain assets of AM/PM Management, Inc. and American Amusements LLC	Loan proceeds were used as intended.
On October 6, 2017, LB obtained financing of \$5,650,000.	To fund the acquisition of certain assets of Fun Games Inc	Loan proceeds were used as intended.
On November 27, 2017, LB obtained financing of \$6,450,000.	To fund the acquisition of certain assets of FarEast Amusement Games, LLC and WildHorse Amusement Company L.L.C.	Loan proceeds were used as intended.
On December 15, 2017, LB obtained financing of \$4,600,000	To fund the acquisition of certain assets from Lee Caudell, Inc and Wise Amusement LLC	Loan proceeds were used as intended.

### ***Liquidity Outlook***

The Company's cash flow is generated from the distributions received from its interest in LB. We currently believe that our cash and cash equivalents, cash flows from operations and borrowing availability under our credit facility will be sufficient to meet our capital requirements for the next twelve months. Given the cash flowing nature of LB's business there is a clear line of sight into the cash flow from operations and both LB and the Company's cash needs are more than satisfied by the cash generated by LB.

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. As at February 28, 2018 the Company has positive working capital.

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. Furthermore, management attempts to deploy capital to provide an appropriate investment return to its shareholders.

### ***Other Items Affecting Liquidity***

Items that may affect the liquidity of the Company for the next twelve months include (1) capital requirements pertaining to the maintenance of machines and other capital expenditure requirements, (2) capital expenditure needs to improve the Company's newly acquired warehouse in the state of Georgia, and (3) contractual obligations pertaining to the Company's debt covenants.

### ***Capital Management***

The Company manages and adjusts its capital structure based on available funds in order to support its operations and acquisitions. The capital of the Company consists of share capital, warrants and long-term debt. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

As the Company continues to assess and seek to acquire an interest in additional businesses, the Company may continue to rely on capital markets to support continued growth. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company monitors its capital structure and must comply with certain financial covenants related to its' long-term debt. The Company intends to manage its capital by operating at a level that provides a conservative margin compared to the limits of its covenants.

The Company's credit facility with its lender contains the following covenants:



	<b>12-31-17</b>	<b>08-31-17</b>
	<b>Compliance Cert</b>	<b>Compliance Cert</b>
Maximum Term Loan Leverage Ratio	2.5 to 1 max, 1.95 to 1 actual	2.75 to 1 max, 2.22 to 1 actual
Minimum EBITDA	\$4M min, \$6.93M actual	\$3.4M min, \$4.19M actual
Minimum Interest Coverage Ratio	2.2 to 1 min, 2.72 to 1 actual	2.2 to 1 min, 6.47 to 1 actual

Throughout the fiscal 2018 year and as at February 28, 2018, the Company was in compliance with the financial covenants related to its senior secured first lien term loan.

### *Other Opportunities*

We may investigate and pursue expansion opportunities in our existing or new markets. Such expansions will be influenced and determined by a number of factors, which may include licensing availability and approval, suitable investment opportunities and availability of acceptable financing. Investigation and pursuit of such opportunities may require LB to make substantial investments or incur substantial costs, which we may fund through cash flows from operations or borrowing availability under our long term debt facility. To the extent such sources of funds are not sufficient, LB may also seek to raise such additional funds through public or private equity or debt financings or from other sources. No assurance can be given that additional financing will be available or that, if available, such financing will be obtainable on terms favorable to us. Moreover, we can provide no assurances that the investigation or pursuit of an opportunity will result in a completed transaction.

## **RELATED PARTY TRANSACTIONS**

As of February 28, 2018, the Company's related parties and key management personnel consists of the Company's directors and executive officers.

<b>Name/ Corporate Entity</b>	<b>Relationship</b>	<b>Nature of Transaction</b>
Chad Williams/Gray Sky LLC	Chairman & Director	Director's fees and stock-based compensation
Manu K. Sekhri/ Ascendant Group Holdings Inc.	CEO & Director	Consulting fees and stock-based compensation
Peter Shippen/ Extra Medium Inc.	Director	Director's fees and stock-based compensation
Mark Lerohl/ Lerohl Consulting Inc.	Director	Director's fees and stock-based compensation
Sheila Ogilvie-Harris/ Ballakilley Property Holdings Limited	Director	Director's fees and stock-based compensation
Anil Damani	CEO, Lucky Bucks, LLC and 49% shareholder of Lucky Bucks Holdco, LLC	Management salaries
Paul Andersen/ Forbes Andersen LLP	Carried out duties of the CFO prior to October 31, 2016	Consulting fees
Ryan Bouskill/ Durward Jones Barkwell & Company LLP/ 2568646 Ontario Inc.	CFO	Consulting fees and stock-based compensation

