



QUANTUM INTERNATIONAL INCOME CORP

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three and six months ended August 31, 2017

(in U.S. Dollars)

(Unaudited)

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

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

Management Comments

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

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

October 27, 2017

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

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

	August 31, 2017	February 28, 2017
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,222,145	\$ 3,396,787
Restricted cash	1,873,488	855,748
Accounts receivable	829,540	540,569
Related party balances (Note 16)	531,486	-
Current portion of note receivable (Note 7)	427,719	356,952
Prepaid expense and other assets	48,416	31,946
Total current assets	6,932,794	5,182,002
Non-current assets		
Property and equipment	3,798,724	2,047,813
Goodwill and intangible assets (Note 3, 4 and 5)	45,347,203	26,400,255
Note receivable (Note 7)	65,351	302,548
Total non-current assets	49,211,278	28,750,616
TOTAL ASSETS	\$ 56,144,072	\$ 33,932,618
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 16)	\$ 4,470,517	\$ 6,724,079
Distribution payable (Note 16)	1,063,349	970,318
Current portion of long-term debt (Note 10)	51,647	18,061
Short-term promissory notes (Note 9)	278,917	290,417
Deferred consideration (Note 5)	500,000	500,000
Contingent consideration (Note 5)	206,142	206,142
Derivative liability (Note 11)	480,064	61,391
Loan payable (Note 8)	310,000	310,000
Total current liabilities	7,360,636	9,080,408
Long-term debt (Note 10)	34,238,818	8,925,101
Total liabilities	41,599,454	18,005,509
Equity		
Share capital (Note 11)	32,648,568	30,695,521
Contributed surplus	2,623,136	1,685,627
Deficit	(33,306,213)	(29,870,077)
Equity attributable to owners of the parent	1,965,491	2,511,071
Non-controlling interest	12,579,127	13,416,038
Total equity	14,544,618	15,927,109
TOTAL LIABILITIES AND EQUITY	\$ 56,144,072	\$ 33,932,618
ON BEHALF OF THE BOARD		

(signed) Manu Sekhri
Manu Sekhri, Director

(signed) Peter Shippen
Peter Shippen, Director

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

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

	Three months ended		Six months ended	
	August 31, 2017 \$	August 31, 2016 \$ (Restated) (Note 21)	August 31, 2017 \$	August 31, 2016 \$ (Restated) (Note 21)
Revenue				
Gaming Revenue	12,143,400	-	20,914,651	-
Location costs	(6,071,699)	-	(10,457,325)	-
Revenue after location costs	6,071,701	-	10,457,326	-
Operating and other expenses				
Fair value loss on derivative liabilities	(160,924)	-	(201,466)	-
Amortization of property, equipment and intangible assets	(1,411,622)	-	(2,511,610)	-
General and administrative expenses (Note 13)	(3,254,783)	(1,422,258)	(5,526,010)	(1,874,108)
Finance costs	(1,612,531)	(34,621)	(3,008,322)	(63,132)
Gain on settlement of accounts payable	12,609	-	12,609	-
Gain (loss) on foreign exchange	(37,634)	39,475	(37,634)	(20,318)
	(6,464,885)	(1,417,404)	(11,272,432)	(1,957,558)
LOSS FROM CONTINUING OPERATIONS BEFORE TAXES	(393,184)	(1,417,404)	(815,106)	(1,957,558)
Income tax expense	-	-	-	-
NET LOSS FROM CONTINUING OPERATIONS	(393,184)	(1,417,404)	(815,106)	(1,957,558)
Gain (loss) from discontinued operations (Note 6 and 7)	-	(170,258)	-	(584,742)
NET LOSS	(393,184)	(1,587,662)	(815,106)	(2,542,300)
Attributable to:				
Owners	(1,631,675)	(1,594,687)	(3,436,136)	(2,540,020)
Non-controlling interest	1,238,491	7,025	2,621,030	(2,280)
	(393,184)	(1,587,662)	(815,106)	(2,542,300)
Other comprehensive income (loss)				
Foreign currency translation reserve	-	(158)	-	3,427
NET LOSS AND COMPREHENSIVE LOSS	(393,184)	(1,587,820)	(815,106)	(2,538,873)
Attributable to:				
Owners	(1,631,675)	(1,594,793)	(3,436,136)	(2,537,736)
Non-controlling interest	1,238,491	6,973	2,621,030	(1,137)
	(393,184)	(1,587,820)	(815,106)	(2,538,873)
Loss per Share (Note 14)				
From continuing operations – basic and diluted	(0.025)	(0.048)	(0.054)	(0.067)
From discontinued operations – basic and diluted	-	(0.006)	-	(0.020)

