



**QUANTUM INTERNATIONAL INCOME CORP**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three and six months ended August 31, 2018**

(in U.S. Dollars)

(Unaudited)

Management Comments	2
Condensed Interim Consolidated Statements of Financial Position	3
Condensed Interim Consolidated Statements of Income and Comprehensive Income	4
Condensed Interim Consolidated Statements of Changes in Equity	5
Condensed Interim Consolidated Statements of Cash Flows	6
Notes to the Condensed Interim Consolidated Financial Statements	7 - 21

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

**Management Comments**

These Condensed Interim Consolidated Financial Statements of Quantum International Income Corp. for the three and six month period ended August 31, 2018 and all the information contained in this condensed interim financial report are the responsibility of management and have been approved by the Board of Directors.

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

October 30, 2018

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

**QUANTUM INTERNATIONAL INCOME CORP**  
**Condensed Interim Consolidated Statements of Financial Position**  
*(Unaudited)*  
*(All amounts in U.S. dollars)*

	August 31, 2018	February 28, 2018
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 2,822,511	\$ 4,716,731
Restricted cash (Note 5)	824,210	1,204,785
Accounts receivable	1,605,608	1,422,333
Related party balances (Note 13)	76,352	82,354
Current portion of note receivable	140,663	346,040
Prepaid expense and other assets	612,391	606,574
Derivative asset (Note 6)	-	2,765,000
<b>Total current assets</b>	<b>6,081,735</b>	<b>11,143,817</b>
<b>Non-current assets</b>		
Restricted cash (Note 5)	1,000,000	-
Property and equipment	5,766,357	5,339,896
Intangible assets and goodwill	51,682,385	55,702,984
<b>Total non-current assets</b>	<b>58,448,742</b>	<b>61,042,880</b>
<b>TOTAL ASSETS</b>	<b>\$ 64,530,477</b>	<b>\$ 72,186,697</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 4,031,592	\$ 4,353,063
Distribution payable	-	886,704
Current portion of long-term debt (Note 7)	67,697	58,215
Related party balances (Note 13)	311,032	1,658,603
Promissory note (Note 4)	1,850,000	-
Derivative liability (Note 6)	3,513,921	2,421,726
<b>Total current liabilities</b>	<b>9,774,242</b>	<b>9,378,311</b>
Long-term debt (Note 7)	59,633,512	57,163,626
<b>Total liabilities</b>	<b>69,407,754</b>	<b>66,541,937</b>
<b>Equity</b>		
Share capital (Note 8)	33,301,934	33,301,934
Contributed surplus	1,836,748	1,836,748
Deficit	(44,627,435)	(37,826,191)
<b>Equity attributable to owners of the parent</b>	<b>(9,488,753)</b>	<b>(2,687,509)</b>
<b>Non-controlling interest</b>	<b>4,611,476</b>	<b>8,332,269</b>
<b>Total equity</b>	<b>(4,877,277)</b>	<b>5,644,760</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 64,530,477</b>	<b>\$ 72,186,697</b>
<b>ON BEHALF OF THE BOARD</b>		
(signed) Manu Sekhri	(signed) Peter Shippen	
_____ Manu Sekhri, Director	_____ Peter Shippen, Director	

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

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

	Three Months Ended August 31		Six Months Ended August 31	
	2018	2017	2018	2017
<b>Revenue</b>				
Gaming revenue	\$ 17,012,675	\$ 12,143,400	\$ 36,289,133	\$ 20,914,651
Location costs	(8,506,337)	(6,071,699)	(18,144,566)	(10,457,325)
Revenue after location costs	<b>8,506,338</b>	6,071,701	<b>18,144,567</b>	10,457,326
<b>Operating expenses</b>				
Amortization of property, equipment and intangible assets	(2,325,621)	(1,411,622)	(4,629,090)	(2,511,610)
General and administrative expenses (Note 10)	(1,820,200)	(3,254,783)	(3,264,905)	(5,526,010)
	<b>(4,145,821)</b>	(4,666,405)	<b>(7,893,995)</b>	(8,037,620)
<b>Other expenses</b>				
Finance costs	(1,744,905)	(1,612,531)	(7,277,281)	(3,008,321)
Finance income	3,410	-	8,487	-
Gain on settlement of accounts payable	-	12,609	-	12,609
Fair value gain (loss) on derivative liability (Note 6)	472,176	(160,924)	(1,092,195)	(201,466)
Gain (loss) on foreign exchange	7,670	(37,634)	(1,496)	(37,634)
Fair value loss on derivative asset (Note 6)	-	-	(2,765,000)	-
	<b>(1,261,649)</b>	(1,798,480)	<b>(11,127,485)</b>	(3,234,812)
<b>Net income (loss) and comprehensive income (loss)</b>	<b>\$ 3,098,868</b>	\$ (393,184)	<b>\$ (876,913)</b>	\$ (815,106)
<b>Net income (loss) and comprehensive income (loss) attributable to:</b>				
Owners of the parent	1,502,411	(1,631,675)	(1,911,152)	(3,436,136)
Non-controlling interest	1,596,457	1,238,491	1,034,239	2,621,030
	<b>\$ 3,098,868</b>	\$ (393,184)	<b>\$ (876,913)</b>	\$ (815,106)
<b>Earnings per share (Note 11) - Basic</b>	<b>\$ 0.021</b>	\$ (0.025)	<b>\$ (0.027)</b>	\$ (0.054)
<b>Earnings per share (Note 11) - Diluted</b>	<b>\$ 0.018</b>	\$ (0.025)	<b>\$ (0.027)</b>	\$ (0.054)

