



QUANTUM INTERNATIONAL INCOME CORP

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended November 30, 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 - 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 nine month period ended November 30, 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.

January 29, 2019

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)

	November 30, 2018	February 28, 2018
ASSETS		
Current assets		
Cash	\$ 2,819,200	\$ 4,716,731
Restricted cash (Note 6)	2,614,400	1,204,785
Accounts receivable	1,530,281	1,422,333
Related party balances (Note 14)	98,352	82,354
Note receivable	35,451	346,040
Prepaid expense and other assets	61,273	606,574
Derivative asset (Note 7)	-	2,765,000
Total current assets	7,158,957	11,143,817
Non-current assets		
Restricted cash (Note 6)	1,000,000	-
Property and equipment	6,016,923	5,339,896
Intangible assets and goodwill	58,606,257	55,702,984
Total non-current assets	65,623,180	61,042,880
TOTAL ASSETS	\$ 72,782,137	\$ 72,186,697
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 4,674,416	\$ 4,353,063
Distribution payable	-	886,704
Current portion of long-term debt (Note 8)	7,356,967	58,215
Related party balances (Note 14)	663,635	1,658,603
Promissory note (Note 4)	65,000	-
Derivative liability (Note 7)	3,215,503	2,421,726
Total current liabilities	15,975,521	9,378,311
Long-term debt (Note 8)	61,295,527	57,163,626
Total liabilities	77,271,048	66,541,937
Equity		
Share capital (Note 9)	33,631,194	33,301,934
Contributed surplus	2,589,876	1,836,748
Deficit	(45,010,031)	(37,826,191)
Equity attributable to owners of the parent	(8,788,961)	(2,687,509)
Non-controlling interest	4,300,050	8,332,269
Total equity	(4,488,911)	5,644,760
TOTAL LIABILITIES AND EQUITY	\$ 72,782,137	\$ 72,186,697

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		Nine Months Ended	
	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017
Revenue				
Gaming revenue	\$ 16,819,611	\$ 14,172,534	\$ 53,108,744	\$ 35,087,184
Location costs	(8,409,806)	(7,086,267)	(26,554,372)	(17,543,592)
Revenue after location costs	8,409,805	7,086,267	26,554,372	17,543,592
Operating expenses				
Amortization of property, equipment and intangible assets	(2,388,296)	(2,133,187)	(7,017,386)	(4,644,797)
General and administrative expenses (Note 11)	(3,253,610)	(3,498,147)	(6,509,533)	(9,024,155)
	(5,641,906)	(5,631,334)	(13,526,919)	(13,668,952)
Other expenses				
Finance costs	(1,752,517)	(2,289,379)	(9,029,798)	(5,297,700)
Finance income	2,065	-	10,551	-
Impairment	(60,000)	-	(68,982)	-
Gain on settlement of accounts payable	85,400	297,069	85,400	309,678
Fair value gain (loss) on derivative liability (Note 7)	298,418	(273,201)	(793,777)	(474,668)
Gain (loss) on foreign exchange	(61,310)	4,651	(62,805)	(32,983)
Fair value loss on derivative asset (Note 7)	-	-	(2,765,000)	-
	(1,487,944)	(2,260,860)	(12,624,411)	(5,495,673)
Net income (loss) and comprehensive income (loss) before tax	1,279,955	(805,927)	403,042	(1,621,033)
Current income tax expense	(535,957)	-	(535,957)	-
Net income (loss) and comprehensive income (loss)	\$ 743,998	\$ (805,927)	\$ (132,915)	\$ (1,621,033)
Net income (loss) and comprehensive income (loss) attributable to:				
Owners of the parent	\$ (382,596)	\$ (1,885,415)	\$ (2,293,748)	\$ (5,321,551)
Non-controlling interest	1,126,594	1,079,488	2,160,833	3,700,518
	\$ 743,998	\$ (805,927)	\$ (132,915)	\$ (1,621,033)
Earnings per share (Note 12) - Basic	\$ (0.005)	\$ (0.027)	\$ (0.033)	\$ (0.081)
Earnings per share (Note 12) - Diluted	\$ (0.005)	\$ (0.027)	\$ (0.033)	\$ (0.081)