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

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

	Attributable to Owners						
	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total	Non- controlling Interest	Total Equity
	\$	\$	\$	\$	\$	\$	\$
Balance as at February 29, 2016 (restated)	22,765,038	1,110,740	(25,970,524)	(2,723)	(2,097,469)	17,573	(2,079,896)
Shares issued for settlement of debt (Note 11)	39,559	-	-	-	39,559	-	39,559
Shares issued for credit facility agreement (Note 11)	15,531	-	-	-	15,531	-	15,531
Share based payments (Note 12)	-	422,248	-	-	422,248	-	422,248
Warrants issued for credit facility agreement (Note 11)	-	19,585	-	-	19,585	-	19,585
Net loss for the period	-	-	(2,540,020)	-	(2,540,020)	(2,280)	(2,542,300)
Foreign currency translation reserve	-	-	-	2,284	2,284	1,143	3,427
Balance as at August 31, 2016	22,820,128	1,552,573	(28,510,544)	(439)	(4,138,282)	16,436	(4,121,846)
Balance as at February 28, 2017	30,695,521	1,685,627	(29,870,077)	-	2,511,071	13,416,038	15,927,109
Private placement (Note 11)	447,101	-	-	-	447,101	-	447,101
Warrants exercised (Note 11)	105,260	(29,900)	-	-	75,360	-	75,360
Options exercised (Note 11)	1,400,686	(812,331)	-	-	588,355	-	588,355
Stock based compensation (Note 12)	-	1,779,740	-	-	1,779,740	-	1,779,740
Distributions	-	-	-	-	-	(3,457,941)	(3,457,941)
Net loss for the period	-	-	(3,436,136)	-	(3,436,136)	2,621,030	(815,106)
Balance as at August 31, 2017	32,648,568	2,623,136	(33,306,213)	-	1,965,491	12,579,127	14,544,618

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, 2017	August 31, 2016
	\$	\$
OPERATING ACTIVITIES		(Restated)
		(Note 21)
Net loss	\$ (815,106)	\$ (2,542,300)
Items not affecting cash		
Amortization of property and equipment and intangible assets	2,511,610	213,876
Fair value change in derivative liability	201,466	-
Accretion expense	1,077,918	-
Share based payments	-	-
Stock based compensation	1,779,740	496,923
Operating activities from discontinued operations	-	1,588,255
Net change in non-cash operating working capital (Note 17)	(2,924,059)	(397,784)
Cash flows from (used in) operating activities	1,831,569	(641,030)
INVESTING ACTIVITIES		
Cash paid for acquisition (Note 3 and 4)	(21,743,599)	-
Cash paid for location contracts	(70,000)	-
Additions to property and equipment	(969,379)	(17,201)
Cash flows used in investing activities	(22,782,978)	(17,201)
FINANCING ACTIVITIES		
Net proceeds from loans payable	-	752,368
Restricted cash	(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	(3,364,909)	-
Debt transaction costs	(2,251,401)	-
Cash held in trust	-	(10,000)
Finance lease repayment	-	(10,474)
Advances from long-term debt	26,300,000	-
Cash flows from financing activities	20,776,767	731,894
Net change in cash and cash equivalents	(174,642)	73,663
Cash and cash equivalents, beginning of period	3,396,787	203,986
Foreign exchange impact on cash	-	3,427
Cash and cash equivalents, end of period	\$ 3,222,145	\$ 281,076
Supplemental information		
Interest paid	2,291,027	29,231

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

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

1. REPORTING ENTITY

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

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

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

On October 21, 2016, the Company acquired Lucky Bucks, LLC, which owns and operates coin operated amusement machines ("COAMs") in the state of Georgia, United States of America through arrangements with location owners. The gaming industry is regulated by the Georgia Lottery Corporation ("GLC").

