

# S E V E N A C E S

**SEVEN ACES LIMITED**  
**(formerly Quantum International Income Corp.)**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS** **FOR THE TEN MONTHS ENDED DECEMBER 31, 2018**

### **GENERAL**

*The following Management Discussion and Analysis ("MD&A") should be read in conjunction with the consolidated financial statements (the "**Financial Statements**") and the notes contained therein of Seven Aces Limited (the "**Company**" or "**ACES**") for the ten-month period ended December 31, 2018 and the year ended February 28, 2018.*

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

*This MD&A was prepared effective Tuesday, April 30th, 2019.*

## TABLE OF CONTENTS

<b>FORWARD LOOKING INFORMATION .....</b>	<b>1</b>
<b>BUSINESS OVERVIEW.....</b>	<b>2</b>
<b>OVERALL PERFORMANCE .....</b>	<b>4</b>
<b>RECENT DEVELOPMENTS .....</b>	<b>5</b>
<b>KEY PERFORMANCE INDICATORS.....</b>	<b>7</b>
<b>NON-IFRS MEASURES .....</b>	<b>7</b>
<b>SELECTED ANNUAL INFORMATION .....</b>	<b>9</b>
<b>SUMMARY OF QUARTERLY RESULTS (UNAUDITED).....</b>	<b>10</b>
<b>OPERATING SEGMENTS.....</b>	<b>12</b>
<b>RESULT OF OPERATIONS .....</b>	<b>13</b>
<b>LIQUIDITY AND CAPITAL RESOURCES.....</b>	<b>17</b>
<b>RELATED PARTY TRANSACTIONS.....</b>	<b>21</b>
<b>SUBSEQUENT EVENTS.....</b>	<b>23</b>
<b>STOCK PERFORMANCE FOR FY2018 .....</b>	<b>24</b>
<b>CRITICAL ACCOUNTING ESTIMATES AND USE OF JUDGEMENT .....</b>	<b>25</b>
<b>RECENT ACCOUNTING PRONOUNCEMENTS .....</b>	<b>25</b>
<b>FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS .....</b>	<b>28</b>
<b>OUTSTANDING SHARE DATA.....</b>	<b>32</b>
<b>RISK FACTORS.....</b>	<b>32</b>

## FORWARD LOOKING INFORMATION

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

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

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

ACES cautions that the list and description of Forward-Looking Statements, risks, assumptions and uncertainties set out above is not exhaustive. ACES will update the Forward-Looking Statements as required by securities law. All Forward-Looking Statements contained in this MD&A are qualified by these cautionary statements.

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

## BUSINESS OVERVIEW

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

On October 21, 2016, the Company acquired a 51% controlling interest in Lucky Bucks, LLC ("LB"), which owns and operates coin operated amusement machines ("COAMs") in the State of Georgia, U.S. through arrangements with location owners. On August 1, 2018 the Company acquired an additional 9% interest in LB, increasing its ownership interest from 51% to 60%. The Company is executing on its acquisition strategy in Georgia, U.S. through LB with a particular focus on cash-flows and high margins. Currently, LB is the largest operator of skill-based gaming machines in State of Georgia based on machine count.

The Company is publicly traded on the TSX Venture Exchange. On February 14, 2019, the Company's shareholders authorized and approved the name change of the Company from "Quantum International Income Corp." to "Seven Aces Limited". Shareholders passed a resolution to amend the Company's articles, completing the shareholder and regulatory processes. The official effective date for the name change was February 14, 2019. Effective February 20, 2019, the Company trades on the TSX Venture Exchange (TSX V) under a new ticker symbol ACES, formerly QIC.