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 of the Parent			Total	Non-controlling Interest	Total Equity
	Share Capital	Contributed Surplus	Deficit			
Balance as at February 28, 2017	\$ 30,695,521	\$ 1,685,627	\$ (29,870,077)	\$ 2,511,071	\$ 13,416,038	\$ 15,927,109
Equity issuance (Note 9)	447,101	-	-	447,101	-	447,101
Warrants exercised (Note 9)	105,260	(29,900)	-	75,360	-	75,360
Share transfer options exercised (Note 9)	2,893,940	(1,633,463)	-	1,260,477	-	1,260,477
Stock based compensation (Note 10)	-	3,154,591	-	3,154,591	-	3,154,591
Distributions	-	-	-	-	(4,984,305)	(4,984,305)
Net income (loss) for the period	-	-	(5,321,551)	(5,321,551)	3,700,518	(1,621,033)
Balance as at November 30, 2017	\$ 34,141,822	\$ 3,176,855	\$ (35,191,628)	\$ 2,127,049	\$ 12,132,251	\$ 14,259,300
Balance as at February 28, 2018	\$ 33,301,934	\$ 1,836,748	\$ (37,826,191)	\$ (2,687,509)	\$ 8,332,269	\$ 5,644,760
Acquisition of non-controlling interests (Note 4)	-	-	(4,890,092)	(4,890,092)	(1,109,908)	(6,000,000)
Share transfer options exercised (Note 9)	329,260	(113,391)	-	215,869	-	215,869
Stock based compensation (Note 10)	-	866,519	-	866,519	-	866,519
Distributions	-	-	-	-	(5,083,144)	(5,083,144)
Net income (loss) for the period	-	-	(2,293,748)	(2,293,748)	2,160,833	(132,915)
Balance as at November 30, 2018	\$ 33,631,194	\$ 2,589,876	\$ (45,010,031)	\$ (8,788,961)	\$ 4,300,050	\$ (4,488,911)

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)

	November 30, 2018	November 30, 2017
OPERATING ACTIVITIES		
Net loss	\$ (132,915)	\$ (1,621,033)
Items not affecting cash		
Amortization of property and equipment and intangible assets	7,017,386	4,644,797
Fair value change in derivative liability	793,777	474,668
Fair value change in derivative asset	2,765,000	-
Accretion expense	1,711,589	1,431,700
Stock based compensation	866,519	3,154,591
Impairment	68,982	-
Net change in non-cash operating working capital (Note 15)	(2,252,875)	(4,135,144)
Cash flows from operating activities	10,837,463	3,949,579
INVESTING ACTIVITIES		
Cash paid for acquisition of operating assets (Note 5)	(8,476,489)	(32,233,024)
Cash paid for acquisition (Note 4)	(5,935,000)	-
Cash paid for location contracts	-	(70,000)
Additions to property and equipment	(1,311,968)	(1,854,237)
Cash flows used in investing activities	(15,723,457)	(34,157,261)
FINANCING ACTIVITIES		
Proceeds from long term debt (Note 8)	75,774,668	-
Repayment of long term debt	(61,471,028)	-
Debt transaction costs (Note 8)	(4,561,198)	(2,219,727)
Restricted cash	(1,000,000)	(1,872,632)
Proceeds from private placement	-	447,101
Proceeds from warrants exercised	-	75,360
Proceeds from options exercised (Note 9)	215,869	1,240,478
Cash distributions paid to non-controlling interest	(5,969,848)	(5,993,752)
Advances from long-term debt	-	38,400,000
Cash flows from financing activities	2,988,463	30,076,828
Net change in cash	(1,897,531)	(130,854)
Cash, beginning of period	4,716,731	3,396,787
Cash, end of period	\$ 2,819,200	\$ 3,265,933
Supplemental information		
Interest paid	\$ 4,358,005	\$ 3,883,337

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 Nine Months Ended November 30, 2018
(amounts in U.S. dollars, unless otherwise stated)

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 January 29, 2019.