2. BASIS OF PREPARATION

Statement of compliance

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

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

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

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

Share Consolidation

On March 17, 2017, the Company completed a share consolidation; each common 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.

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

Basis of Consolidation

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

	Ownership interest as at August 31, 2017
Quantum US Healthcare Corp. ("QHC")	100%
Columbus LTACH Holdings Corp. ("LTACH")	100%
Quantum Gaming Corp ("QGC")	100%
Southern Star Gaming, LLC (“SSG”)	100%
Lucky Bucks HoldCo, LLC ("LBH")	51%
Lucky Bucks, LLC (“LB”)	51%

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

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

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

The purchase price was \$4,200,000 in respect of the Triple 7s assets and \$1,620,000 in respect of the Lucky Star assets. \$4,000,000 of the Triple 7s purchase price was paid on closing of the acquisition, with the remaining \$200,000 payable to Triple 7s upon the satisfaction of certain post-closing obligations. These post-closing obligations were satisfied and the remaining amount was paid on May 31, 2017. The total Lucky Star purchase price was paid on closing. In addition to the foregoing cash payments, an additional one-time payment is payable to each of the seller following the closing date if, within six months of the closing date, revenue is generated by assets acquired from the sellers that were not generating revenue as of the closing date. As at August 31, 2017, the company estimates that the contingent consideration pertaining to these acquisitions is \$Nil.

These acquisitions were financed by the long-term debt as described in Note 10.

The company has preliminarily allocated the purchase price for these two acquisitions as follows:

Property and equipment	\$ 248,520
Owner/operator gaming machine contracts	2,679,016
Master License	1,400,000
Goodwill	1,492,464
	\$ 5,820,000

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

Provisional consideration is comprised of a cash payment of \$5,820,000.

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

Included in the condensed interim consolidated statements of income and comprehensive income is revenue of \$1,380,556 from Triple 7s and Lucky Star, for the period between March 1, 2017 to August 31, 2017.

4. ACQUISITION OF AM/PM MANAGEMENT, INC. AND AMERICAN AMUSEMENTS LLC.

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

The purchase price was \$11,923,599 in respect of the AMPM assets and \$4,000,000 in respect of the AA assets. The total AA purchase price and total AMPM purchase price was paid on the closing date of the transaction.

These acquisitions were financed by the long-term debt as described in Note 10.

The company has preliminarily allocated the purchase price for these two acquisitions as follows:

Property and equipment	\$	405,840
Owner/operator gaming machine contracts		7,337,244
Master License		1,400,000
Goodwill		6,780,515
	\$	15,923,599

Provisional consideration is comprised of a cash payment of \$15,923,599.

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

Included in the condensed interim consolidated statements of income and comprehensive income is revenue of \$2,265,722 from AMPM and AA, for the period between March 1, 2017 to August 31, 2017.

5. ACQUISITION OF LUCKY BUCKS, LLC

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

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

The Company has allocated the purchase price as follows:

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

Provisional consideration is comprised of:

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

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

Included in the condensed interim consolidated statements of income and comprehensive income is revenue of \$17,268,373 from Lucky Bucks, LLC, for the period between March 1, 2017 to August 31, 2017.