Key management personnel are those persons that have authority and responsibility for planning, directing and controlling the activities of the Company, directly and indirectly. As of February 28, 2018, the Company's key management personnel consisted of the Company's directors and senior management. The Company incurred fees and expenses in the normal course of operations in connection with the key management and directors. Details are as follows:

<u>Nature of Transactions</u>	<u>February 28, 2018</u>	<u>February 28, 2017</u>
Director fees (3)	\$107,238	\$25,408
Salaries and short term benefits and bonus (4)	387,874	-
Stock based compensation (2)	3,071,024	443,739
Consulting fees (1)	3,910,824	1,163,985
	<u>\$7,476,960</u>	<u>\$1,633,132</u>

**Note**

- (1) During the year ended February 28, 2018, the Company incurred consulting fees of \$662,267 (February 28, 2017 - \$850,929) from Ascendant Group Holdings Inc., a company controlled by Manu K. Sekhri (CEO of the Company). In addition, the Company accrued or paid performance incentives of \$1,145,828 Ascendant Group Holdings Inc. which are directly tied to the business acquisitions closed in the fiscal 2018. The Company also accrued an annual discretionary performance incentive of \$1,611,864 to Ascendant Group Holdings Inc. Lastly, the Company accrued or paid a performance incentive of \$398,368 to Ascendant Group Holdings Inc. that relates to the 3 for 1 share consolidation that occurred in fiscal 2018. Manu K. Sekhri used \$1,427,137 of the amounts paid in fiscal 2018 to exercise stock options in the Company and to participate in the Company's private placement that occurred in May 2017. As at February 28, 2018, \$1,571,917 was owed relating to these various fees (February 28, 2017 – \$226,000). These fees were incurred in accordance to the consulting agreement with Ascendant Group Holdings Inc. During the year ended February 28, 2018, the Company paid rent of \$154,325 (February 28, 2017 - \$132,582) to Ascendant Group Holdings Inc. During the year ended February 28, 2018, the Company incurred consulting fees of \$Nil (February 28, 2017 - \$274,539) from Forbes Andersen LLP, an accounting firm at which Paul Andersen is a Managing Partner. As at February 28, 2018, \$268,244 was owed relating to these consulting fees (February 28, 2017 - \$254,939). These consulting fees were incurred by the Company for Paul Andersen to carry out the CFO duties prior to October 21, 2016. During the year ended February 28, 2018, the Company incurred consulting fees of \$92,496 (February 28, 2017 – \$38,517) from Durward Jones Barkwell & Company LLP, an accounting firm at which Ryan Bouskill is an employee. As at February 28, 2018, \$15,879 was owed relating to these consulting fees (February 28, 2017 – \$8,529). These consulting fees were incurred by the Company for Ryan Bouskill to carry out the CFO duties.
- (2) To provide meaningful incentives, the Company issued stock based compensation to directors and senior management. As at February 28, 2018, the Company owed \$86,686 relating to the director fees (February 28, 2017- \$31,324).
- (3) Honorarium for serving as directors of the Board.
- (4) Salary and short-term benefits and bonus paid to Anil Damani for carrying out the CEO function at LB.

Total distributions declared by Lucky Bucks Holdco, LLC to Anil Damani, 49% shareholder of Lucky Bucks Holdco, LLC totaled \$8,532,353, of which \$7,645,649 were paid and the remaining balance of \$886,704 is recorded as distribution payable. The amount is non-interest bearing, unsecured and due on demand.

The above transactions occurred in the normal course of operations, and are measured at the amount of consideration established and agreed to by the related parties.

## SUBSEQUENT EVENTS

1. On April 9, 2018, the Company announced that LB closed the \$75,000,000 mutli-draw credit facility as disclosed in the Recent Developments section of the MD&A.
2. On June 28, 2018, the Company signed a binding letter of agreement to acquire an additional 9% of the membership interest in Lucky Bucks Holdco, LLC from Lucky Bucks Ventures, Inc and Anil Damani for cash consideration of \$6,000,000.

