



QUANTUM INTERNATIONAL INCOME CORP

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED MAY 31, 2018**

GENERAL

The following Management Discussion and Analysis (“MD&A”) should be read in conjunction with the consolidated interim financial statements (the “Financial Statements”) and the notes contained therein of Quantum International Income Corp (the “Company” or “Quantum”) for the three months ended May 31, 2018.

The unaudited condensed interim consolidated financial statements are prepared by management and reported in U.S. dollars, in accordance with International Accounting Standard “IAS” 34, “Interim Financial Reporting” as issued by the International Accounting Standards Board (“IASB”). The unaudited condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's 2018 audited consolidated financial statements and the notes thereto, and the 2018 MD&A filed with Canadian regulatory agencies. The documents are available at www.sedar.com.

This MD&A was prepared effective July 30, 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.

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 May 31, 2018:

| | Ownership Interest |
|--|-------------------------------|
| Quantum Gaming Corp (" QGC ") | 100% |
| Southern Star Gaming, LLC (" SSG ") | 100% |
| Lucky Bucks HoldCo, LLC (" LBH ") | 51% |
| Lucky Bucks, LLC (" LB ") | 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.

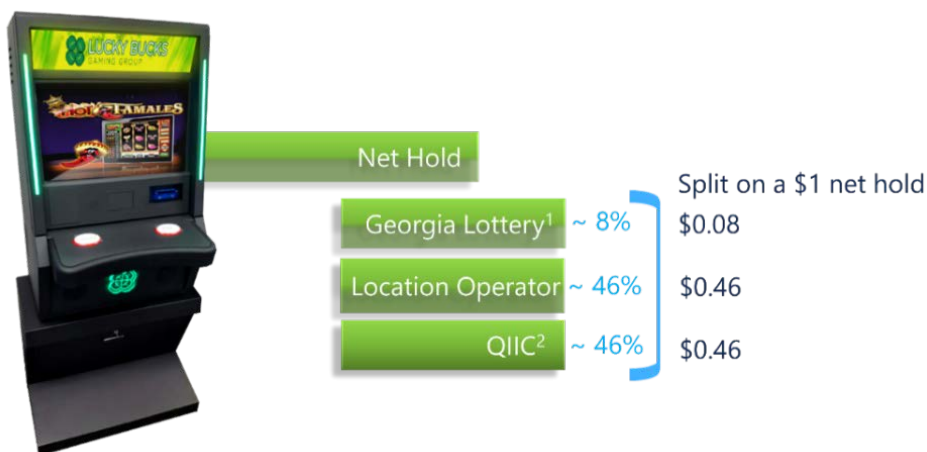
There are two types of COAMs:

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

Highlights – Quarter Ended May 31, 2018

- Generated gaming revenues of \$19,276,458, representing a 120% increase compared to revenues of \$8,771,251 for the same period in the prior year.
- The Company generated Adjusted EBITDA of \$8,037,104, compared to \$2,688,027 for Q1 fiscal year 2018; representing an increase of ~200%.
- Generated positive cash flow from operations of \$2,709,927, compared to \$208,146 in the same period last year.
- Net loss of \$3,975,781 compared to a net loss of \$421,922 for the same period in the prior year; largely attributable to non-cash items and one-time costs relating to the early repayment of the prior outstanding long term debt.
- Basic and diluted loss per share was \$0.049, compared to a loss per share of \$0.03 in the same period last year.
- Working capital of \$5,139,240 as at May 31, 2018 compared to \$1,422,232 as at February 28, 2018.
- On April 9, 2018, the Company through its 51% owned portfolio company, Lucky Bucks, LLC closed a \$75,000,000 million multi-draw credit facility with Goldman Sachs Specialty Lending Group, L.P., which translates to interest savings of over \$5,000,000 per year.

RECENT DEVELOPMENTS

Closing of \$75MM credit facility with Goldman Sachs Specialty Lending Group, L.P.

On April 9, 2018, the Company through its 51% owned portfolio company, LB closed a \$75,000,000 multi-draw credit facility. Goldman Sachs Specialty Lending Group, L.P. ("GSSLG") acted as sole lead arranger and administrative agent under the credit facility. The multi draw credit facility consists of a term loan ("**Term Loan Facility**") and a multi-draw term facility ("**MTDL Facility**").

The multi draw credit facility has the following terms:

- The full amount of \$64,509,349 of the Term Loan Facility was drawn on the initial funding date.

- The MDTL Facility is 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 are 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 LB's leverage ratio. The interest rate is calculated at LIBOR plus 7% (with LIBOR subject to a floor of 1% per annum).
- The maturity date is 5 years after the initial funding date.
- The principal amount of the initial Term Loan Facility is repaid in equal consecutive quarterly installments on the last day of each calendar quarter commencing June 30, 2018, with each instalment to be equal to \$1,612,733. The principal amount on the MTDL facility is repaid in equal consecutive quarterly instalments on the last day of each calendar quarter.
- There is an option to prepay subject to certain conditions. If the Company exercises the option to prepay, the Company would be liable to a prepayment premium on the principal amount prepaid, reduced or accelerated of (i) if the loans are prepaid within the first 12 months, 4.00%, (ii) which is reduced to 3.00% in the 2nd year, (iii) 2.00% in the 3rd year and (iv) 0.00% thereafter.