6. DIVESTURE OF MULTIPLE MEDIA ENTERTAINMENT

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

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

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

	Three months ended August 31, 2016	Six months ended August 31, 2016
Revenue	38,209	40,418
Expenses	(17,133)	(47,257)
Gain (loss) from discontinued operations	21,076	(6,839)

7. DIVESTURE OF CENTERS FOR SPECIAL SURGERY

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

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

	Three months ended August 31, 2016	Six months ended August 31, 2016
Revenue	515,968	899,682
Expenses	(707,302)	(1,477,585)
Gain (loss) from discontinued operations	(191,334)	(577,903)

8. LOAN PAYABLE

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

After the maturity date, the principal amount outstanding at any time, and from time to time, and any overdue interest, shall bear interest at 15% per annum, both before and after demand, default, and judgment. Such interest shall be calculated monthly not in advance when not in default and, after default, payable on demand. As at August 31, 2017, the total interest that has been accrued is \$97,429 (as at August 31, 2016 - \$41,004) and is included in accounts payable and accrued liabilities.

9. SHORT-TERM PROMISSORY NOTES

On June 16, 2017, the Company entered into a short-term promissory note agreement with an arms-length party for \$176,000 for equipment purchases. The promissory note is repayable in monthly principal amounts of \$29,333, beginning September 14, 2017. The note is non-interest bearing and will mature on March 13, 2018. This promissory note was partially paid prior to August 31, 2017.

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended August 31, 2017
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On August 1, 2017, the Company entered into a short-term promissory note agreement with an arms-length party for \$73,125 for equipment purchases. The promissory note is repayable in monthly principal amounts of \$12,188, beginning October 30, 2017. The note is non-interest bearing and will mature on April 28, 2018.

On August 10, 2017, the Company entered into a short-term promissory note agreement with an arms-length party for \$73,125 for equipment purchases. The promissory note is repayable in monthly principal amounts of \$12,188, beginning November 8, 2017. The note is non-interest bearing and will mature on May 7, 2018.

10. LONG-TERM DEBT

Senior Secured first lien term loan ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾	34,051,618
Vehicle finance loans ⁽⁶⁾	238,847
	<hr/> 34,290,465
Less: current portion of long-term debt	(51,647)
Long-term debt	34,238,818

- (1) On October 21, 2016 (“Closing Date”), the Company obtained a senior secured first lien term loan in the amount of \$11,956,521 to the fund acquisition of Lucky Bucks, LLC (Note 5). The term loan was issued with an 8% original issue discount over the term of the term loan, bears interest at a fixed rate of 16% per annum and will mature on April 21, 2019. The lenders have the option to sweep monthly amounts, which shall not exceed the sum of, for the month covered by such monthly cash and cash equivalents balance report, 1) 75% of the monthly excess cash amount, plus 2) 75% of the monthly overage amount. After the one year anniversary of the Closing Date, the Company has the option to repay the initial term loan in full. If the voluntary prepayment is exercised the Company would be subject to pay the full original issue discount amount.

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

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

The transactions cost relating to the additional advance were \$731,325 which consists of \$673,736 for legal fees and commissions and \$57,559 of warrants (Note 11) of the Company. These transaction costs are amortized from the date of the additional advance and recorded as finance costs over the term of the senior secured first lien term loan using the effective interest method.

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

- (3) On June 30, 2017, the Company obtained an additional advance from the same lender of \$17,100,000 to fund the acquisition of AM/PM Management, Inc. and American Amusements LLC (Note 4). In connection to the additional advance, the Company and the lender amended and restated the financing agreement dated June 30, 2017.

The transactions cost relating to the additional advance were \$1,046,983 which consists of \$887,335 for legal fees and commissions and \$159,648 of warrants (Note 11) of the Company. These transaction costs are amortized from the date of the additional advance and recorded as finance costs over the term of the senior secured first lien term loan using the effective interest method.