On the closing date of this transaction, Lucky Bucks Ventures, Inc. will receive consideration of \$3.75 million, with the remaining cash consideration of \$2.25 million will be held by Lucky Bucks Ventures, Inc. in the form of an unsecured non-interest bearing promissory note due and payable in tranches no later than December 31, 2018. The Company expects to close this transaction in July 2018.

## STOCK PERFORMANCE FOR FY2018

Time frame: February 28, 2017 – February 28, 2018



## CRITICAL ACCOUNTING ESTIMATES AND USE OF JUDGEMENT

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In the process of applying the Company's accounting policies, management has made the following significant estimates and judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Significant estimates:

1. The consideration transferred for an acquired business ("**purchase price**") is assigned to the identifiable tangible and intangible assets purchased and liabilities assumed on the basis of their fair values at the date of acquisition. The identification of assets acquired and liabilities assumed and the valuation thereof is judgmental. Any excess of purchase price over the fair value of the identifiable tangible and intangible assets purchased and liabilities assumed is allocated to goodwill.
2. When a business combination involves contingent consideration, an amount equal to the fair value of the contingent consideration is recorded as a liability at the time of acquisition. The key assumptions utilized in determining fair value may include probabilities associated with the occurrence of specified future events, financial projections of the acquired business, the timing of future cash flows, and the appropriate discount rate;
3. Inputs in determining the fair value of the derivative asset, which include expected interest rate differential, the Company's own credit risk and probability of successful refinancing.
4. Inputs in determining the fair value of options and warrants, such as the volatility and estimated life of the instrument

Significant judgments:

1. Determining whether an acquisition meets the definition of a business combination or represents an asset purchase requires judgment on a case by case basis. As outlined IFRS 3, the components of a business must include inputs, processes and outputs;
2. Deferred tax assets that are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is applied on the timing of reversal of temporary differences, tax rates and current and future taxable income;
3. Judgment is used to estimate each component of an asset's useful life and is based on an analysis of all pertinent factors including, but not limited to, the expected use of the asset and in the case of an intangible asset, contractual provisions that enable renewal or extension of the asset's legal or contractual life without substantial cost, and renewal history. If the estimated useful lives were incorrect, it could result in an increase or decrease in the annual amortization expense, and future impairment charges or recoveries;
4. In recognizing revenue, the Company determines it acts as a principal in executing transactions with third parties. Judgment is required to determine if the Company is acting as the principal or an agent in order to determine if revenue should be recognized on a gross or net basis with consideration of COAM payout, location costs and gaming fee;
5. Provisions are accrued for liabilities with uncertain timing or amounts, if, in the opinion of management, it is both likely that a future event will confirm that a liability had been incurred at the date of the financial statements of financial position and the amount can be reasonably estimated. In cases where it is not possible to determine whether such a liability

has occurred, or to reasonably estimate the amount of loss until the performance of some future event, no accrual is made until that time. In the ordinary course of business, the Company may be party to legal proceedings which include claims for monetary damages asserted against the Company. The adequacy of provisions is regularly assessed as new information becomes available;

6. Judgment is required when determining whether control or significant influence exists over its investment entities that are not wholly owned; and
7. Judgment is required when determining whether the arrangement with the store location owners contain a lease for machine rental and floor space.
8. The determination of our CGUs is judgmental. The identification of CGUs involves an assessment of whether the asset or group of assets generate largely independent cash inflows. This involves consideration of how our core assets are operated and whether these generate independent revenue streams.

## **FUTURE CHANGES IN ACCOUNTING POLICIES**

### Standards issued and adopted

The Company adopted amendments to IAS 7, Statement of Cash Flows ("**IAS 7**") which are effective for annual periods beginning on or after January 1, 2017. The amendment clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. Implementation of the amendment has not had a material effect on the consolidated financial statements.

### Standards issued but not yet effective

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after February 28, 2018. Many are not applicable or do not have a significant impact to the Company and have been excluded from the list below. The following has not yet been adopted and is being evaluated to determine its impact on the Company:

1. IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement and IFRIC 9 Reassessment of Embedded Derivatives. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9. The main features introduced by this new standard compared with predecessor IFRS are as follows:
  - Classification and measurement of financial assets: Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".

- Classification and measurement of financial liabilities: When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss).
- Impairment of financial assets: An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.
- Hedge accounting: Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

The Company will adopt this standard on March 1, 2018 and it had no impact on the Company's financial position or results of operations. The Company's financial assets and financial liabilities continue to be measured on the same basis as was previously applied under IAS 39. The standard had a nominal impact on the Company's disclosures.

2. Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2018, the IASB issued IFRS 15, Revenue from Contracts with Customers to replace the detailed standards on revenue recognition requirements that currently exists under IFRS. The new standard provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards on leases, insurance contracts and financial instruments. IFRS 15 also contains enhanced disclosure requirements.

Management has evaluated each of the five steps in the new revenue recognition model for the Company's revenue stream. Through its evaluation, management does not expect the new revenue guidance will have a significant impact to the Company's consolidated statement of financial position or the consolidated statement of earnings in comparison to the current revenue recognition guidance.

The Company will adopt this guidance effective March 1, 2018 using the retrospective approach with cumulative effect, resulting in no adjustment to opening retained earnings. IFRS 15 is not expected to materially impact the timing or the amounts recognized in the Company's operating results due to the nature of the contracts it has in place.

3. 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. As the Company is still in the process of assessing the full impact of the application of IFRS 16 on the Company's financial statements, it is not yet possible to provide a reliable financial estimate of the effect until the Company completes the detailed assessments.

4. IFRIC 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the de-recognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The IASB has reached the consensus that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. IFRIC 22 is effective for annual reporting periods beginning on or after January 1, 2018. The Company is evaluating the impact on its financial statements.
  
5. In June 2017, the IASB issued IFRIC 23 to clarify how the requirements of IAS 12 Income Taxes should be applied when there is uncertainty over income tax treatments. The interpretation specifically addresses:
  - Whether an entity considers uncertain tax treatments separately;
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities;
  - How and entity determine taxable profit (or loss), tax bases, unused tax losses, unused tax credits and tax rates; and
  - How an entity considers changes in facts and circumstances.

The interpretation is effective for annual periods beginning on or after January 1, 2019, with modified retrospective or retrospective application. The Company is currently evaluating the impact on its financial statements.

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Financial assets and financial liabilities were as follows:

	February 28, 2018	February 28, 2017
<b>Loans and receivables</b>		
Cash and cash equivalents	\$4,716,731	\$3,396,787
Restricted cash	1,204,785	855,748

Accounts receivable	1,422,333	540,569
Related party balances	82,353	-
Notes receivable	346,040	659,500
	\$7,772,242	\$5,452,604
<b>Other financial liabilities</b>		
Accounts payable and accrued liabilities	\$4,353,063	\$7,324,496
Distribution payable	886,704	970,318
Related party balance	1,658,603	-
Long-term debt	57,221,841	8,943,162
Deferred consideration	-	500,000
	\$64,120,211	\$17,737,976
<b>Fair value through profit and loss</b>		
Contingent consideration	\$-	\$206,142
Derivative Asset	2,765,000	-
Derivative liability	(2,421,726)	61,391
	\$343,274	\$267,533

### Credit Risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, accounts receivable and notes receivable.

Credit risk associated with cash is minimized substantially by ensuring that the assets are placed primarily with major financial institutions that have minimum grade "A" credit ratings. The Company is exposed to credit risk with respect to its accounts receivable. For the year ended February 28, 2018, all of the Company's gaming revenue is collected from the GLC after location costs. These amounts are current at year end. Based on historic default rates and the credit quality of the GLC, no provisions have been recorded and no collateral is requested for the Company's receivables related to its gaming revenue.

### 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 LB. 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 February 28, 2018, the Company had cash and cash equivalents balance of \$4,716,731 (February 28, 2017 - \$3,396,787). The Company is also expecting its revenue to continue to increase as a result of existing and new machine placements and future planned acquisitions.

The Company expects the following maturities of its financial liabilities:

	<u>Within 1 year</u>	<u>2-3 years</u>	<u>4-5 years</u>	<u>Total</u>
Accounts payable and accrued liabilities	\$4,353,063	\$-	\$-	\$4,353,063
Related parties	1,658,603	-	-	1,658,603
Distribution payable	886,704	-	-	886,704
Long-term debt	58,215	58,312,009	112,692	58,482,916
	<u>\$6,956,585</u>	<u>\$58,312,009</u>	<u>\$112,692</u>	<u>\$65,381,286</u>

### **Interest Rate Risk**

The Company has no interest-bearing assets, other than cash and cash equivalents, fixed-interest rate note receivable and only fixed-interest liabilities. Accordingly, the Company is not exposed to significant cash flow interest rate risk.