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 November 30, 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 Nine Months Ended November 30, 2018
(amounts in U.S. dollars, unless otherwise stated)

	Ownership interest
Quantum US Healthcare Corp. ("QHC")	100%
Columbus LTACH Holdings Corp. ("LTACH")	100%
Quantum Gaming Corp ("QGC")	100%
Southern Star Gaming, LLC ("SSG")	100%
Lucky Bucks HoldCo, LLC ("LBH")	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 Nine Months Ended November 30, 2018
(amounts in U.S. dollars, unless otherwise stated)

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)
Assets				
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
Liabilities				
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
Promissory note	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 Nine Months Ended November 30, 2018
(amounts in U.S. dollars, unless otherwise stated)

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
Total consideration	\$ 6,000,000

- (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 at November 30, 2018, \$2,285,000 of the promissory note was repaid, with a remaining carrying value of \$65,000. The remaining balance of \$65,000 was paid on December 11, 2018.

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended November 30, 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 LBH	1,109,908
Difference recognized in equity	<u>\$ 4,890,092</u>

5. ACQUISITIONS OF CERTAIN OPERATING ASSETS

During the nine months ended November 30, 2018, the Company completed acquisitions of certain operating assets of skill-based gaming terminal operators based in the U.S state of Georgia. These operators assemble, distribute, own and operate skill-based digital gaming terminals in multiple locations throughout Georgia.

The Company's primary reason for these acquisition is to execute its consolidation strategy to generate value for its members.

The details of the acquisitions are as follows for the three and nine months ended November 30, 2018:

	Goldstar Amusement LLC (a)		Feeling Lucky Amusement, LLC (b)		Total
Acquisition date	November 15, 2018		November 21, 2018		
Purchase cash consideration	\$	4,439,644	\$	4,938,434	\$ 9,378,078
Allocation of purchase price:					
Property and equipment	\$	186,560	\$	172,140	\$ 358,700
Brand		30,000		30,000	60,000
Owner/operator gaming machine contracts		2,059,462		2,290,379	4,349,841
Goodwill		2,163,622		2,445,915	4,609,537
	\$	4,439,644	\$	4,938,434	\$ 9,378,078
Acquisition costs	\$	481,466	\$	433,351	\$ 914,818

(a) Acquisition of Goldstar Amusement LLC ("Goldstar")

\$3,963,191 of the Goldstar purchase price was paid on closing of the acquisition, with the remaining \$476,453 payable to Goldstar upon the satisfaction of certain post-closing obligations. These post-closing obligations were satisfied and the remaining amount was paid on January 14, 2019. The purchase price for the acquisition was funded by LB through proceeds from its multi-draw credit facility (Note 8).

Included in the consolidated statement of comprehensive income is gaming revenue of \$149,250 from Goldstar, for the period between November 15, 2018 to November 30, 2018. If the Company was to acquire Goldstar as at March 1, 2018, gaming revenue of \$2,372,431 would have been included in the statement of income and comprehensive income.

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended November 30, 2018
(amounts in U.S. dollars, unless otherwise stated)

(b) Acquisition of Feeling Lucky Amusement LLC (“Feeling Lucky”)

\$4,388,747 of the Feeling Lucky purchase price was paid on closing of the acquisition, with the remaining \$549,687 payable to Feeling Lucky upon the satisfaction of certain post-closing obligations. These post-closing obligations were satisfied and the remaining amount was paid on January 16, 2019. The purchase price for the acquisition was funded by LB through an advance under the multi-draw credit facility (Note 8).

Included in the consolidated statement of comprehensive income is gaming revenue of \$99,852 from Feeling Lucky, for the period between November 21 2018, to November 30, 2018. If the Company was to acquire Goldstar as at March 1, 2018, gaming revenue of \$3,058,553 would have been included in the statement of income and comprehensive income.