In connection with the arrangement of the multi draw credit facility, the Company paid \$3,753,198 of transaction costs and will also pay GGSLG an un drawn facility commitment fee under the MDTL Facility and an annual administration fee, all of which are typical to these arrangements.

The obligations of LB and Lucky Bucks HoldCo, LLC ("**Holdings**") under the multi-draw term loan facility are secured by a first priority lien in substantially all of the Borrower's and Holdings' assets. The obligations are further secured by a pledge of the membership interests of Holdings that are held by Lucky Bucks Ventures, Inc. and Southern Star Gaming, LLC.

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

Adjusted EBITDA

To supplement our condensed interim consolidated financial statements presented in accordance with International Financial Reporting Standards ("**IFRS**"), the Company uses Adjusted EBITDA, a measure the Company believes is appropriate to provide meaningful comparison with, and to enhance an overall understanding of, our past financial performance and prospects for the future. The Company believes 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, derivative asset fair value adjustment, and other one-time expenses

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:

| | Q1 2019 | Q4 2018 | Q3 2018 | Q2 2018 | Q1 2018 |
|--|------------------|------------------|------------------|------------------|------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Net Loss | (3,975,781) | (2,886,497) | (805,927) | (393,184) | (421,922) |
| Adjustments | | | | | |
| Amortization of property and equipment and intangible assets | 2,303,469 | 2,111,634 | 2,133,187 | 1,411,622 | 1,099,988 |
| Financing costs | 5,532,377 | 6,675,901 | 2,289,379 | 1,612,531 | 1,395,791 |
| Business acquisition costs | (156,420) | 56,620 | 1,462,778 | 994,781 | 207,920 |
| Stock based compensation | - | (1,748,198) | 1,374,851 | 1,414,031 | 365,709 |
| Impairment | - | 212,000 | - | - | - |
| Financing income | (5,078) | (31,192) | - | - | - |
| Gain on settlement of accounts payable | - | - | (297,069) | (12,609) | - |
| Warrant fair value adjustment | 1,564,372 | 966,094 | 273,201 | 160,924 | 40,541 |
| Derivative asset fair value adjustment | 2,765,000 | (572,000) | - | - | - |
| Foreign exchange | 9,165 | (29,452) | (4,651) | 37,634 | - |
| Adjusted EBITDA | 8,037,104 | 4,754,910 | 6,425,749 | 5,225,730 | 2,688,027 |

Net Debt

The Company uses net debt to illustrate how much debt is attributable to QIIC after taking into account liquid assets such as cash of the parent and LB. The Company uses this as an indicator of overall financial position and leverage.

Net debt is defined as 51% (parent's portion) of the face value of the long-term debt including the current portion, net of total cash available less 49% (non-controlling interest) of LB's operating cash.

The following table represents the net debt calculation as at May 31, 2018:

| | | |
|--|-------------|------------|
| Carrying value of long term debt | | 61,094,477 |
| Add: Unamortized transaction costs | | 3,646,257 |
| Face value of the long term debt including current portion | | 64,740,734 |
| Parent's portion (51%) | | 33,017,774 |
| Total cash | 6,273,754 | |
| Less: 49% of Lucky Bucks, LLC's operating cash | (1,736,617) | 4,537,137 |
| Parent's net debt | | 28,480,637 |

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:

| | Q1 2019 | Q4 2018 | Q3 2018 | Q2 2018 |
|---|-------------------|-------------------|-------------------|-------------------|
| | 31/05/2018 | 28/02/2018 | 30/11/2017 | 31/08/2017 |
| | \$ | \$ | \$ | \$ |
| Revenue ⁽¹⁾ | 19,276,458 | 16,401,311 | 14,172,534 | 12,143,400 |
| Net Income (Loss) and Comprehensive Income (Loss) ⁽²⁾ | (3,975,781) | (2,886,497) | (805,927) | (393,184) |
| Basic Income (Loss) per share ⁽³⁾ | (0.049) | (0.041) | (0.027) | (0.025) |
| Diluted Income (Loss) per share ⁽³⁾ | (0.049) | (0.041) | (0.027) | (0.025) |

| | Q1 2018 | Q4 2017 | Q3 2017 | Q2 2017 |
|---|-------------------|-------------------|-------------------|-------------------|
| | 31/05/2017 | 28/02/2017 | 30/11/2016 | 31/08/2016 |
| | \$ | \$ | \$ | \$ |
| Revenue ⁽¹⁾ | 8,771,251 | 7,343,518 | 3,028,978 | - |
| Net Income (Loss) and Comprehensive Income (Loss) ⁽²⁾ | (421,922) | 1,895,400 | (1,744,718) | (1,587,820) |
| Basic Income (Loss) per share ⁽³⁾ | (0.030) | 0.035 | (0.016) | (0.048) |
| Diluted Income (Loss) per share ⁽³⁾ | (0.030) | 0.035 | (0.016) | (0.048) |