- (4) The term loan is secured by first priority mortgage liens and first priority security interests in all of the tangible and intangible assets of the Company, including the equity interest in Lucky Bucks, LLC, as well as all permits and contracts with the State of Georgia and all owner/operator gaming machine contracts. The loan is guaranteed by the Company.
- (5) Throughout the period ended August 31, 2017, the Company was in compliance with its financial covenants under the terms of its senior secured first lien term loan agreement.
- (6) The Company has two vehicle finance loans that are non-interest bearing with monthly principal payments of \$557 and \$560 and will mature on June 30, 2021. The remaining six vehicle finance loans bear interest ranging from 4.40% to 6.35% annually with monthly blended payments between \$491 and \$546 and mature between November 8, 2023 and July 11, 2023.

11. CAPITAL AND OTHER COMPONENTS OF EQUITY

Share capital and warrants

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

	Number of common shares	Number of warrants	Share Capital Value
Balance as at February 29, 2016 (restated)	28,678,911	2,115,331	\$ 22,765,038
Warrants expired	-	(344,665)	-
Share based payments	c 631,356	652,827	55,090
Balance as at August 31, 2016	<u>29,310,267</u>	<u>7,270,479</u>	<u>\$ 22,820,128</u>
Balance as at February 28, 2017	60,669,628	2,740,160	\$ 30,695,521
Private placement	a 3,529,404	3,529,404	447,101
Warrants issued	b -	1,196,650	-
Warrants exercised	652,825	(652,825)	105,260
Warrants expired	-	(1,587,335)	-
Common shares cancelled	d (3,000,000)	-	-
Options exercised	d 6,127,806	-	1,400,686
Balance as at August 31, 2017	<u>67,979,663</u>	<u>5,226,054</u>	<u>\$ 32,648,568</u>

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

a) Private placement

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

b) Warrants issued

Concurrent to the additional advance described in Note 10⁽²⁾, the company issued 418,600 warrants to the lender with an exercise price of CAD \$0.307 and an expiry of 30 months from the date of issuance.

Concurrent to the additional advance described in Note 10⁽³⁾, 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) Share based payments

The Company paid a finder's fee in relation to the drawdowns on a credit facility agreement on March 16, 2016, April 25, 2016, May 17, 2016, June 15, 2016, July 15, 2016 and August 19, 2016. The finder's fee included cash commission of \$43,516, 275,000 common shares valued at \$15,531 and 652,827 warrants valued at \$19,585.

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

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

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

d) Options exercised

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

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 \$0.15 CAD to \$0.27 CAD for total cash proceeds of \$463,922.

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

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

Warrants

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

Number of warrants	Exercise price (CAD)	Expiry
3,529,404	\$ 0.215	May 20, 2020
418,600	\$ 0.307	November 17, 2019
500,000	\$ 0.39	April 19, 2019
778,050	\$ 0.3828	December 29, 2019

As of August 31, 2017, there are 5,226,054 warrants outstanding and are recorded as a derivative liability.

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

	August 31, 2017		February 28, 2017	
Exercise price (CAD)	\$	0.25	\$	0.27
Expected volatility (based on historical)		194%		203%
Risk-free interest rate		0.75%		0.56%
Expected life		2.88		2.10
Share price (CAD)	\$	0.23	\$	0.21

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

	August 31, 2017		February 28, 2017	
Exercise price (CAD)	\$	0.28	\$	0.36
Expected volatility (based on historical)		194%		196%
Risk-free interest rate		1.06%		0.71%
Expected life		2.59		2.20
Share price (CAD)	\$	0.42	\$	0.15

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

12. SHARE OPTION PLAN

During the period ended August 31, 2017, the Company granted 6,349,235 options to certain key employees, management and directors, which vest immediately.