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, intangibles and goodwill and will make the final allocation within the 12 month period.

6. RESTRICTED CASH

Current assets	November 30, 2018	February 28, 2018
Cash sweep	\$ -	\$ 916,720
Cash restricted for property and equipment (a)	347,000	-
Cash restricted for transfer fee (b)	39,600	96,030
Aggregate retained amount	-	100,035
FarEast Amusement Games holdback amount	-	92,000
Goldstar holdback amount (Note 5(a))	476,453	-
Feeling Lucky holdback amount (Note 5(b))	549,687	-
Monthly excess cash flow holdback (c)	1,201,660	-
	\$ 2,614,400	\$ 1,204,785

Non-current asset	November 30, 2018	February 28, 2018
Minimum cash (d)	\$ 1,000,000	\$ -

- (a) Cash advanced under the multi-draw credit facility and restricted for property and equipment additions.
- (b) Due to the acquisitions summarized in Note 5, the Company is required to pay the applicable transfer fee of \$39,600 to a supplier in connection with transfer of games in the supplier’s internal system. The lender advanced these funds under the multi-draw credit facility for the sole purpose of the transfer fee.
- (c) 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.
- (d) The Company is required to maintain a minimum amount of \$1,000,000 in cash under the multi draw credit facility at all times.

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended November 30, 2018
(amounts in U.S. dollars, unless otherwise stated)

7. DERIVATIVE ASSET AND LIABILITY

Derivative asset	November 30, 2018	February 28, 2018
Opening balance	\$ 2,765,000	\$ -
Acquired during the period	-	2,193,000
Change in fair value	(2,765,000)	572,000
	\$ -	\$ 2,765,000

Derivative liability	November 30, 2018	February 28, 2018
Opening balance	\$ 2,421,726	\$ 61,391
Issued during the period	-	919,575
Change in fair value	793,777	1,440,760
	\$ 3,215,503	\$ 2,421,726

8. LONG-TERM DEBT

		November 30, 2018	February 28, 2018
Term Loan facility	(a) (b)	\$ 58,013,972	\$ -
Multi-draw term facility advance	(a) (b) (c)	4,659,644	-
Multi-draw term facility advance	(a) (b) (f)	5,734,286	-
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)	244,592	245,396
		68,652,494	57,221,841
Less: Current portion of long-term debt		(7,356,967)	(58,215)
Long term debt		\$ 61,295,527	\$ 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").

On November 14, 2018, the Company, through LB, entered into the first amendment to the multi-draw credit facility. The amendment increases the aggregate principal amount of the multi draw credit facility to \$100,000,000 and adds AB Private Credit Investors as an additional lender.

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.

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended November 30, 2018
(amounts in U.S. dollars, unless otherwise stated)

- 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 installments on the last day of each calendar quarter.
- There is an option to prepay subject to certain conditions. If the Company exercises the option to prepay, the Company would be liable to a prepayment premium on the principal amount prepaid, reduced or accelerated of (i) if the loans are prepaid within the first 12 months, 4.00%, (ii) which is reduced to 3.00% in the 2nd year, (iii) 2.00% in the 3rd year and (iv) 0.00% thereafter.

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

The obligations of LB and 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 November 30, 2018, the Company was in compliance with its financial covenants under the terms of its multi draw credit facility.

(b)

	Term Loan facility	Multi-draw term facility	Multi-draw term facility	Total
Reconciliation to carrying value				
Principal amount	\$ 64,509,349	\$ 5,447,179	\$ 5,747,712	\$ 75,704,240
Principal repayment	(3,225,467)	-	-	(3,225,467)
Unamortized transaction costs	(3,269,910)	(787,535)	(13,426)	(4,070,871)
Carrying value	\$ 58,013,972	\$ 4,659,644	\$ 5,734,286	\$ 68,407,902

Transaction costs relating to credit facilities

Additions	\$ 3,753,198	\$ 794,500	\$ 13,500	\$ 4,561,198
Accretion	(483,288)	(6,965)	(74)	(490,327)
Unamortized transaction costs	\$ 3,269,910	\$ 787,535	\$ 13,426	\$ 4,070,871

- (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.
- (e) On November 15, 2018, the Company, through LB, obtained proceeds from its multi-draw credit facility to fund the acquisition of certain assets of Goldstar (Note 5). The Company paid transaction costs of \$794,500.