Notes:

- (1) Revenue increased from \$16,401,311 in Q4 2018 to \$19,276,458 in Q1 2019. The increase is due to the fact that March, April and May are typically high revenue generating months for the Company, as customers tend to have a higher disposable income in these months due to tax refunds received during this period. In addition, Q1 2019 is the first quarter that reports revenue for the full three months generated from the acquisitions closed in fiscal 2018. The increase in revenue throughout the 2018 quarters is directly related to the 9 acquisitions LB closed during the year. In Q1 2018 the Company closed the acquisition of Triple 7s Amusement LLC and Lucky Star Amusement, Inc, in Q2 2018 the Company closed the acquisition of American Amusement LLC and AM/PM Management Inc., in Q3 2018 the Company closed an acquisition of Fun Games Inc, FarEast Amusement Games and WildHorse Amusement

Company L.L.C and in Q4 2018 the company closed the acquisition of Lee Caudell, Inc and Wise Amusement LLC.

The revenue for Q2 2017 and part of Q3 2017 was reclassified as discontinued operations. The Company closed the Lucky Bucks, LLC transaction on October 21, 2016; therefore Q3 2017 includes 41 days of revenue from this acquisition. Q4 2017 includes revenue for the entire quarter from Lucky Bucks, LLC.

(2) Net loss and comprehensive loss increased from Q4 2018 to Q1 2019 largely due to the following expenses:

- (i) The Company had a derivative asset that was recorded as part of the early repayment option that was built into its previous long term debt. The Company paid its previous long term debt through a refinancing and as a result the Company recorded a fair value loss on the derivative asset of \$2,765,000.
- (ii) The Company incurred finance costs of \$2,373,786 as a result of the early repayment of its previous long term debt. There was significant costs associated with the refinance of long term debt that occurred in Q4 2018.

The fluctuations in the 2018 quarter over quarter losses stem from the timing 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 LB 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. In Q4 2018 the Company incurred more interest charges associated with its long term debt and accretion expense that was accelerated due to the refinancing that closed in April 2018. There was also an increase in amortization expense which was driven by the increase in COAM machines and gaming contracts. Increases in general administrative costs were largely driven by acquisition costs, salaries and benefits, share based compensation and administrative expenses.

In Q2 2017, the net loss that was recorded related to the Company's healthcare asset in New Jersey which was reclassified as discontinued operations. In Q3 2017 the Company closed the LB acquisition and recorded gaming revenue for approximately one month of activity. There was a slight increase in net loss from Q2 2017 to Q3 2017 due to expenses incurred relating to the LB acquisition. In Q4 2017 the Company reflected a full quarter of gaming revenue and it did not close any additional acquisitions, hence the Company recorded a net income compared to a net loss in Q3 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 has identified the following reportable business segments. Each of these reporting segments are managed separately and their results are based on internal management information that is regularly reviewed by the chief operating decision maker.

The Company's reportable business segments are:

- Quantum Gaming, Southern Star Gaming, and Lucky Bucks, LLC (acquired in 2017) collectively known as "**LBL**".

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

| | Total Corporate | LBL | Total May 31, 2018 |
|---|-----------------|-------------|-----------------------|
| Revenue | | | |
| Gaming revenue | - | 19,276,458 | 19,276,458 |
| Location costs | - | (9,638,229) | (9,638,229) |
| Revenue after location costs | - | 9,638,229 | 9,638,229 |
| Operating expenses | | | |
| Amortization of property, equipment and intangible assets | - | (2,303,469) | (2,303,469) |
| General and administrative expense | (753,929) | (690,776) | (1,444,705) |
| | (753,929) | (2,994,245) | (3,748,174) |
| Other expenses | | | |
| Finance costs | (4,268) | (5,528,109) | (5,532,377) |
| Finance income | 5,078 | - | 5,078 |
| Fair value loss on derivative liabilities | (1,564,372) | - | (1,564,372) |
| Loss on foreign exchange | (9,165) | - | (9,165) |
| Derivative asset | - | (2,765,000) | (2,765,000) |
| | (1,572,727) | (8,293,109) | (9,865,836) |
| Net loss and comprehensive loss | (2,326,656) | (1,649,125) | (3,975,781) |
| Total current assets | | | |
| | 399,009 | 8,725,857 | 9,124,866 |
| Total non-current assets | | | |
| | 13,568 | 60,008,149 | 60,021,717 |
| Total liabilities | | | |
| | 6,396,072 | 62,611,914 | 69,007,986 |