### **Fair Value Risk**

The carrying value of cash and cash equivalents, restricted cash, accounts receivable, notes 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 derivative asset and derivative liability at fair value at the end of the reporting period.

### **Foreign Currency Risk**

The Company's functional currency is the United States dollar and major purchases are transacted in United States dollars. However, the Company is exposed to currency risk with fluctuations in the United States dollar relative to the Canadian dollar as the Company, incurs expenses in Canadian dollar. As well, the Company is exposed to currency risk on cash denominated in Canadian dollars. The Company currently does not use derivatives to mitigate its foreign currency risk.

### **Sensitivity Analysis**

The Company does not hold interest-bearing debt at interest rates subject to market fluctuations to give rise to interest rate risk. Based on the Company's net monetary liabilities denominated in Canadian dollars, a 10% fluctuation in the exchange rate from CAD to USD will generate increases or decreases in income of approximately \$181,398 (February 28, 2017 - \$239,500).

If LIBOR-based interest rates would have been higher by 100 basis points as of February 28, 2018, the change would have decreased the fair values of the derivative asset by \$245,000.

## OUTSTANDING SHARE DATA

The following table summarizes the maximum number of common shares potentially outstanding as at February 28, 2018 and as of the date of this MD&A if all share options outstanding and warrants outstanding were converted to common shares:

	<u>February 28, 2018</u>	<u>June 28, 2018</u>
Common shares outstanding	70,321,207	70,321,207
Warrants outstanding	5,985,904	5,985,904
Share options outstanding	7,032,105	7,032,105
Total	<u>83,339,216</u>	<u>83,339,216</u>

## RISK FACTORS

### Risks related to the businesses and industries of the Company

#### *General economic conditions*

The Company's operating subsidiary operates in the digital skilled-based gaming space in Georgia. The profitability of the Company is therefore dependent on favorable economic conditions to prevail in both countries for its successful operations. Decrease of employment rates in the U.S. could significantly impact potential patient population and thus can negatively impact our business.

#### *Business risks related to operating in the digital skilled-based gaming space*

The Company is subject to general business risks inherent in the operation of digital skilled-based gaming terminal locations, notably contract renewal risk, changes in regulation, competition from other operators, capital expenditure requirements, etc. Moreover, there is no assurance that the performance expected to be achieved at LB will be achieved. Any one of, or a combination of, these factors may adversely affect our business, results of operations and financial condition.

#### *Fluctuations in revenues and payor mix*

The Company's digital skill-based gaming terminal business is not significantly affected by variability of payments from third-party payors. The revenue cycle is highly regulated by the Georgia Lottery Corporation and the Company can monitor its weekly cash receipts to the Georgia COAM portal.

#### *Key personnel*

The Company's success is largely dependent upon retaining key personnel engaged in the digital skilled-based gaming terminal business. An inability to retain key employees may adversely affect our business, results of operations and financial condition.

Our success also depends on the efforts and abilities of our management, as well as our ability to attract additional qualified personnel to manage operations and future growth. Also, we maintain a key employee life insurance policies on the CEO of Quantum and the CEO of LB. The loss of a

member of management, other key employee or partners could have an adverse effect on our business, operating results and financial condition.

### ***Regulatory risks***

LB's operation in the U.S. is subject to state rules and regulations as monitored by the Georgia Lottery Corporation. In April 2013, the Georgia Lottery Corporation statutorily assumed the regulatory duties of compliance and enforcement of Class A and Class B Coin Operated Amusement Machines (COAMs) in Georgia. The COAM Division of the GLC oversees these duties. Strict licensing standards, financial responsibilities, and connection/communication protocols are governed by GLC rules and state law. Awareness and education are the two most important fundamentals for a COAM license holder in today's industry. We believe that LB is currently in material compliance with all applicable licensing, financial responsibilities and connection/communication protocols. There can be no assurance that LB will be able to maintain all necessary licenses or certifications in good standing or that it will not be required to incur substantial costs in doing so. The failure to maintain all necessary licenses, certifications and accreditations in good standing, or the expenditure of substantial funds to maintain them, could have an adverse effect on our business, results of operations and financial condition.