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended November 30, 2018
(amounts in U.S. dollars, unless otherwise stated)

- (f) On November 21, 2018, the Company, through LB, obtained proceeds from its multi-draw credit facility to fund the acquisition of certain assets of Feeling Lucky (Note 5). The Company paid transaction costs of \$13,500.

9. 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)	-	1,747,200	-
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)	(3,000,000)	-	-
Options exercised	(c)	5,469,349	-	2,873,940
Balance as at November 30, 2017		70,321,206	5,776,604	\$34,121,822
Balance as at February 28, 2018		70,321,207	5,985,904	\$33,301,934
Options exercised	(c)	1,329,626	-	329,260
Balance as at November 30, 2018		71,650,833	5,985,904	\$33,631,194

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 previous 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 previous lender with an exercise price of CAD \$0.3828 and an expiry of 30 months from the date of issuance.

Concurrent to the incremental term loan under the credit facility, the Company issued 257,075 warrants to the previous lender with an exercise price of CAD \$0.65 and an expiry of 30 months from the date of issuance.

Concurrent to the incremental term loan under the credit facility, the Company issued 293,475 warrants to the previous lender with an exercise price of CAD \$1.041 and an expiry of 30 months from the date of issuance.

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended November 30, 2018
(amounts in U.S. dollars, unless otherwise stated)

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.

On October 20, 2017, an entity controlled by a director and officer of the Company, exercised 722,318 options to acquire 722,318 common shares. The exercise price of these options was \$0.3525 CAD for total cash proceeds of \$202,064. The share price on the date of exercise was CAD \$0.69.

On November 13, 2017, an entity controlled by a director and officer of the Company, exercised 1,619,225 options to acquire 1,619,225 common shares. The exercise price of these options was \$0.3525 CAD for total cash proceeds of \$450,058. The share price on the date of exercise was CAD \$0.67.

On September 18, 2018, a director and officer of the Company, exercised 265,000 options to acquire 265,000 common shares. The exercise price of these options was CAD \$0.35 for total cash proceeds of \$72,424. The share price on the date of exercise was CAD \$0.97.

On October 2, 2018, a director and officer of the Company, exercised 200,000 options to acquire 200,000 common shares. The exercise price of these options was CAD \$0.15 for total cash proceeds of \$23,833. The share price on the date of exercise was CAD \$1.03.

On October 19, 2018, entities controlled by directors and officers of the Company, exercised 864,626 options to acquire 864,626 common shares. The exercise price of these options ranged from CAD \$0.15 to CAD \$0.35 for total cash proceeds of \$119,611. The share price on the date of exercise was CAD \$0.99.

Warrants

As at November 30, 2018, 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	\$ 0.383	December 30, 2019
257,075	\$ 0.65	April 5, 2020
293,475	\$ 1.041	May 27, 2020
209,300	\$ 0.942	June 16, 2020
5,985,904		

As of November 30, 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 \$3,215,503 (February 28, 2018 - \$2,421,726).