| | Corporate | LBL | Total May 31, 2017 |
|---|-------------|-------------|-----------------------|
| Revenue | | | |
| Gaming revenue | - | 8,771,251 | 8,771,251 |
| Location costs | - | (4,385,626) | (4,385,626) |
| Revenue after location costs | - | 4,385,625 | 4,385,625 |
| Operating expenses | | | |
| Amortization of property, equipment and intangible assets | - | (1,099,988) | (1,099,988) |
| General and administrative expense | (1,867,381) | (403,846) | (2,271,227) |
| | (1,867,381) | (1,503,834) | (3,371,215) |
| Other expenses | | | |
| Finance costs | (17,458) | (1,378,333) | (1,395,791) |
| Fair value loss on derivative liabilities | (40,541) | - | (40,541) |
| | (57,999) | (1,378,333) | (1,436,332) |

| | Corporate | LBL | Total May 31, 2017 |
|---------------------------------|------------------|------------|-------------------------------|
| Net loss and comprehensive loss | (1,925,380) | 1,503,458 | (421,922) |
| Total current assets | 2,124,983 | 4,335,035 | 6,460,018 |
| Total non-current assets | 312,003 | 33,963,165 | 34,275,168 |
| Total liabilities | 6,183,544 | 20,335,137 | 26,518,681 |

RESULT OF OPERATIONS

Quarter ended May 31, 2018 ("Q1 2019") compared to quarter ended May 31, 2017 ("Q1 2018")

Revenue

Q1 2019 revenue was \$19,276,458 (Q1 2018 – \$8,771,251). The increase in revenue is due to the fact that Q1 2019 includes revenue for the entire quarter (three months) from all the acquisitions that the Company closed throughout the 2018 fiscal year whereas Q1 2018 includes revenue for 15 days from the two the acquisitions that the Company closed in Q1 2018.

Financial condition

As at May 31, 2018 the Company reported working capital of \$5,139,240 compared to a deficiency of \$2,119,653 at May 31, 2017. During the quarter ended May 31, 2018 the Company generated \$2,709,927 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 \$3,975,781 for the quarter ended May 31, 2018 compared to a net loss of \$421,922 for the quarter ended May 31, 2017. The increase in the loss for the quarter ended May 31, 2018 was largely a result of the one-time refinance costs. In Q1 2018 the Company incurred more interest charges associated with its long term debt and the accretion expense was accelerated due to the refinance that closed in April 2018.

Location Costs

Location costs were \$9,638,229 and \$4,385,626 for the quarters ended May 31, 2018 and May 31, 2017 respectively. The increase in location costs is directly correlated to the increase in revenue.

Amortization of property, equipment and intangibles

Amortization of intangibles for Q1 2019 was \$2,015,600 (Q1 2018 – \$938,054) and amortization of property and equipment for Q1 2019 was \$287,869 (Q1 2018 – \$161,934).

The amortization of intangibles, property and equipment increased from Q1 2018 to Q1 2019 as a direct result of the increase in the value of property, equipment and intangibles due to the 9 business acquisitions closed in 2018. An outline of the value of assets acquired in these acquisitions is as follows:

| | <u>Triple 7s</u> | <u>Lucky Star</u> | <u>AMPM</u> | <u>AA</u> | <u>Fun Games</u> |
|---|--------------------|--------------------|---------------------|--------------------|---------------------|
| Acquisition date | 17-May-17 | 17-May-17 | 30-Jun-17 | 30-Jun-17 | 06-Oct-17 |
| Property and equipment | \$ 98,858 | \$ 99,746 | \$ 189,208 | \$ 140,706 | \$ 262,539 |
| Intangibles | | | | | |
| Owner/operator gaming machine contracts | 2,510,000 | 590,000 | 8,220,000 | 2,600,000 | 2,970,000 |
| Brand | 30,000 | 10,000 | 70,000 | 20,000 | 30,000 |
| Master license | 700,000 | 700,000 | 700,000 | 700,000 | 700,000 |
| Goodwill | 861,142 | 220,254 | 2,744,391 | 539,294 | 1,106,965 |
| | <u>\$4,101,142</u> | <u>\$1,520,254</u> | <u>\$11,734,391</u> | <u>\$3,859,294</u> | <u>\$4,806,965</u> |
| | | | | | |
| | <u>FarEast</u> | <u>WildHorse</u> | <u>LC</u> | <u>Wise</u> | <u>Total</u> |
| Acquisition date | 27-Nov-17 | 27-Nov-17 | 15-Dec-17 | 15-Dec-17 | |
| Property and equipment | \$ 69,128 | \$ 82,082 | \$ 137,284 | \$ 9,034 | \$ 1,088,585 |
| Intangibles | | | | | |
| Owner/operator gaming machine contracts | 1,640,000 | 930,000 | 2,150,000 | 200,000 | 21,810,000 |
| Brand | 20,000 | 10,000 | 20,000 | 2,000 | 212,000 |
| Master license | - | - | - | - | 3,500,000 |
| Goodwill | 1,460,878 | 1,207,833 | 1,692,716 | 138,966 | 9,972,439 |
| | <u>\$3,120,878</u> | <u>\$2,147,833</u> | <u>\$3,862,716</u> | <u>\$340,966</u> | <u>\$35,494,439</u> |