### Ownership Interest in Operating Entities as at:

	<b>December 31, 2018</b>	<b>February 28, 2018</b>
Quantum Gaming Corp ("QGC")	100%	100%
Southern Star Gaming, LLC ("SSG")	100%	100%
Lucky Bucks HoldCo, LLC ("LBH")	60% (a)	51%
Lucky Bucks, LLC ("LB")	60% (a)	51%

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

## Address

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

## Overview of the Georgia COAM Route Operator Market

COAMs are, as defined by the Georgia Lottery Corporation ("**GLC**"), redemption devices used by the public to provide amusement or entertainment. It requires the payment of a coin, bill, token, ticket, card or similar object and the result of whose operation depends in whole or in part upon the skill of the player. Redemption of the players' winnings can only be made for non-cash business merchandise (including fuel, etc) or lottery tickets at the location where the game is played. Alcohol, tobacco, or firearms cannot be redeemed as COAM prizes.

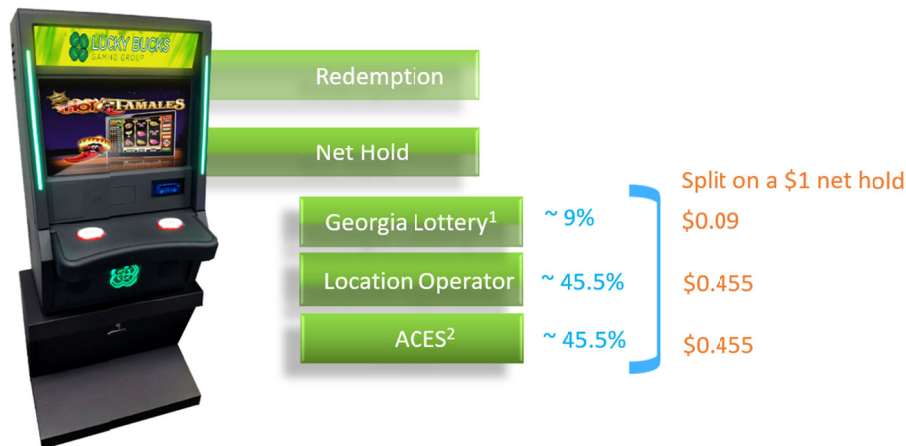
### There are two types of COAMs:

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

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

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

## Economics of a typical COAM



### Notes:

- (1) 9% of the daily hold goes to GLC and increases each fiscal year by 1% to a maximum of 10% on July 1, 2019
- (2) Operated by Lucky Bucks

### Gaming revenues from COAMs are incurred as follows:

The Georgia Lottery Corporation (“GLC”) receives a set percentage of the machine's net revenues (i.e. all monies put into a machine minus credits paid out to players). The GLC's share is currently 9% (February 28, 2018 – 8%) and increases each fiscal year (July 1 to June 30 the following year) by 1% up to a maximum of 10% on July 1, 2019. The Class B master license holder (i.e. COAM route operator) enters into an agreement with the location operator (i.e. establishment) where the COAM route operator acts as a principal as it controls the service before the service is provided to the customer.

## OVERALL PERFORMANCE

Gaming revenue for the ten month period ended December 31, 2018 was \$59.7M, compared to gaming revenue of \$51.5M for the fiscal year ended February 28, 2018.

Highlights of activities and results of operations for the ten month period ended 2018 include:

- For the ten month period ended December 31, 2018, LB closed two acquisitions for a total purchase price of \$9.4M.
- For the ten month period ended December 31, 2018, the Company generated Adjusted EBITDA of \$22.7M, compared to \$19.1M for fiscal year ended February 28, 2018.
- For the ten month period ended December 31, 2018, the Company generated cash flow from operations of \$13.9M, compared with \$8.2M for fiscal year ended February 28, 2018.