### ***Gaming Regulation***

LB is subject to extensive federal, state, and local regulation. State and local government authorities in Georgia require LB to renew gaming master licenses and require officers, key employees and business entity affiliates to demonstrate suitability to be involved in gaming operations. These are privileged licenses or approvals which are not guaranteed by statute or regulation. State and local government authorities may limit, condition, suspend or revoke a license, impose substantial fines, and take other actions, any of which could have a material adverse effect on LB's business, financial condition, results of operations and prospects. We cannot assure you that LB will be able to obtain and maintain the gaming licenses and related approvals necessary to conduct our gaming operations. Any failure to maintain or renew our existing licenses, registrations, permits or approvals could have a material adverse effect on our business, financial condition, results of operations and prospects. Furthermore, if additional gaming laws or regulations are adopted, these regulations could impose additional restrictions or costs that could have a significant adverse effect on LB's business.

### ***Acquisition strategy and concentration risk***

The Company currently owns an interest in one digital skill-based gaming business (LB). Therefore, all of the risks are currently concentrated in a single business. LB owns terminals installed in various locations across the state of Georgia so the risks are diversified. The Company will continue to execute on its aggressive growth strategy through acquisitions in the Georgia digital skill-based gaming space. Failure to identify suitable acquisition targets and negotiate attractive consideration and acceptable financing terms may adversely affect the Company's performance. As of June 25, 2018 LB closed nine acquisitions of other digital skill-based gaming businesses in Georgia.

Future growth depends on the ability to locate and secure financially attractive targets that meet the acquisition strategy of the Company, as well as the ability of accessing funds through capital markets to finance the transaction. Failure to identify suitable acquisition targets and negotiate attractive consideration and acceptable financing terms may adversely affect the Company's performance.

Any failure to successfully integrate our businesses and businesses we acquire could adversely affect our business, and we may not realize the full benefits of the strategic acquisitions.

Our ability to realize the anticipated benefits of the strategic acquisitions will depend, to a large extent, on our ability to successfully integrate our business and the businesses we acquire. Integrating and coordinating certain aspects of the operations and personnel of multiple businesses and managing the expansion in the scope of our operations and financial systems involves complex operational, technological and personnel-related challenges. The potential difficulties, and resulting costs and delays, relating to the integration of our business and the strategic acquisitions include:

- the difficulty in integrating newly acquired businesses and operations in an efficient and effective manner;
- the challenges in achieving strategic objectives, cost savings and other benefits expected from acquisitions;
- the diversion of management's attention from the day-to-day operations;
- additional demands on management related to the increased size and scope of our company following the acquisitions; and
- challenges in keeping existing customers and obtaining new customers.

There is no assurance that we will successfully or cost-effectively integrate our business and the businesses we acquire. In addition, the integration process may cause an interruption of, or loss of momentum in, the activities of our combined business. If management is not able to effectively manage the integration process, or if any significant business activities are interrupted as a result of the integration process, our business could suffer and our results of operations and financial condition may be harmed. Even if the businesses are successfully integrated, we may not realize the full benefits of the strategic acquisitions, including anticipated synergies, cost savings or growth opportunities, within the expected timeframes or at all.

In addition, we have incurred, and may incur additional, significant integration and restructuring expenses to realize synergies. However, many of the expenses that will be incurred are, by their nature, difficult to estimate accurately. These expenses could, particularly in the near term, exceed the savings that we expect to achieve from elimination of duplicative expenses and the realization of economies of scale and cost savings. Although we expect that the realization of efficiencies related to the integration of the businesses may offset incremental transaction and merger-related costs over time, we cannot give any assurance that this net benefit will be achieved in the near

term, or at all. Any of these matters could materially adversely affect our businesses or harm our financial condition, results of operations and prospects.

***Our business is geographically concentrated, which subjects us to greater risks from changes in local or regional conditions.***

We currently conduct our business solely in Georgia. Due to this geographic concentration, our results of operations and financial condition are subject to greater risks from changes in local and regional conditions, such as:

- changes in local or regional economic conditions and unemployment rates;
- adverse weather conditions and natural disasters (including weather or road conditions that limit access to our properties)
- changes in local and state laws and regulations, including laws and regulations
- a decline in the number of residents in or near, or visitors to, our locations; and
- changes in the local or regional competitive environment.

Because of the geographic concentration of our business, we face a greater risk of a negative impact on our business, financial condition, results of operations and prospects in the event that any of the geographic areas in which we operate is more severely impacted by any such adverse condition, as compared to other areas in the United States.