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

	Attributable to Owners of the Parent			Total	Non-controlling Interest	Total Equity
	Share Capital	Contributed Surplus	Deficit			
<b>Balance as at February 28, 2017</b>	\$ 30,695,521	\$ 1,685,627	\$ (29,870,077)	\$ 2,511,071	\$ 13,416,038	\$ 15,927,109
Equity issuance (Note 8)	447,101	-	-	447,101	-	447,101
Warrants exercised (Note 8)	105,260	(29,900)	-	75,360	-	75,360
Share transfer options exercised (Note 8)	1,400,686	(812,331)	-	588,355	-	588,355
Stock based compensation (Note 9)	-	1,779,740	-	1,779,740	-	1,779,740
Distributions	-	-	-	-	(3,457,941)	(3,457,941)
Net income (loss) for the period	-	-	(3,436,136)	(3,436,136)	2,621,030	(815,106)
<b>Balance as at August 31, 2017</b>	<b>32,648,568</b>	<b>2,623,136</b>	<b>(33,306,213)</b>	<b>1,965,491</b>	<b>12,579,127</b>	<b>14,544,618</b>
<b>Balance as at February 28, 2018</b>	<b>33,301,934</b>	<b>1,836,748</b>	<b>(37,826,191)</b>	<b>(2,687,509)</b>	<b>8,332,269</b>	<b>5,644,760</b>
Acquisition of non-controlling interests (Note 4)	-	-	(4,890,092)	(4,890,092)	(1,109,908)	(6,000,000)
Distributions	-	-	-	-	(3,645,124)	(3,645,124)
Net income (loss) for the period	-	-	(1,911,152)	(1,911,152)	1,034,239	(876,913)
<b>Balance as at August 31, 2018</b>	<b>33,301,934</b>	<b>1,836,748</b>	<b>(44,627,435)</b>	<b>(9,488,753)</b>	<b>4,611,476</b>	<b>(4,877,277)</b>

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

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

	August 31, 2018	August 31, 2017
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (876,913)	\$ (815,106)
Items not affecting cash		
Amortization of property and equipment and intangible assets	4,629,090	2,511,610
Fair value change in derivative liability	1,092,195	201,466
Fair value change in derivative asset	2,765,000	-
Accretion expense	1,515,610	1,077,918
Loss on disposal of property and equipment	8,092	-
Stock based compensation	-	1,779,740
Net change in non-cash operating working capital (Note 14)	(1,266,182)	(2,924,059)
<b>Cash flows from operating activities</b>	<b>7,866,892</b>	<b>1,831,569</b>
<b>INVESTING ACTIVITIES</b>		
Cash paid for acquisition (Note 4)	(4,150,000)	(21,743,599)
Cash paid for location contracts	-	(70,000)
Additions to property and equipment	(1,066,594)	(969,379)
<b>Cash flows used in investing activities</b>	<b>(5,216,594)</b>	<b>(22,782,978)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from long term debt (Note 7)	64,579,777	-
Repayment of long term debt	(59,839,269)	-
Debt transaction costs	(3,753,198)	(2,251,401)
Restricted cash	(1,000,000)	(1,017,740)
Proceeds from private placement	-	447,101
Proceeds from warrants exercised	-	75,360
Proceeds from options exercised	-	588,356
Cash distributions paid to non-controlling interest	(4,531,828)	(3,364,909)
Advances from long-term debt	-	26,300,000
<b>Cash flows from financing activities</b>	<b>(4,544,518)</b>	<b>20,776,767</b>
<b>Net change in cash</b>	<b>(1,894,220)</b>	<b>(174,642)</b>
<b>Cash, beginning of period</b>	<b>4,716,731</b>	<b>3,396,787</b>
<b>Cash, end of period</b>	<b>\$ 2,822,511</b>	<b>\$ 3,222,145</b>
<b>Supplemental information</b>		
Interest paid	\$ 2,854,741	\$ 2,291,027

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**QUANTUM INTERNATIONAL INCOME CORP**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Three and Six Months Ended August 31, 2018**  
*(amounts in U.S. dollars, unless otherwise stated)*

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**1. CORPORATE INFORMATION**

Quantum International Income Corp ("Quantum" or the "Company") is a gaming company. 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 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, United States of America through LB with a particular focus on cash-flows and high margins.