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended November 30, 2018
(amounts in U.S. dollars, unless otherwise stated)

The fair value of the warrants outstanding is estimated at November 30, 2018 using the Black-Scholes option pricing model with the following weighted average inputs and assumptions:

	November 30, 2018	February 28, 2018
Exercise price (CAD)	\$0.64	\$0.64
Expected volatility (based on historical)	99%	102%
Risk-free interest rate	2.14%	1.74%
Expected life	1.32	2.1
Share price (CAD)	\$0.98	\$0.72

10. 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:

	Nine Months Ended November 30, 2018		Year Ended February 28, 2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning balance	7,032,105	\$ 0.35	3,497,907	\$ 0.24
Issued	1,462,589	\$ 1.00	9,045,214	\$ 0.34
Exercised	(1,329,626)	\$ 0.21	(5,469,350)	\$ 0.26
Expired	-	\$ -	-	\$ -
Forfeited	-	\$ -	(41,666)	\$ 0.18
Ending balance	7,165,068	\$ 0.43	7,032,105	\$ 0.35
Exercisable	7,165,068	\$ 0.43	7,032,105	\$ 0.35

The following table summarizes information about share purchase options granted and outstanding as at November 30, 2018:

Number of options	Exercisable	Exercise Price (CAD)	Time to Maturity
66,667	66,667	\$ 1.260	1.73 years
16,668	16,668	\$ 1.050	1.73 years
250,374	250,374	\$ 0.180	2.74 years
83,333	83,333	\$ 0.270	2.95 years
1,344,475	1,344,475	\$ 0.154	3.43 years
1,244,983	1,244,983	\$ 0.353	3.62 years
2,695,979	2,695,979	\$ 0.503	3.96 years
1,462,589	1,462,589	\$ 1.000	4.96 years
7,165,068	7,165,068		

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended November 30, 2018
(amounts in U.S. dollars, unless otherwise stated)

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

	November 30, 2018	February 28, 2018
Exercise price (CAD)	\$1.00	\$0.39
Expected volatility (based on historical)	117%	97%
Risk-free interest rate	2.31%	1.50%
Expected life	5	0.6
Share price (CAD)	\$0.96	\$0.53

11. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative costs incurred by nature are as follows:

	Three Months Ended		Nine Months Ended	
	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017
Acquisition costs	\$ 927,688	\$ 1,118,269	\$ 1,127,166	\$ 2,320,969
Professional and advisory fees	561,375	334,621	1,721,355	1,606,324
Regulatory and filing fees	4,496	5,610	12,701	65,532
Salaries and benefits	353,056	356,722	1,030,425	959,805
Share based compensation	866,519	1,374,852	866,519	3,154,591
Administrative fees	540,476	308,074	1,751,367	916,934
	\$ 3,253,610	\$ 3,498,147	\$ 6,509,533	\$ 9,024,155

12. 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 (loss) per share does not differ from basic earnings (loss) per share.

	As at November 30, 2018
Common shares issuable on exercise of warrants	5,985,904
Vested stock options	7,165,068

Earnings per share attributable to owners of the parent:

	Three Months Ended		Nine Months Ended	
	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017
Weighted average shares outstanding - basic	71,070,755	68,614,573	70,566,514	65,340,768
Weighted average shares outstanding - diluted	84,221,727	81,423,282	83,717,486	78,149,477
Basic	\$ (0.005)	\$ (0.027)	\$ (0.033)	\$ (0.081)
Diluted	\$ (0.005)	\$ (0.027)	\$ (0.033)	\$ (0.081)

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended November 30, 2018
(amounts in U.S. dollars, unless otherwise stated)

13. 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.