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

	Six months ended August 31, 2017		Year ended February 28, 2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning balance	3,497,907	\$ 0.24	2,675,000	\$ 1.23
Issued	6,349,235	\$ 0.28	2,281,240	\$ 0.24
Exercised	(3,127,806)	\$ 0.31	-	-
Expired	-	-	(325,000)	\$ 1.14
Forfeited	(41,667)	\$ 0.42	(1,133,333)	\$ 1.26
Ending balance	6,677,669	\$ 0.27	3,497,907	\$ 0.24
Exercisable	6,677,669	\$ 0.27	3,092,351	\$ 0.24

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

Number of Options Outstanding	Exercisable	Exercise price	Time to Maturity (years)
41,667	41,667	\$1.26	2.98
666,667	666,667	\$0.18	3.99
83,333	83,333	\$0.27	4.20
1,969,476	1,969,476	\$0.15	4.68
3,916,526	3,916,526	\$0.35	4.87
6,677,669	6,677,669		

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

	August 31, 2017	February 28, 2017
Exercise price (CAD)	\$ 0.31	\$ 0.24
Expected volatility (based on historical)	179%	190%
Risk-free interest rate	1.39%	0.77%
Expected life	5.0	5.0
Share price (CAD)	\$ 0.44	\$ 0.21

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

13. GENERAL AND ADMINISTRATIVE EXPENSES

Components of general and administrative expenses:

	Three months ended		Six months ended	
	August 31, 2017	August 31, 2016 (Restated)	August 31, 2017	August 31, 2016 (Restated)
	\$	\$	\$	\$
Professional and advisory fees	1,150,402	1,074,617	2,474,404	1,279,952
Management fees	-	-	-	(27,171)
Bad debt recovery	-	(39,000)	-	(39,000)
Regulatory and filing fees	12,462	39,342	59,922	62,398
Salaries and benefits	325,351	-	603,083	26,043
Administrative fees	352,537	106,278	608,861	149,637
Stock based compensation	1,414,031	241,021	1,779,740	422,249
	\$ 3,254,783	\$ 1,422,258	\$ 5,526,010	\$ 1,874,108

14. LOSS PER SHARE

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

	As at August 31, 2017
Common shares issuable on exercise of warrants	5,226,054
Vested stock options	6,677,669

Earnings per share from continuing and discontinued operations attributable to owners of the parent:

	Three months ended		Six months ended	
	31-Aug-17	31-Aug-16	31-Aug-17	31-Aug-16
Weighted average shares outstanding - basic	66,555,956	29,264,937	63,716,280	29,082,642
Weighted average shares outstanding - diluted	78,459,679	33,798,388	75,620,003	33,616,093
From continuing operations - basic	(0.025)	(0.048)	(0.054)	(0.067)
From continuing operations - diluted	(0.025)	(0.048)	(0.054)	(0.067)
From discontinued operations - basic	-	(0.006)	-	(0.020)
From discontinued operations - diluted	-	(0.006)	-	(0.020)

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

15. 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:

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

* This disclosure is included for the comparative period of the three and six months ended August 31, 2016.

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

	Three Months Ended August 31, 2017		
	Quantum	LB	Total
	\$	\$	\$
Gaming revenue	-	12,143,400	12,143,400
Location costs	-	(6,071,699)	(6,071,699)
Operating expenses	(2,237,291)	(2,429,114)	(4,666,405)
Net gain (loss) from operations	(2,237,291)	3,642,587	1,405,296
Interest and finance charges	(18,974)	(1,593,557)	(1,612,531)
Gain on settlement of accounts payable	12,609	-	12,609
Warrant fair value adjustment	(160,924)	-	(160,924)
Gain (loss) on foreign exchange	(37,634)	-	(37,634)
Net gain (loss) from continuing operations	(2,442,214)	2,049,030	(393,184)
Total assets	1,400,757	54,743,315	56,144,072
Total liabilities	5,041,167	36,558,287	41,599,454

	Three Months Ended August 31, 2016			
	Quantum	CSS	MME	Total
	\$	\$	\$	\$
Gaming revenue	-	-	-	-
Operating expenses	(1,422,258)	-	-	(1,422,258)
Net gain (loss) from operations	(1,422,258)	-	-	(1,422,258)
Interest and finance charges	(34,621)	-	-	(34,621)
Gain (loss) on foreign exchange	39,475	-	-	39,475
Net loss from continuing operations	(1,417,404)	-	-	(1,417,404)
Gain (loss) from discontinued operations	-	(191,334)	21,076	(170,258)
Total assets	341,579	2,959,443	117,429	3,418,451
Total liabilities	6,266,614	1,039,623	220,140	7,526,377