General & administrative costs

General and administrative costs incurred by nature are as follows:

| | <u>May 31, 2018</u> | <u>May 31, 2017</u> |
|--|---------------------|---------------------|
| | <u>\$</u> | <u>\$</u> |
| Acquisition cost ⁽¹⁾ | (156,420) | 207,920 |
| Professional and advisory fee ⁽²⁾ | 725,812 | 1,116,082 |
| Regulatory and filing fee | 3,822 | 47,460 |
| Salaries and benefits ⁽⁴⁾ | 319,816 | 277,733 |
| Share based compensation ⁽³⁾ | - | 365,708 |
| Administrative fees ⁽⁴⁾ | 551,675 | 256,324 |
| | <u>1,444,705</u> | <u>2,271,227</u> |

Notes:

- (1) Due to the COAM machines acquired in the 2018 fiscal year, the Company incurred a transfer fee to with supplier in connection with the transfer of games in the supplier's internal system. As at February 28, 2018, the Company determined the transfer fee to be \$390,555 and accrued this amount. In Q1 2019, the Company agreed with the supplier to reduce the transfer fee to \$234,135 and as a result an adjustment was recorded in Q1 2019 to reduce the accrual by \$156,420 which resulted in a recovery of these costs.
Also, there were no acquisitions costs in Q1 2019 as the Company did not close any acquisitions whereas the Company closed two acquisitions in Q1 2018.
- (2) Professional and advisory fees in Q1 2018 included performance incentives of \$398,368 that related to the 3 to 1 share consolidation that occurred in May 2018. There was no similar performance incentive in Q1 2019, therefore this resulted in a decrease in professional and advisory fees.
- (3) There is no stock based compensation expense in Q1 2019 as the Company did not issue any stock based compensation whereas in Q1 2018 the Company recorded stock based compensation expense of \$365,708 as the Company issued stock options to employees, officers and directors.
- (4) There was an increase in administrative fees and salaries and benefits due to the growth of Lucky Bucks in fiscal year 2018, driven by nine business acquisitions. As the LB footprint grew this required the addition to technician staff to service the larger gaming footprint.

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 incurred interest expense of \$1,819,210 in Q1 2019 compared to \$504,160 in Q1 2018. The increase in interest expense is directly correlated with the increase in long term debt driven by the acquisitions closed.
- The Company incurred an accretion expense of \$1,326,148 in Q1 2019 compared to \$400,656 in Q1 2018. The Company paid its prior outstanding long-term debt through a refinance and as a result the unamortized transaction costs relating to the previous long-term debt were expensed, hence the increase in accretion expense in Q1 2019 compared to Q1 2018.

Additionally, a one-time make whole payment of \$2,373,786 was incurred during Q1 2019 related to the refinance. This expense was included as part of finance costs and was incurred as a result of the early repayment of its prior outstanding long-term debt.

Fair value gain on derivative asset

The early repayment option tied to the prior outstanding long-term debt resulted in an embedded derivative that required separation from the original loan. As at February 28, 2018 the value of the derivative asset was \$2,765,000. The prior long-term debt was repaid on April 9, 2018, and as such, the Company recorded a fair value loss of \$2,765,000 in Q1 2019. There was no derivative asset recorded by the Company as of May 31, 2017.

Fair value loss on derivative liabilities

As of May 31, 2018, there are 5,985,904 (Q1 2018 – 4,880,832) warrants outstanding which are recorded as a derivative liability with a value of \$3,986,097 (Q1 2018 – \$555,812). The fair value loss on derivative liabilities of \$1,564,372 (Q1 2018 – \$40,541) relates to the fair value change in the warrant derivative liability.

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

As at May 31, 2018, the Company's cash increased by \$1,557,023. Management currently believe that the Company's cash, cash flows from operations and borrowing availability under its long-term debt facility will be sufficient to meet its 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. Decline 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 three months ended May 31, 2018 was \$2,709,927 compared with \$208,146 of cash generated from operating activities during the three months ended May 31, 2017.

Cash generated in operating activities during the three months ended May 31, 2018 consisted of (i) \$3,983,208 of cash generated from revenue net of operating, general and administrative, regulatory compliance and professional fees and (ii) there was a \$1,273,281 decrease in cash due to the increase in non-cash working capital.

Cash generated from operating activities during the three months ended May 31, 2017 consisted of (i) \$1,484,972 cash was used from revenue net of operating, general and administrative, regulatory compliance and professional fees and (ii) there was a 1,276,826 decrease in cash due to the increase non-cash current working capital.