***Our business may be adversely affected by economic conditions, acts of terrorism, natural disasters, severe weather, contagious diseases and other factors affecting discretionary consumer spending, any of which could have a material adverse effect on our business.***

The demand for gaming, entertainment and leisure activities is sensitive to downturns in the economy and the corresponding impact on discretionary consumer spending. Any actual or perceived deterioration or weakness in general, regional or local economic conditions, unemployment levels, the job or housing markets, consumer debt levels or consumer confidence, as well as any increase in gasoline prices, tax rates, interest rates, inflation rates or other adverse economic or market conditions, may lead to our customers having less discretionary income to spend on gaming and entertainment, any of which may have a material adverse effect on our business, financial condition, results of operations and prospects.

Acts of terrorism, natural disasters, severe weather conditions and actual or perceived outbreaks of public health threats and pandemics could also significantly affect demand for gaming and entertainment, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects. Furthermore, our gaming locations are subject to the risk that operations could be halted for a temporary or extended period of time, as a result of casualty, forces of nature, adverse weather conditions, flooding, mechanical failure, or extended or extraordinary maintenance, among other causes. If there is a prolonged disruption at any of our gaming locations due to natural disasters, terrorist attacks or other catastrophic events, our

business, financial condition, results of operations and prospects could be materially adversely affected. Additionally, if extreme weather adversely impacts general economic or other conditions in the areas in which our gaming locations are located or from which we draw our customers or prevents customers from easily coming to our gaming locations, our business, financial condition, results of operations and prospects could be materially adversely affected.

***We face substantial competition in the Georgia gaming space, and may lose market share.***

The coin operated amusement machine market in Georgia, U.S. is highly competitive. LB competes with numerous gaming businesses of varying quality and size. LB faces direct competition from other master license holders in addition to ever-increasing competition from online gaming, including mobile gaming applications for smart phones and tablet computers, state-sponsored lotteries, card clubs, sports books, fantasy sports websites and other forms of legalized gaming.

***LB incurred significant indebtedness in connection with the nine business acquisitions closed in fiscal 2018 and our significant indebtedness could adversely affect our financial health and prevent us from fulfilling our obligations.***

We incurred significant indebtedness in connection with the nine business acquisitions we closed in fiscal 2018. As of February 28, 2018, the total principal amount of our long term debt, was \$64.5M. As a result of the increases in our outstanding debt, demands on our cash resources have increased. The increased level of debt could, among other things:

- require us to dedicate a larger portion of our cash flow from operations to the servicing and repayment of our debt, thereby reducing funds available for working capital, capital expenditures and acquisitions, and other general corporate requirements;
- limit our ability to obtain additional financing to fund future working capital, capital expenditures and other general corporate requirements;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- restrict our ability to make strategic acquisitions or dispositions or to exploit business opportunities;
- increase our vulnerability to general adverse economic and industry conditions and increases in interest rates;
- place us at a competitive disadvantage compared to our competitors that have less debt; and
- adversely affect our credit rating or the market price of our common stock

Any of these risks could impact our ability to fund our operations or limit our ability to expand our business, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

***LB may incur additional indebtedness, which could further increase the risks associated with our leverage.***

LB may incur significant additional indebtedness in the future, which may include financing relating to capital expenditures, potential acquisitions or business expansion, working capital or general corporate purposes. The long term debt that we entered into in connection with the refinancing of LB's debt facility with Trive Capital included a \$10.5M multi-draw term loan, which was undrawn at February 28, 2018. In addition, our long term debt permits us, subject to specific limitations, to incur additional indebtedness. If new indebtedness is added to our current level of indebtedness, the related risks that we now face could intensify.

***LB may not be able to generate sufficient cash flows to service all of the company's indebtedness and fund operating expenses, working capital needs and capital expenditures, and LB may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.***

LB's ability to make scheduled payments on or refinance our indebtedness will depend upon our future operating performance and our ability to generate cash flow in the future, which are subject to general economic, financial, business, competitive, legislative, regulatory and other factors that are beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations, or that future borrowings will be available to us in an amount sufficient to enable us to pay our indebtedness or fund our other liquidity needs. If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investment and capital expenditures, dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance our indebtedness. We may not be able to effect any such alternative measures, if necessary, on commercially reasonable terms or at all and, even if successful, such alternative actions may not allow us to meet our scheduled debt service obligations. LB's long term debt restrict our ability to dispose of assets and use the proceeds from asset dispositions, and may also restrict our ability to raise debt or equity capital to repay or service our indebtedness. If we cannot make scheduled payments on our debt, we will be in default and, as a result, our lenders could declare all outstanding amounts to be due and payable, terminate or suspend their commitments to loan money and foreclose against the assets securing such debt, and we could be forced into bankruptcy or liquidation, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects and could result in you losing your investment in our company.