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

	Six Months Ended August 31, 2017		
	Quantum	LB	Total
	\$	\$	\$
Gaming revenue	-	20,914,651	20,914,651
Location costs	-	(10,457,325)	(10,457,325)
Operating expenses	(4,104,671)	(3,932,948)	(8,037,619)
Net gain (loss) from operations	(4,104,671)	6,524,378	2,419,707
Interest and finance charges	(36,811)	(2,971,511)	(3,008,322)
Warrant fair value adjustment	(201,466)	-	(201,466)
Gain on settlement of accounts payable	12,609	-	12,609
Gain (loss) on foreign exchange	(37,634)	-	(37,634)
Net gain (loss) from continuing operations	(4,367,973)	3,552,867	(815,106)
Total assets	1,400,757	54,743,315	56,144,072
Total liabilities	5,041,167	36,558,287	41,599,454

	Six Months Ended August 31, 2016			
	Quantum	CSS	MME	Total
	\$	\$	\$	\$
Gaming revenue	-	-	-	-
Operating expenses	(1,874,108)	-	-	(1,874,108)
Net gain (loss) from operations	(1,874,108)	-	-	(1,874,108)
Interest and finance charges	(63,132)	-	-	(63,132)
Gain (loss) on foreign exchange	(20,318)	-	-	(20,318)
Net loss from continuing operations	(1,957,558)	-	-	(1,957,558)
Gain (loss) from discontinued operations	-	(577,903)	(6,839)	(584,742)
Total assets	341,579	2,959,443	117,429	3,418,451
Total liabilities	6,266,614	1,039,623	220,140	7,526,377

16. RELATED PARTY TRANSACTIONS AND BALANCES

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

Key management personnel compensation:

	Three months ended		Six months ended	
	August 31,	August 31,	August 31,	August
	2017	2016	2017	31, 2016
	\$	\$	\$	\$
Management fees paid to corporations controlled by officers	-	-	-	(27,171)
Salaries and short term benefits	60,000	-	120,000	-
Director fees	12,000	4,000	24,000	10,000
Share based compensation	1,414,031	226,020	1,779,740	407,248
Consulting fees included in professional and advisory fees (Note 13)	731,775	133,804	1,576,531	186,955

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

During the three and six month period ended August 31, 2017, the Company incurred consulting fees and reimbursed expenses to a corporation controlled by a director and officer of the Company. These services were incurred in the normal course of operations. As at August 31, 2017, \$440,879 was owed relating to these consulting fees (February 28, 2017 – \$226,000).

During the three and six month period ended August 31, 2017, the Company incurred no consulting fees from an accounting firm which carried out duties of the CFO prior to October 31, 2016. These services were incurred in the normal course of operations for general accounting and financial reporting matters. As at August 31, 2017, \$274,085 was owed relating to these consulting fees (February 28, 2017 – \$254,939).

During the three and six month period ended August 31, 2017, the Company incurred consulting fees from an accounting firm of which carried out duties of the CFO. These services were incurred in the normal course of operations for general accounting and financial reporting matters. All services were made on terms equivalent to those that prevail with arm's length transactions. As at August 31, 2017, \$4,146 was owed relating to these consulting fees (February 28, 2017 – \$8,529).

During the three and six month period ended August 31, 2017, the Company paid rent of \$35,157 and \$70,054 (August 31, 2016 - \$31,486 and \$65,169) to a corporation controlled by a director and officer of the Company.

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

During the period ended August 31, 2017, total distributions declared by Lucky Bucks Holdco, LLC to its 49% shareholder totaled \$3,457,941 of which \$2,394,592 were paid and the remaining balance of \$1,063,349 is recorded as a distribution payable. The amount is non-interest bearing, unsecured and due on demand.