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

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

**2. BASIS OF PREPARATION**

**Statement of compliance**

These condensed interim consolidated financial statements were prepared in accordance with International Accounting Standards 34, Interim Financial Reporting ("IAS 34"), using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The accounting policies and methods of application applied by the Company in these condensed interim consolidated financial statements are the same as those applied in the Company's most recent annual consolidated financial statements as at and for the year ended February 28, 2018, except as described in Note 3. These condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and therefore should be read in conjunction with most recent annual consolidated financial statements as at and for the year ended February 28, 2018.

These condensed interim consolidated financial statements were approved for issue by the board of directors effective October 30, 2018.

**Share Consolidation**

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

**Basis of Consolidation**

The consolidated financial statements of the Company as at August 31, 2018 and February 28, 2018 comprise the Company and its subsidiaries (collectively the "Group"). The Company's subsidiaries and ownership interests are as follows:

**QUANTUM INTERNATIONAL INCOME CORP**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Three and Six Months Ended August 31, 2018**  
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	<b>Ownership interest</b>
Quantum US Healthcare Corp. ("QHC")	100%
Columbus LTACH Holdings Corp. ("LTACH")	100%
Quantum Gaming Corp ("QGC")	100%
Southern Star Gaming, LLC ("SSG")	100%
Lucky Bucks HoldCo, LLC ("LBH")	60% (a)
Lucky Bucks, LLC ("LB")	60%

(a) On August 1, 2018 the Company acquired an additional 9% interest in its subsidiary, LBH, increasing its ownership interest from 51% to 60% (Note 4).

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

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **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:

- (i) 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 and Comprehensive Income. When a trade receivable is uncollectible, it is written off against the allowance for doubtful accounts.



**QUANTUM INTERNATIONAL INCOME CORP**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Three and Six Months Ended August 31, 2018**  
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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.

(ii) 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 income and comprehensive income.
- 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 income and comprehensive income.

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		Measurement Category	
	Original (IAS 39)	New (IFRS 9)	Original (IAS 39)	New (IFRS 9)
<b>Assets</b>				
Cash	Loans and receivables	Financial assets at amortized cost	Amortized cost	Amortized cost
Restricted cash	Loans and receivables	Financial assets at amortized cost	Amortized cost	Amortized cost
Accounts receivable	Loans and receivables	Financial assets at amortized cost	Amortized cost	Amortized cost
Related party balances	Loans and receivables	Financial assets at amortized cost	Amortized cost	Amortized cost
Note receivable	Loans and receivables	Financial assets at amortized cost	Amortized cost	Amortized cost
Derivative asset	Fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss
<b>Liabilities</b>				
Accounts payable and accrued liabilities	Other financial liabilities	Financial liabilities at amortized cost	Amortized cost	Amortized cost
Distribution payable	Other financial liabilities	Financial liabilities at amortized cost	Amortized cost	Amortized cost
Long-term debt	Other financial liabilities	Financial liabilities at amortized cost	Amortized cost	Amortized cost
Related party balances	Other financial liabilities	Financial liabilities at amortized cost	Amortized cost	Amortized cost
Derivative liability	Fair value through profit or loss	Fair value through profit or loss	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 credit risk related to the Company's financial instruments, there has been no significant increase in 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.

**QUANTUM INTERNATIONAL INCOME CORP**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Three and Six Months Ended August 31, 2018**  
*(amounts in U.S. dollars, unless otherwise stated)*

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**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 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.

**4. BUSINESS COMBINATIONS AND ACQUISITIONS**

On August 1, 2018, the Company acquired an additional 9% interest in LBH increasing its ownership interest from 51% to 60%.

The Company paid consideration as follows:

Cash consideration	\$ 3,650,000
Promissory note (a)	2,350,000
<b>Total consideration</b>	<b>\$ 6,000,000</b>

- (a) Promissory note is unsecured and payable in tranches no later than December 31, 2018. The principal amount outstanding under this promissory note does not bear any interest; provided, however, that if any principal outstanding under this promissory note has not be repaid by the December 31, 2018 , then the outstanding principal amount of this promissory note shall thereafter bear interest at a rate equal to 7% per annum.