***Covenants in our debt instruments restrict our business and could limit our ability to implement our business plan.***

LB's long term debt facility contain, and any future debt instruments likely will contain, covenants that may restrict our ability to implement our business plan, finance future operations, respond to changing business and economic conditions, secure additional financing, and engage in



opportunistic transactions, such as strategic acquisitions. Our long term debt facility include covenants restricting, among other things, our ability to do the following:

- incur, assume or guarantee additional indebtedness;
- issue redeemable stock and preferred stock;
- grant or incur liens;
- sell or otherwise dispose of assets, including capital stock of subsidiaries;
- make loans and investments;
- pay dividends, make distributions, or redeem or repurchase capital stock;
- enter into transactions with affiliates; and
- consolidate or merge with or into, or sell substantially all of our assets to, another person.

If LB defaults under any of the long term debt facilities because of a covenant breach or otherwise, all outstanding amounts thereunder could become immediately due and payable. We cannot assure you that we will be able to comply with the covenants in LB's long term debt facility or that any covenant violations will be waived. Any violation that is not waived could result in an event of default and, as a result, our lenders could declare all outstanding amounts to be due and payable, terminate or suspend their commitments to loan money and foreclose against the assets securing such debt, and we could be forced into bankruptcy or liquidation, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects and could result in you losing your investment in our company.

***Changes to gaming tax laws could increase LB's cost of doing business and have a material adverse effect on LB's financial condition.***

The gaming industry represents a significant source of tax revenue, particularly to the State of Georgia. Gaming companies are currently subject to significant state and local taxes and fees in addition to normal federal and state corporate income taxes, and such taxes and fees are subject to increase. From time to time, various federal, state and local legislators and other government officials have proposed and adopted changes in tax laws, or in the administration or interpretation of such laws, affecting the gaming industry. In addition, any worsening of economic conditions and the large number of state and local governments with significant current or projected budget deficits could intensify the efforts of state and local governments to raise revenues through increases in gaming taxes and/or property taxes. It is not possible to determine with certainty the likelihood of changes in tax laws or in the administration or interpretation of such laws. Any material increase, or the adoption of additional taxes or fees, could have a material adverse effect on our business, financial condition, results of operations and prospects.

***LB's insurance coverage may not be adequate to cover all possible losses that our operations could suffer. In addition, LB's insurance costs may increase and we may not be able to obtain the same insurance coverage in the future.***

Although LB has comprehensive property, automobile and liability insurance policies for our operations, with coverage features and insured limits that we believe are customary in their breadth and scope, each such policy has certain exclusions. Certain types of losses, generally of a catastrophic nature, such as earthquakes, hurricanes, floods or terrorist acts, or certain liabilities may be uninsurable or too expensive to justify obtaining insurance. Market forces beyond our control may also limit the scope of the insurance coverage LB can obtain or its ability to obtain coverage at reasonable rates. As a result, LB may not be successful in obtaining insurance without increases in cost or decreases in coverage levels. In addition, in the event of a major casualty, the insurance coverage LB carries may not be sufficient to pay the full market value or replacement cost of its lost investment or in some cases could result in certain losses being totally uninsured. As a result, LB could lose some or all of the capital we have invested, as well as the anticipated future revenue from operations, and LB could remain obligated for debt or other financial obligations, any of which could have a material adverse effect on LB's business, financial condition, results of operations and prospects. In addition to the damage caused to LB's operation by a casualty loss (such as fire, natural disasters, acts of war or terrorism), LB may suffer business disruption as a result of these events or be subject to claims by third parties injured or harmed. While we carry general liability insurance, this insurance may not be adequate to cover all losses in such event.

LB renews insurance policies on an annual basis. The cost of coverage may become so high that LB may need to reduce policy limits or agree to certain exclusions from coverage. Among other factors, it is possible that regional political tensions, homeland security concerns, other catastrophic events or any change in government legislation governing insurance coverage for acts of terrorism could materially adversely affect available insurance coverage and result in increased premiums on available coverage (which may cause LB to elect to reduce our policy limits), additional exclusions from coverage or higher deductibles.