	Three Months Ended November 30, 2018			Nine Months Ended November 30, 2018		
	Corporate	LBL	Total	Corporate	LBL	Total
Revenue						
Gaming revenue	\$ -	\$ 16,819,611	\$ 16,819,611	\$ -	\$ 53,108,744	\$ 53,108,744
Location costs	-	(8,409,806)	(8,409,806)	-	(26,554,372)	(26,554,372)
Revenue after location costs	-	8,409,805	8,409,805	-	26,554,372	26,554,372
Operating expenses						
Amortization of property, equipment and intangible assets	-	(2,388,296)	(2,388,296)	-	(7,017,386)	(7,017,386)
General and administrative expense	(1,803,311)	(1,450,299)	(3,253,610)	(3,369,978)	(3,139,555)	(6,509,533)
	(1,803,311)	(3,838,595)	(5,641,906)	(3,369,978)	(10,156,941)	(13,526,919)
Other expenses						
Finance costs	(6,894)	(1,745,623)	(1,752,517)	(15,166)	(9,014,632)	(9,029,798)
Finance income	2,065	-	2,065	10,551	-	10,551
Impairment	-	(60,000)	(60,000)	-	(68,982)	(68,982)
Fair value gain (loss) on derivative liabilities	298,418	-	298,418	(793,777)	-	(793,777)
Loss on foreign exchange	(61,310)	-	(61,310)	(62,805)	-	(62,805)
Gain on settlement of accounts payable	85,400	-	85,400	85,400	-	85,400
Derivative asset	-	-	-	-	(2,765,000)	(2,765,000)
	317,679	(1,805,623)	(1,487,944)	(775,797)	(11,848,614)	(12,624,411)
Net Income (loss) and comprehensive income (loss) before tax	\$ (1,485,632)	\$ 2,765,587	\$ 1,279,955	\$ (4,145,775)	\$ 4,548,817	\$ 403,042
Current tax expense	\$ -	\$ (535,957)	\$ (535,957)	\$ -	\$ (535,957)	\$ (535,957)
Net Income (loss) and comprehensive income (loss) after tax	\$ (1,485,632)	\$ 2,229,630	\$ 743,998	\$ (4,145,775)	\$ 4,012,860	\$ (132,915)
Total current assets	\$ 213,820	\$ 6,945,137	\$ 7,158,957	\$ 213,820	\$ 6,945,137	\$ 7,158,957
Total non-current assets	\$ 13,744	\$ 65,609,436	\$ 65,623,180	\$ 13,744	\$ 65,609,436	\$ 65,623,180
Total liabilities	\$ 6,205,722	\$ 71,065,326	\$ 77,271,048	\$ 6,205,722	\$ 71,065,326	\$ 77,271,048

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended November 30, 2018
(amounts in U.S. dollars, unless otherwise stated)

	Three Months Ended November 30, 2017			Nine Months Ended November 30, 2017		
	Corporate	LBL	Total	Corporate	LBL	Total
Revenue						
Gaming revenue	\$ -	\$ 14,172,534	\$ 14,172,534	\$ -	\$ 35,087,184	\$ 35,087,184
Location costs	-	(7,086,267)	(7,086,267)	-	(17,543,592)	(17,543,592)
Revenue after location costs	-	7,086,267	7,086,267	-	17,543,592	17,543,592
Operating expenses						
Amortization of property, equipment and intangible assets	-	(2,133,187)	(2,133,187)	-	(4,644,797)	(4,644,797)
General and administrative expense	(2,043,399)	(1,454,748)	(3,498,147)	(6,148,070)	(2,876,086)	(9,024,156)
	(2,043,399)	(3,587,935)	(5,631,334)	(6,148,070)	(7,520,882)	(13,668,952)
Other expenses						
Finance costs	12,834	(2,302,212)	(2,289,378)	(23,977)	(5,273,723)	(5,297,700)
Fair value gain (loss) on derivative liabilities	(273,202)	-	(273,202)	(474,668)	-	(474,668)
Loss on foreign exchange	4,651	-	4,651	(32,983)	-	(32,983)
Gain on settlement of accounts payable	297,069	-	297,069	309,678	-	309,678
	41,352	(2,302,212)	(2,260,860)	(221,950)	(5,273,723)	(5,495,673)
Net Income (loss) and comprehensive income (loss)	\$ (2,002,047)	\$ 1,196,120	\$ (805,927)	\$ (6,370,020)	\$ 4,748,987	\$ (1,621,033)
Total current assets	\$ 1,015,793	\$ 6,680,121	\$ 7,695,914	\$ 1,015,793	\$ 6,680,121	\$ 7,695,914
Total non-current assets	\$ 9,455	\$ 57,951,076	\$ 57,960,531	\$ 9,455	\$ 57,951,076	\$ 57,960,531
Total liabilities	\$ 4,019,394	\$ 47,397,751	\$ 51,417,145	\$ 4,019,394	\$ 47,397,751	\$ 51,417,145