As of August 31, 2018, \$500,000 of the promissory note has been repaid, with a remaining carrying value of \$1,850,000.

**QUANTUM INTERNATIONAL INCOME CORP**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Three and Six Months Ended August 31, 2018**  
*(amounts in U.S. dollars, unless otherwise stated)*

The change in equity due to the acquisition of the additional 9% interest in LBH is as follows:

Consideration paid to non-controlling shareholders	\$ 6,000,000
Carrying value of the additional interest in LB	1,109,908
<u>Difference recognized in equity</u>	<u>\$ 4,890,092</u>

**5. RESTRICTED CASH**

<u>Current assets</u>	<u>August 31, 2018</u>	<u>February 28, 2018</u>
Cash Sweep	\$ -	\$ 916,720
Cash restricted for transfer fee	-	96,030
Aggregate retained amount	-	100,035
FarEast Amusement Games holdback amount	-	92,000
Monthly excess cash flow holdback (a)	824,210	-
	<u>\$ 824,210</u>	<u>\$ 1,204,785</u>
<u>Non-current asset</u>	<u>August 31, 2018</u>	<u>February 28, 2018</u>
Minimum Cash (b)	\$ 1,000,000	\$ -

- (a) The monthly excess cash flow holdback is the product of (i) consolidated excess cash flow for the month multiplied by (ii) (A) 1.00 minus (B) the excess cash flow prepayment holdback percentage for the month (90%). These funds will become unrestricted when LB delivers its annual audited financial statements within 120 days after LB's fiscal year ending December 31, 2018.
- (b) The Company is required to maintain a minimum amount of \$1,000,000 in cash under the multi draw credit facility at all times.

**6. DERIVATIVE ASSET AND LIABILITY**

<u>Derivative asset</u>	<u>August 31, 2018</u>	<u>February 28, 2018</u>
Opening balance	\$ 2,765,000	\$ -
Acquired during the period	-	2,193,000
Change in fair value	(2,765,000)	572,000
	<u>\$ -</u>	<u>\$ 2,765,000</u>
<u>Derivative liability</u>	<u>August 31, 2018</u>	<u>February 28, 2018</u>
Opening balance	\$ 2,421,726	\$ 61,391
Issued during the period	-	919,575
Change in fair value	1,092,195	1,440,760
	<u>\$ 3,513,921</u>	<u>\$ 2,421,726</u>

**QUANTUM INTERNATIONAL INCOME CORP**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Three and Six Months Ended August 31, 2018**  
*(amounts in U.S. dollars, unless otherwise stated)*

**7. LONG-TERM DEBT**

		<b>August 31, 2018</b>	<b>February 28, 2018</b>
Multi draw credit facility	(a) (b)	\$ 59,438,107	\$ -
Senior secured first lien term loan ("credit facility")	(c)		11,170,552
Incremental term loan under the credit facility	(c)		9,858,212
Incremental term loan under the credit facility	(c)		18,337,304
Incremental term loan under the credit facility	(c)		5,983,087
Incremental term loan under the credit facility	(c)		6,793,476
Incremental term loan under the credit facility	(c)		4,833,814
Vehicle finance loans	(d)	263,101	245,396
		<u>59,701,209</u>	<u>57,221,841</u>
Less: Current portion of long-term debt		<u>(67,697)</u>	<u>(58,215)</u>
Long term debt		\$ 59,633,512	\$ 57,163,626

- (a) On April 9, 2018, the Company through 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 2<sup>nd</sup> year, (iii) 2.00% in the 3<sup>rd</sup> 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 GSSLG an undrawn facility commitment fee under the MDTL Facility and an annual administration fee, all of which are typical to these arrangements.

**QUANTUM INTERNATIONAL INCOME CORP**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Three and Six Months Ended August 31, 2018**  
*(amounts in U.S. dollars, unless otherwise stated)*

The obligations of LB and LBH under the multi-draw term loan facility are secured by a first priority lien in substantially all of the LB's and LBH's assets. The obligations are further secured by a pledge of the membership interests of Holdings that are held by Lucky Bucks Ventures, Inc. (40% shareholder of LBH) and SSG.

As at August 31, 2018, the Company was in compliance with its financial covenants under the terms of its multi draw credit facility.