Cash Used In/Generated from Investing Activities

Cash used in investing activities during the three months ended May 31, 2018 was \$282,305, compared with \$6,290,623 of cash used in investing activities during the three months ended May 31, 2017.

Cash used in investing activities during the three months ended May 31, 2018 was a result of additions to property and equipment of \$282,305.

Cash used in investing activities during the three months ended May 31, 2017 included additions to property and equipment for \$410,623, \$70,000 of cash paid for location contracts, and \$5,810,000 paid for acquisitions.

Cash Used In/Generated from Financing Activities

Cash used in financing activities during the three months ended May 31, 2018 was \$870,598 compared to \$7,136,840 of cash generated from financing activities during the three months ended May 31, 2017.

Cash used in financing activities during the three months ended May 31, 2018 included proceeds from long-term-debt of \$64,509,349, \$3,753,198 of debt transaction costs, restricted cash requirement of \$1,000,000, the repayment of existing long-term debt of \$58,209,662, and cash distributions of \$2,417,087 paid to non-controlling interest.

Cash generated from financing activities during the three months ended May 31, 2017 included advances from long-term debt of \$9,200,000 for acquisitions, \$1,085,000 of debt transaction costs, proceeds of \$447,092 from private placement, proceeds of \$24,496 from warrants exercised, proceeds of \$112,515 from options exercised and \$1,562,263 of cash distributions paid to non-controlling interest.

Working Capital

As of May 31, 2018, the Company had positive net working capital of \$5,139,240 compared with positive net working capital of \$1,422,232 as of February 28, 2018. 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

| <u>Financing</u> | <u>Purpose of Financing</u> | <u>Actual use of proceeds</u> |
|--|--|--------------------------------------|
| On April 9, 2018, LB closed a US\$75 million multi-draw credit facility, consisting of a term loan and a multi-draw term facility. | To refinance the Company's previous long-term debt | 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, 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 May 31, 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, (3) contractual obligations pertaining to the Company's debt covenants and (4) the deferred payments required to December 31, 2018 as agreed to in the additional 9% acquisition of the membership interest in Lucky Bucks Holdco, LLC.

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 GSSLG contains the following covenants:

- **Fixed Charge Coverage Ratio:** LB shall not permit the Fixed Charge Coverage Ratio as of the last day of any Fiscal Quarter, beginning with the Fiscal Quarter ending June 30, 2018, to be less than 1.25:1.00.
- **Leverage Ratio:** LB shall not permit the Leverage Ratio as of the last day of any Fiscal Quarter, beginning with the Fiscal Quarter ending June 30, 2018, to exceed the correlative ratio indicated below:

| <u>Fiscal Quarter Ending</u> | <u>Leverage Ratio</u> |
|--|-----------------------|
| June 30, 2018; and September 30, 2018 | 3.00:1.00 |
| December 31, 2018; March 31, 2019; June 30, 2019; September 30, 2019; December 31, 2019; March 31, 2020; June 30, 2020; and September 30, 2020 | 2.75:1.00 |
| December 31, 2020 and each Fiscal Quarter thereafter | 2.50:1.00 |

- **Minimum Consolidated Liquidity:** LB shall not permit Consolidated Liquidity at any time to be less than the sum of (x) \$1,000,000 plus (y) the Quarterly ECF Holdback at such time.

As at May 31, 2018, the Company was in compliance with the financial covenants related to its multi draw credit facility.

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 May 31, 2018, the Company's related parties and key management personnel consists of the Company's directors and executive officers.

| <u>Name/ Corporate Entity</u> | <u>Relationship</u> | <u>Nature of Transaction</u> |
|---|--|--|
| 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 May 31, 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>May 31, 2018</u> | <u>May 31, 2017</u> |
|---|---------------------|---------------------|
| Director fees ⁽¹⁾ | 77,004 | 12,000 |
| Salaries and short-term benefits ⁽²⁾ | 60,000 | 277,732 |
| Stock based compensation ⁽³⁾ | - | 365,709 |
| Consulting fees ⁽⁴⁾ | 258,241 | 844,756 |
| | <u>395,245</u> | <u>1,500,197</u> |

Notes:

- (1) Honorarium for serving as directors of the Board. As at May 31, 2018, the Company owed \$50,533 relating to the director fees (February 28, 2018 – \$86,686).
- (2) Salary and short-term benefits paid to Anil Damani for carrying out the CEO function at LB.
- (3) To provide meaningful incentives, the Company issues stock-based compensation to directors and senior management. No stock-based compensation was issued during the period ended May 31, 2018.
- (4) For the three months ended May 31, 2018, the Company incurred consulting fees of \$240,599 (May 31, 2017 – \$798,081) from Ascendant Group Holdings Inc., a company controlled by Manu K. Sekhri (CEO and Director of the Company). These fees were incurred in accordance to the consulting agreement with Ascendant Group Holdings Inc. As at May 31, 2018, \$Nil was owed relating to these consulting fees (February 28, 2018 – \$1,571,917).