As at August 31, 2017, \$483,411 is due from the CEO of Lucky Bucks, LLC and 49% shareholder of Lucky Bucks Holdco, LLC. As at August 31, 2017, \$27,500 is due from a company controlled by the CEO of Lucky Bucks, LLC and 49% shareholder of Lucky Bucks Holdco, LLC. All amounts due from related parties are non-interest bearing, unsecured and due on demand.

As at August 31, 2017, \$12,598 is due from a director of the Company. All amounts due from related parties are non-interest bearing, unsecured and due on demand.

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

17. SUPPLEMENTAL CASH FLOWS INFORMATION

Changes in non-cash operating working capital:

	Six months ended	
	August 31,	August 31,
	2017	2016
	\$	\$
Accounts receivable	(288,971)	-
Prepaid expenses and other	(16,470)	(4,562)
Related party balances	(531,486)	-
Notes receivable	166,430	-
Balance receivable from divesture of Anesthesia	-	39,500
Accounts payable and other liabilities	(2,253,562)	(432,722)
	(2,924,059)	(397,784)

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Liquidity Risk

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

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

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

As at August 31, 2017, the Company had cash and cash equivalents balance of \$5,095,633 (includes \$1,873,488 of restricted cash). The Company expects the following maturities of its financial liabilities:

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

	Within 1 Year	2-3 years	4-5 years	Total
Accounts payable and accrued liabilities	\$ 4,470,517	\$ -	\$ -	\$ 4,470,517
Distribution payable	1,063,349	-	-	1,063,349
Short-term promissory notes	278,917	-	-	278,917
Deferred consideration	500,000	-	-	500,000
Contingent consideration	206,142	-	-	206,142
Long-term debt	51,647	37,403,294	83,906	37,538,847
Loans payable	310,000	-	-	310,000
	<u>6,880,572</u>	<u>37,403,294</u>	<u>83,906</u>	<u>44,367,772</u>

Fair Value Risk

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

The carrying amount of long-term debt approximates 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 current interest rates, market values and pricing of financial instruments with comparable terms.

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

19. SUBSEQUENT EVENTS

- a) On October 6, 2017 Lucky Bucks, LLC, a company controlled by the Company, acquired certain operating assets of Fun Games Inc (“Fun Games”). The respective purchase price was \$5,650,000 and was fully paid on the closing of the transaction.

The acquisition was financed by a \$5,650,000 term-loan with an affiliate of the lender described in Note 10. The financing was provided by the lender pursuant to the financing agreement dated October 21, 2016 to which both the Company and the lender are parties. In connection to the financing, the Company and lender amended and restated the financing agreement dated October 6, 2017.

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

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

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

- b) On October 10, 2017, the company announced that it will not be proceeding to close the transaction that the company entered into a letter agreement with on March 9, 2017 for the foreseeable future.
- c) On October 19, 2017, the Company announced that Chad Williams has been appointed as Chairman of the Board of Directors of Quantum, effective immediately.

20. COMPARATIVE FIGURES

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

21. RESTATEMENT OF PRIOR PERIOD

The Company has restated the statements of income and comprehensive income for the three and six month period ended August 31, 2016 and the statement of cash flows as at August 31, 2016 to reflect the following adjustments:

- The balances for CSS were consolidated in the prior year financial statements as management previously concluded that they had exercise control over CSS. The restatement is to adjust the financial statements to reflect the accounting for the investment in CSS using the equity method as control was determined to be jointly exercised. In addition, CSS was disposed of on February 28, 2017 and the prior year comparatives have been adjusted to present its equity pick up as discontinued operations.
- On October 17, 2016 the Company disposed of MME. The comparative statement of income and comprehensive income for the three and six month period ended August 2016 and the statement of cash flow as at August 31, 2016 has been reclassified as loss from discontinued operations.