(b)

<b>Transaction costs relating to multi draw credit facility</b>		
Additions	\$	3,753,198
Accretion		(294,690)
<hr/>		
Unamortized transaction costs	\$	3,458,508
<hr/>		
<b>Reconciliation to carrying value</b>		
Principal amount	\$	64,509,349
Principal repayment		(1,612,734)
Unamortized transaction costs		(3,458,508)
<hr/>		
Carrying value	\$	59,438,107
<hr/>		

- (c) The proceeds from the multi draw credit facility were used to repay the credit facility and incremental term loans under the Company's previous credit facility.
- (d) The Company has two vehicle finance loans that are non-interest bearing with monthly principal payments of \$557 and \$560 and will mature on July 30, 2021. The remaining nine vehicle finance loans bear interest ranging from 4.40% to 7.80% annually with monthly blended payments between \$491 and \$623 and mature between November 8, 2022 and September 13, 2024.

## **8. CAPITAL AND OTHER COMPONENTS OF EQUITY**

### **Share capital and warrants**

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

	Number of common shares	Number of warrants	Share Capital Value
Balance as at February 28, 2017	60,669,628	2,740,160	\$30,695,521
Equity and warrant issuance relating to private placement (a)	3,529,404	3,529,404	447,101
Warrant issuance relating to senior term loan (b)	-	1,196,650	-
Warrants exercised	652,825	(652,825)	105,260
Warrants expired	-	(1,587,335)	-
Share transfer option common shares exercised (c)	(3,000,000)	-	-
Share transfer option common shares cancelled (c)	6,127,806	-	1,400,686
<hr/>			
Balance as at August 31, 2017	67,979,663	5,226,054	\$32,648,568
<hr/>			
Balance as at February 28, 2018	70,321,207	5,985,904	\$33,301,934
<hr/>			
Balance as at August 31, 2018	70,321,207	5,985,904	\$33,301,934
<hr/>			

**QUANTUM INTERNATIONAL INCOME CORP**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Three and Six Months Ended August 31, 2018**  
*(amounts in U.S. dollars, unless otherwise stated)*

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**a) Private placement**

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

**b) Warrants issued**

Concurrent to the incremental term loan under the credit facility, the Company issued 418,600 warrants to the lender with an exercise price of CAD \$0.3068 and an expiry of 30 months from the date of issuance.

Concurrent to the incremental term loan under the credit facility, the Company issued 778,050 warrants to the lender with an exercise price of CAD \$0.3828 and an expiry of 30 months from the date of issuance.

**c) Options exercised**

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

On July 5, 2017 an entity controlled by a director and officer of the Company, exercised 3,044,473 options to acquire 3,044,473 common shares. The exercise price of these options ranged from CAD \$0.15 to CAD \$0.27 for total cash proceeds of \$463,922, the share price on the date of exercise was CAD \$0.40.

On July 24, 2017, a former employee exercised 83,333 options to acquire 83,333 common shares. The exercise price of these options was CAD \$0.18 for total cash proceeds of \$11,919, the share price on the date of exercise was CAD \$0.48.

**Warrants**

As at August 31, 2018, the company had outstanding warrants as follows:

<b>Number of warrants</b>	<b>Exercise price (CAD)</b>	<b>Expiry</b>
3,529,404	\$ 0.215	May 20, 2020
418,600	\$ 0.307	November 17, 2019
500,000	\$ 0.39	April 19, 2019
778,050	\$ 0.383	December 30, 2019
257,075	\$ 0.65	April 5, 2020
293,475	\$ 1.041	May 27, 2020
209,300	\$ 0.942	June 16, 2020
<b>5,985,904</b>		

As of August 31, 2018, there are 5,985,904 (February 28, 2018 – 5,985,904) warrants outstanding which are recorded as a derivative liability with a value of \$3,513,921 (February 28, 2018 - \$2,421,726).

**QUANTUM INTERNATIONAL INCOME CORP**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Three and Six Months Ended August 31, 2018**  
*(amounts in U.S. dollars, unless otherwise stated)*

The fair value of the warrants outstanding is estimated at August 31, 2018 using the Black-Scholes option pricing model with the following weighted average inputs and assumptions:

	<b>August 31, 2018</b>	<b>February 28, 2018</b>
Exercise price (CAD)	\$0.64	\$0.64
Expected volatility (based on historical)	113%	102%
Risk-free interest rate	2.04%	1.74%
Expected life	1.57	2.1
Share price (CAD)	\$1.00	\$0.72

**9. SHARE OPTION PLAN**

The stock options were only awarded to employee, officers, directors and consultants; therefore it is recognized as an expense with a corresponding increase in share capital. The Company had the following stock options outstanding:

	<b>Six Months Ended August 31, 2018</b>		<b>Year Ended February 28, 2018</b>	
	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Beginning balance	7,032,105	\$ 0.35	3,497,907	\$ 0.24
Issued	-	\$ -	9,045,214	\$ 0.34
Exercised	-	\$ -	(5,469,350)	\$ 0.26
Expired	-	\$ -	-	\$ -
Forfeited	-	\$ -	(41,666)	\$ 0.18
Ending balance	7,032,105	\$ 0.35	7,032,105	\$ 0.35
Exercisable	7,032,105	\$ 0.35	7,032,105	\$ 0.35

The following table summarizes information about share purchase options granted and outstanding as at August 31, 2018:

<b>Number of options</b>	<b>Exercisable</b>	<b>Exercise Price (CAD)</b>	<b>Time to Maturity</b>
66,667	66,667	\$ 1.260	1.98 years
16,668	16,668	\$ 1.050	1.98 years
625,000	625,000	\$ 0.180	2.99 years
83,333	83,333	\$ 0.270	3.20 years
1,969,475	1,969,475	\$ 0.154	3.68 years
1,574,983	1,574,983	\$ 0.353	3.87 years
2,695,979	2,695,979	\$ 0.503	4.21 years
7,032,105	7,032,105		

**QUANTUM INTERNATIONAL INCOME CORP**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Three and Six Months Ended August 31, 2018**  
*(amounts in U.S. dollars, unless otherwise stated)*

**10. GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative costs incurred by nature are as follows:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>August 31, 2018</b>	<b>August 31, 2017</b>	<b>August 31, 2018</b>	<b>August 31, 2017</b>
Acquisition costs	\$ 355,898	\$ 994,781	\$ 199,478	\$ 1,202,701
Professional and advisory fees	434,167	155,621	1,159,979	1,271,703
Regulatory and filing fees	4,383	12,462	8,205	59,922
Salaries and benefits	357,553	325,351	677,369	603,083
Share based compensation	-	1,414,031	-	1,779,740
Administrative fees	659,216	352,537	1,210,891	608,861
Loss on disposal of property and equipment	8,982	-	8,982	-
	<b>\$ 1,820,200</b>	<b>\$ 3,254,783</b>	<b>\$ 3,264,905</b>	<b>\$ 5,526,010</b>

**11. EARNINGS (LOSS) PER SHARE**

During periods when the Company incurred a net loss, the loss and diluted loss per common share are based on the weighted-average common shares outstanding during the period. As the effect of all outstanding stock options and warrants are anti-dilutive during a year when the Company incurs a loss, diluted earnings per share do not differ from basic loss per share.

	<b>As at</b>
	<b>August 31, 2018</b>
Common shares issuable on exercise of warrants	5,985,904
Vested stock options	7,032,105

Earnings per share attributable to owners of the parent:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>August 31, 2018</b>	<b>August 31, 2017</b>	<b>August 31, 2018</b>	<b>August 31, 2017</b>
Weighted average shares outstanding - basic	70,321,207	66,555,956	70,321,207	63,716,280
Weighted average shares outstanding - diluted	83,339,216	78,459,679	83,339,216	75,620,003
Basic	\$ 0.021	\$ (0.025)	\$ (0.027)	\$ (0.054)
Diluted	\$ 0.018	\$ (0.025)	\$ (0.027)	\$ (0.054)



**QUANTUM INTERNATIONAL INCOME CORP**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Three and Six Months Ended August 31, 2018**  
*(amounts in U.S. dollars, unless otherwise stated)*

**12. 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:

- QGC, SSG, and LB (acquired in fiscal 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.