For the three months ended May 31, 2018, the Company incurred consulting fees of \$17,642 (May 31, 2017 – \$Nil) from Durward Jones Barkwell & Company LLP, an accounting firm at which Ryan Bouskill is an employee. As at May 31, 2018, \$8,785 was owed relating to these consulting fees (February 28, 2018 – \$15,879). These consulting fees were incurred by the Company for Ryan Bouskill to carry out the CFO duties.

For the three months ended May 31, 2018, total distributions declared by Lucky Bucks Holdco, LLC to Anil Damani, 49% shareholder of Lucky Bucks Holdco, LLC totaled \$1,530,382 (May 31, 2017 – \$1,842,188). As at May 31, 2018, \$Nil was owed relating to these distributions (February 28, 2018 – \$886,704).

For the three months ended May 31, 2018, the Company paid rent of \$23,576 (May 31, 2017 – 34,897) to Ascendant Group Holdings Inc., a company controlled by Manu K. Sekhri (CEO and Director of the Company)

As at May 31, 2018, \$51,853 is due from Anil Damani, CEO of Lucky Bucks, LLC and 49% shareholder of Lucky Bucks Holdco, LLC.

As at May 31, 2018, \$27,500 is due from 27th Group, a company controlled by Anil Damani, CEO of Lucky Bucks, LLC and 49% shareholder of Lucky Bucks Holdco, LLC.

As at May 31, 2018, \$268,244 was owed to Forbes Andersen LLP, an accounting firm at which Paul Andersen is a Managing Partner (February 28, 2018 – \$268,244). The amount owed relates to Paul Andersen carrying out the CFO duties prior to October 21, 2016.

All amounts due from (to) related parties are 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

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, Lucky Bucks Ventures, Inc will receive consideration of \$3,650,000, with the remaining consideration of \$2,350,000 to 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.

STOCK PERFORMANCE FOR THE QUARTER

Time frame: February 28, 2018 – May 31, 2018



CRITICAL ACCOUNTING ESTIMATES AND USE OF JUDGEMENT

There have been no changes in the Company's critical accounting estimates and use of judgements in the three months ended May 31, 2018. Further information on the Company's critical accounting estimates and use of judgements can be found in the notes to the annual consolidated financial statements and MD&A for the year ended February 28, 2018.

RECENT ACCOUNTING PRONOUNCEMENTS

Changes in Accounting Policies Adopted

IFRS 9 Financial Instruments ("IFRS 9")

The Company adopted IFRS 9 effective March 1, 2018 using the retrospective method with cumulative effect, resulting in no adjustment to opening retained earnings.

The Company determined the appropriate classification category and measurement for each of its financial assets and financial liabilities under IFRS 9 and compared each to their original classification and measurement under IAS 39. Under IFRS 9, financial instruments are classified as follows:

Financial assets – Pursuant to IFRS 9, the classification of financial assets are based on the Company's assessment of its business model for holding financial assets. The classification categories are as follows:

- Financial assets measured at amortized cost: assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets at fair value through other comprehensive income: assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets at fair value through profit or loss: assets that do not meet the criteria for amortized cost or fair value through other comprehensive income.

Financial assets measured at amortized cost are measured at cost using the effective interest method. The amortized cost is reduced by impairment losses at an amount equal to the lifetime expected credit losses that result from all possible default events over the expected life of the financial instrument. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amounts of the assets and the loss is recognized in the Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). When a trade receivable is uncollectible, it is written off against the allowance for doubtful accounts.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred.

Financial liabilities – The classification of financial liabilities is determined by the Company at initial recognition. The classification categories are as follows:

- Financial liabilities measured at amortized cost: financial liabilities initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense is recognized in the interim consolidated statements of loss and comprehensive loss.
- Financial liabilities measured at fair value through profit or loss: financial liabilities measured at fair value with changes in fair value and interest expense recognized in the interim consolidated statements of loss and comprehensive loss.
- Financial liabilities are derecognized when the obligation is discharged, cancelled or expired.

The following table summarizes the classification impacts of the adoption of IFRS 9:

| Financial Instruments | Classification Category | |
|--|-----------------------------------|---|
| | Original (IAS 39) | New (IFRS 9) |
| Assets | | |
| Cash | Loans and receivables | Financial assets at amortized cost |
| Restricted cash | Loans and receivables | Financial assets at amortized cost |
| Accounts receivable | Loans and receivables | Financial assets at amortized cost |
| Related party balances | Loans and receivables | Financial assets at amortized cost |
| Notes receivable | Loans and receivables | Financial assets at amortized cost |
| Derivative asset | Fair value through profit or loss | Fair value through profit or loss |
| Liabilities | | |
| Accounts payable and accrued liabilities | Other financial liabilities | Financial liabilities at amortized cost |
| Distribution payable | Other financial liabilities | Financial liabilities at amortized cost |
| Long-term debt | Other financial liabilities | Financial liabilities at amortized cost |
| Derivative liability | Fair value through profit or loss | Fair value through profit or loss |