14. 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		Nine Months Ended	
	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017
Salaries and short term benefits	\$ 60,000	\$ 60,000	\$ 180,000	\$ 180,000
Director fees	83,652	12,000	213,750	36,000
Share based compensation	837,203	1,374,852	837,203	3,154,591
Consulting fees	491,108	510,339	1,318,091	2,086,870

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended November 30, 2018
(amounts in U.S. dollars, unless otherwise stated)

As at November 30, 2018, the Company owed \$66,265 relating to director fees (February 28, 2018 – \$86,686).

During the three and nine month period ended November 30, 2018, the Company incurred consulting fees of \$212,047 and \$727,500 (November 30, 2017 – \$101,762 and \$382,170), paid performance incentives of \$253,005 and \$516,537 (2017 - \$360,102 and \$1,033,205) 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 November 30, 2018, \$597,370 was owed relating to these consulting fees (February 28, 2018 – \$1,571,917).

During the three and nine month period ended November 30, 2018, the Company incurred consulting fees of \$26,056 and \$74,054 (November 30, 2017 – \$48,475 and \$130,263) 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 November 30, 2018, nil was owed relating to these consulting fees (February 28, 2018 – \$15,879).

During the three and nine month period ended November 30, 2018, the Company paid rent of \$41,192 and \$115,263 (November 30, 2017 – \$47,995 and \$118,049) to a corporation controlled by a director and officer of the Company.

During the nine months ended November 30, 2018, total distributions declared by Lucky Bucks Holdco, LLC to its 40% shareholder totaled \$5,083,144 (November 30, 2017 – \$4,984,305). As at November 30, 2018, \$Nil was owed relating to these distributions (February 28, 2018 – \$886,704).

As at November 30, 2018, \$70,853 is due from the CEO of Lucky Bucks, LLC and 40% shareholder of Lucky Bucks Holdco, LLC. As at November 30, 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 November 30, 2018, \$172,914 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.

15. SUPPLEMENTAL CASH FLOWS INFORMATION

Changes in non-cash operating working capital:

	Nine Months Ended	
	November 30, 2018	November 30, 2017
Accounts receivable	\$ (107,948)	\$ (515,852)
Restricted cash	(1,409,615)	-
Prepaid expenses and other	545,301	(34,858)
Related party balances	(1,010,966)	(141,839)
Notes receivable	310,589	222,964
Accounts payable and other liabilities	(580,236)	(2,959,417)
Deferred contribution	-	(500,000)
Contingent consideration	-	(206,142)
	\$ (2,252,875)	\$ (4,135,144)

QUANTUM INTERNATIONAL INCOME CORP
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended November 30, 2018
(amounts in U.S. dollars, unless otherwise stated)

16. 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 November 30, 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 November 30, 2018, the Company had cash balance of \$2,819,200 (February 28, 2018 - \$4,716,731). The following table summarizes amounts and maturity dates of the Company's contractual obligations as of November 30, 2018:

	Within 1 Year	2-3 years	4-5 years	Total
Accounts payable and accrued liabilities	\$ 4,674,416	\$ -	\$ -	\$ 4,674,416
Related party balances	663,635	-	-	663,635
Promissory note	65,000	-	-	65,000
Long-term debt	7,356,966	15,268,938	50,097,461	72,723,365
	\$ 12,760,017	\$ 15,268,938	\$ 50,097,461	\$ 78,126,416

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 Nine Months Ended November 30, 2018
(amounts in U.S. dollars, unless otherwise stated)

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 November 30, 2018, the Company had a multi draw credit facility with a carrying value of \$68,407,902, with a face value of \$72,478,773, 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 November 30, 2018 the Company was in compliance with the financial covenants related to its long term debt.

17. COMPARATIVE FIGURES

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