	<b>Three Months Ended August 31, 2018</b>			<b>Six Months Ended August 31, 2018</b>		
	<b>Corporate</b>	<b>LBL</b>	<b>Total</b>	<b>Corporate</b>	<b>LBL</b>	<b>Total</b>
<b>Revenue</b>						
Gaming revenue	\$ -	\$ 17,012,675	\$ 17,012,675	\$ -	\$ 36,289,133	\$ 36,289,133
Location costs	-	(8,506,337)	(8,506,337)	-	(18,144,566)	(18,144,566)
Revenue after location costs	-	8,506,338	8,506,338	-	18,144,567	18,144,567
<b>Operating expenses</b>						
Amortization of property, equipment and intangible assets	-	(2,325,621)	(2,325,621)	-	(4,629,090)	(4,629,090)
General and administrative expense	(812,739)	(1,007,461)	(1,820,200)	(1,566,668)	(1,698,237)	(3,264,905)
	(812,739)	(3,333,082)	(4,145,821)	(1,566,668)	(6,327,327)	(7,893,995)
<b>Other expenses</b>						
Finance costs	(4,004)	(1,740,901)	(1,744,905)	(8,271)	(7,269,010)	(7,277,281)
Finance income	3,410	-	3,410	8,487	-	8,487
Fair value gain (loss) on derivative liabilities	472,176	-	472,176	(1,092,195)	-	(1,092,195)
Loss on foreign exchange	7,670	-	7,670	(1,496)	-	(1,496)
Derivative asset	-	-	-	-	(2,765,000)	(2,765,000)
	479,252	(1,740,901)	(1,261,649)	(1,093,475)	(10,034,010)	(11,127,485)
Net Income (loss) and comprehensive income (loss)	\$ (333,487)	\$ 3,432,355	\$ 3,098,868	\$ (2,660,143)	\$ 1,783,230	\$ (876,913)
Total current assets	\$ 278,456	\$ 5,803,279	\$ 6,081,735	\$ 278,456	\$ 5,803,279	\$ 6,081,735
Total non-current assets	\$ 13,568	\$ 58,435,174	\$ 58,448,742	\$ 13,568	\$ 58,435,174	\$ 58,448,742
Total liabilities	\$ 6,155,832	\$ 63,251,922	\$ 69,407,754	\$ 6,155,832	\$ 63,251,922	\$ 69,407,754

**QUANTUM INTERNATIONAL INCOME CORP**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Three and Six Months Ended August 31, 2018**  
*(amounts in U.S. dollars, unless otherwise stated)*

	Three Months Ended August 31, 2017			Six Months Ended August 31, 2017		
	Corporate	LBL	Total	Corporate	LBL	Total
<b>Revenue</b>						
Gaming revenue	\$ -	\$ 12,143,400	\$ 12,143,400	\$ -	\$ 20,914,651	\$ 20,914,651
Location costs	-	(6,071,699)	(6,071,699)	-	(10,457,325)	(10,457,325)
Revenue after location costs	-	6,071,701	6,071,701	-	10,457,326	10,457,326
<b>Operating expenses</b>						
Amortization of property, equipment and intangible assets	-	(1,411,622)	(1,411,622)	-	(2,511,610)	(2,511,610)
General and administrative expense	(2,237,291)	(1,017,492)	(3,254,783)	(4,104,672)	(1,421,338)	(5,526,010)
	(2,237,291)	(2,429,114)	(4,666,405)	(4,104,672)	(3,932,948)	(8,037,620)
<b>Other expenses</b>						
Finance costs	(18,974)	(1,593,557)	(1,612,531)	(36,810)	(2,971,511)	(3,008,321)
Fair value gain (loss) on derivative liabilities	(160,924)	-	(160,924)	(201,466)	-	(201,466)
Loss on foreign exchange	(37,634)	-	(37,634)	(37,634)	-	(37,634)
Gain on settlement of accounts payable	12,609		12,609	12,609	-	12,609
	(204,923)	(1,593,557)	(1,798,480)	(263,301)	(2,971,511)	(3,234,812)
Net Income (loss) and comprehensive income (loss)	\$ (2,442,214)	\$ 2,049,030	\$ (393,184)	\$ (4,367,973)	\$ 3,552,867	\$ (815,106)
Total current assets	\$ 989,958	\$ 5,942,836	\$ 6,932,794	\$ 989,958	\$ 5,942,836	\$ 6,932,794
Total non-current assets	\$ 74,807	\$ 49,136,471	\$ 49,211,278	\$ 74,807	\$ 49,136,471	\$ 49,211,278
Total liabilities	\$ 5,041,167	\$ 36,558,287	\$ 41,599,454	\$ 5,041,167	\$ 36,558,287	\$ 41,599,454

### 13. RELATED PARTY TRANSACTIONS AND BALANCES

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

Key management personnel compensation:

	Three Months Ended		Six Months Ended	
	August 31, 2018	August 31, 2017	August 31, 2018	August 31, 2017
Salaries and short term benefits	\$ 60,000	\$ 60,000	\$ 120,000	\$ 120,000
Director fees	53,094	12,000	130,098	24,000
Share based compensation	-	1,414,031	-	1,779,740
Consulting fees	568,741	731,775	826,982	1,576,531

**QUANTUM INTERNATIONAL INCOME CORP**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Three and Six Months Ended August 31, 2018**  
*(amounts in U.S. dollars, unless otherwise stated)*

As at August 31, 2018, the Company owed \$47,500 relating to director fees (February 28, 2018 – \$86,686).