| Financial Instruments | Measurement Category | |
|--|-----------------------------------|-----------------------------------|
| | Original (IAS 39) | New (IFRS 9) |
| Assets | | |
| Cash | Amortized cost | Amortized cost |
| Restricted cash | Amortized cost | Amortized cost |
| Accounts receivable | Amortized cost | Amortized cost |
| Related party balances | Amortized cost | Amortized cost |
| Notes receivable | Amortized cost | Amortized cost |
| Derivative asset | Fair value through profit or loss | Fair value through profit or loss |
| Liabilities | | |
| Accounts payable and accrued liabilities | Amortized cost | Amortized cost |
| Distribution payable | Amortized cost | Amortized cost |
| Long-term debt | Amortized cost | Amortized cost |
| Derivative liability | Fair value through profit or loss | Fair value through profit or loss |

Adoption of IFRS 9 did not have a significant impact on the Company's financial statements. Adoption of IFRS 9 did not result in any adjustments to the carrying value of the Company's financial instruments. Based on the assessment of the credit risk related to the Company's financial instruments, there has been no significant increase in the credit risk since initial recognition of the financial instruments and no additional credit loss was recorded on the date of the initial application of IFRS 9.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

The Company adopted IFRS 15 effective March 1, 2018 using the retrospective method with cumulative effect, resulting in no adjustment to opening retained earnings.

IFRS 15 replaces existing standards and interpretations on revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The standard outlines a single comprehensive model for revenue recognition arising from contracts with customers.

IFRS 15 requires that revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services.

This is achieved by applying the following five steps: (i) identify the contract with a customer; (ii) identify the performance obligations in the contract (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

The Company reviewed its sources of revenue using the guidance found in IFRS 15 and determined there were no material changes to the timing and measurement of the Company's revenue in the reporting period as compared to the previous standard.

Recent accounting pronouncements

There were no new accounting pronouncements relevant to the Company's operations issued subsequent to February 28, 2018. For further details please refer to the annual consolidated financial statements of the Company for the year ended February 28, 2018.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

As of May 31, 2018, the Company's financial instruments consists of cash, restricted cash, accounts receivable, related party balances, note receivable, derivative asset, accounts payable and accrued liabilities, distribution payable, long-term debt, and derivative liability.

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

The carrying amounts of long-term debt approximate its 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 the current interest rates, market values and pricing of financial instruments with comparable terms.

The Company measures the derivative liability at fair value at the end of the reporting period.

The Company's risk exposures and the impact on its financial instruments are summarized below:

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 period ended May 31, 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 its interest in Lucky Bucks, LLC.

The Company monitors cash on a regular basis and reviews expenses and overhead to ensure costs and commitments are being paid in a timely manner. Management has worked with and negotiated with vendors to ensure payment arrangements are satisfactory to all parties and that monthly cash commitments are managed within the Company's operating cash flow capabilities.

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

As at May 31, 2018, the Company had cash balance of \$6,273,754 (February 28, 2018 – \$4,716,731).). 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 following table summarizes amounts and maturity dates of the Company's contractual obligations as of May 31, 2018:

| | Within 1 Year | 2-3 years | 4-5 years | Total |
|--|----------------------|-------------------|-------------------|-------------------|
| Accounts payable and accrued liabilities | \$ 3,876,878 | \$ - | \$ - | \$3,876,878 |
| Related party balances | 50,333 | - | - | 50,333 |
| Long-term debt | 6,509,150 | 13,018,300 | 45,213,284 | 64,740,734 |
| | <u>10,436,361</u> | <u>13,018,300</u> | <u>45,213,284</u> | <u>68,667,945</u> |

Interest Rate Risk

As of May 31, 2018, the Company had a multi draw credit facility with a carrying value of \$60,863,092, with a face value of \$64,509,349, and with a variable annual interest rate of LIBOR plus 7%. LIBOR rates fluctuate over time, new loan agreements may be entered into in the future or existing loans may be renewed at new interest rates, therefore the Company is subject to interest rate risk.

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.

OUTSTANDING SHARE DATA

The following table summarizes the maximum number of common shares potentially outstanding as at May 31, 2018 and as of the date of this MD&A if all share options outstanding and warrants outstanding were converted to common shares:

| | <u>May 31, 2018</u> | <u>July 27, 2018</u> |
|---------------------------|---------------------|----------------------|
| Common shares outstanding | 70,321,208 | 70,321,208 |
| Warrants outstanding | 5,985,904 | 5,985,904 |
| Share options outstanding | 7,032,105 | 7,032,105 |
| Total | <u>83,339,217</u> | <u>83,339,217</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 July 30, 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 May 31, 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 May 31, 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.