During the three and six month period ended August 31, 2018, the Company incurred consulting fees of \$274,854 and \$515,453 (August 31, 2017 – \$231,479 and \$280,408), paid performance incentives of \$263,532 and \$263,532 (2017 - \$465,183 and \$673,103) directly tied to business acquisitions, paid a performance incentive of \$Nil and \$Nil (2017 - \$Nil and \$398,368 ) that related to the 3 for 1 share consolidation, paid a discretionary performance incentive of \$Nil and \$Nil (2017 - \$Nil and \$142,864) and reimbursed expenses to a corporation controlled by a director and officer of the Company. These services were incurred in the normal course of operations. As at August 31, 2018, \$263,532 was owed relating to these consulting fees (February 28, 2018 – \$1,571,917).

During the three and six month period ended August 31, 2018, the Company incurred consulting fees of \$30,355 and \$47,997 (August 31, 2017 – \$35,113 ad \$81,788) from an accounting firm which carried out duties of the CFO. These services were incurred in the normal course of operations for general accounting and financial reporting matters. As at August 31, 2018, \$8,644 was owed relating to these consulting fees (February 28, 2018 – \$15,879).

During the three and six month period ended August 31, 2018, the Company paid rent of \$50,495 and \$74,071 (August 31, 2017 – \$35,157 and \$70,054) to a corporation controlled by a director and officer of the Company.

During the period ended August 31, 2018, total distributions declared by Lucky Bucks Holdco, LLC to its 40% shareholder totaled \$3,645,124 (August 31, 2017 – \$3,457,941). As at August 31, 2018, \$Nil was owed relating to these distributions (February 28, 2018 – \$886,704).

As at August 31, 2018, \$48,853 is due from the CEO of Lucky Bucks, LLC and 40% shareholder of Lucky Bucks Holdco, LLC. As at August 31, 2018, \$27,500 is due from 27th Group, a company controlled by the CEO of Lucky Bucks, LLC and 40% shareholder of Lucky Bucks Holdco, LLC.

As at August 31, 2018, \$263,193 was owed to an accounting firm which carried out duties of the CFO prior to October 31, 2016 (February 28, 2018 - \$268,244).

All amounts due from (to) related parties are non-interest bearing, unsecured and due on demand.

**14. SUPPLEMENTAL CASH FLOWS INFORMATION**

Changes in non-cash operating working capital:

	<b>Six Months Ended</b>	
	<b>August 31, 2018</b>	<b>August 31, 2017</b>
Accounts receivable	\$ (183,275)	\$ (288,971)
Restricted cash	380,575	-
Prepaid expenses and other	(5,817)	(16,470)
Related party balances	(1,341,571)	(531,486)
Notes receivable	205,377	166,430
Accounts payable and other liabilities	(321,471)	(2,253,562)
	<u>\$ (1,266,182)</u>	<u>\$ (2,924,059)</u>

**QUANTUM INTERNATIONAL INCOME CORP**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Three and Six Months Ended August 31, 2018**  
*(amounts in U.S. dollars, unless otherwise stated)*

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**15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**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, accounts receivable and note 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 August 31, 2018, all of the Company's gaming revenue is collected from Georgia Lottery Corporation ("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 shareholders and related companies.

The Company's cash flow is generated 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 August 31, 2018, the Company had cash balance of \$2,822,511 (February 28, 2018 - \$4,716,731). The following table summarizes amounts and maturity dates of the Company's contractual obligations as of August 31, 2018:

	<b>Within 1 Year</b>	<b>2-3 years</b>	<b>4-5 years</b>	<b>Total</b>
Accounts payable and accrued liabilities	\$ 4,031,592	\$ -	\$ -	\$ 4,031,592
Related party balances	311,032	-	-	311,032
Long-term debt	6,518,632	13,032,325	43,608,759	63,159,716
	<b>\$ 10,861,256</b>	<b>\$ 13,032,325</b>	<b>\$ 43,608,759</b>	<b>\$ 67,502,340</b>

**Fair Value Risk**

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

**QUANTUM INTERNATIONAL INCOME CORP**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the Three and Six Months Ended August 31, 2018**  
*(amounts in U.S. dollars, unless otherwise stated)*

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The carrying amount of long-term debt approximates its fair value since the interest rates on this instrument approximates the current market rate 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 derivative liabilities 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 United States dollar relative to the Canadian dollar as the Company also incurs expenses in Canadian dollars. 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.

### **Interest Rate Risk**

As of August 31, 2018, the Company had a multi draw credit facility with a carrying value of \$59,438,107, with a face value of \$62,896,615, 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.

### **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. For the period ended August 31, 2018 the Company was in compliance with the financial covenants related to its long term debt.

## **16. COMPARATIVE FIGURES**

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