## RECENT DEVELOPMENTS

### **Closing of credit facility with Goldman Sachs Specialty Lending Group, L.P.**

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

The multi draw credit facility has the following terms:

- The full amount of \$64,509,349 of the Term Loan Facility was drawn on the initial funding date.
- The MDTL Facility is available to be drawn for permitted acquisitions from the initial funding date to the date that is 24 months afterwards. Draws under the MDTL Facility are subject to pro forma compliance with, among other things, the financial maintenance covenants set forth in the documentation for the credit facilities.
- The interest rate for a LIBOR rate loan 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 interest rate for a base rate loan is based on the greater of (i) the prime rate in effect (ii) the Federal Funds Effective Rate in effect plus ½ of 1%, (iii) the sum of the LIBOR Rate for a period of one month and 1% and (iv) 3%.
- In connection with LIBOR rate loans there shall be no more than five interest periods outstanding at any time.
- The maturity date is 5 years after the initial funding date.
- The principal amount of the term loan facility shall be repaid in equal consecutive quarterly installments on the last day of each fiscal quarter, commencing June 30, 2018, with each installment to be equal to \$1,612,733.
- The principal amounts of the multi-draw facility advance shall be repaid in equal consecutive quarterly installments commencing on June 30, 2020, with each instalment to be in an amount equal to product of the aggregate original principal amount of multi-draw facility advance funded from the initial funding date to the date that is 24 months afterward, multiplied by 2.50%.
- There is an option to prepay subject to certain conditions. If the Company exercises the option to prepay, the Company would be liable to a prepayment premium on the principal amount prepaid, reduced or accelerated of (i) if the loans are prepaid within the first 12 months, 4.00%, (ii) which is reduced to 3.00% in the 2<sup>nd</sup> year, (iii) 2.00% in the 3<sup>rd</sup> year and (iv) 0.00% thereafter.

In connection with the arrangement of the initial multi draw credit facility, the Company paid \$3,703,198 of financing costs and will also pay GSSLG an undrawn facility commitment fee under the MDTL Facility and an annual administration fee.

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 December 31, 2018.

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

### **Additional Lucky Bucks Interest Acquisition**

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

The Company paid consideration as follows:

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

(a) As at December 31, 2018, the full amount of the promissory note was repaid.

### **Stock option grant**

On November 15, 2018 the company announced a grant of stock options pursuant to the stock option plan of the Company, whereby the Company granted a total of 1,462,589 stock options to officers, directors and employees of the Company. Each of the stock options granted entitles the holder to purchase one common share of the Company at a price of \$1.00 until November 15, 2023.

### **Advisory services agreement**

As a result of his appointment to the COAM Advisory Board in Georgia as described in the press release dated December 3, 2018, Mr. James Boyden will become an employee of Lucky Bucks, LLC and as a result will no longer provide services pursuant to the Advisory Services Agreement. As such, the Advisory Services Agreement has been terminated.

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

- On November 15, 2018, the Company through LB acquired nine (9) additional gaming contracts from Goldstar Amusement LLC ("Goldstar"), a digital skill-based gaming terminal operator based in the U.S. State of Georgia.

The purchase price of Goldstar was \$4,439,644, from which \$3,963,191 was paid on closing of the transaction. The remaining \$476,453 is 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.

- On November 21, 2018, the Company through LB acquired eleven (11) additional gaming contracts from Feeling Lucky Amusement, LLC (“Feeling Lucky”), a digital skill-based gaming terminal operator based in the U.S. State of Georgia.

The purchase price of Feeling Lucky was \$4,938,434, from which \$4,388,747 was paid on closing of the transaction. The remaining \$549,687 is 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 proceeds from its multi-draw credit facility.

## **KEY PERFORMANCE INDICATORS**

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

## **NON-IFRS MEASURES**

### **Adjusted EBITDA**

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

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

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

	Ten months ended December 31, 2018	Q4 **	Q3	Q2	Q1	Year ended February 28, 2018
<b>Net Income (Loss)</b>	\$ (3,341,799)	\$ (3,208,884)	\$ 743,998	\$ 3,098,868	\$ (3,975,781)	\$ (4,507,530)
<b>Adjustments</b>						
Amortization of property and equipment and intangible assets	7,988,908	971,522	2,388,296	2,325,621	2,303,469	6,756,431
Financing costs	9,976,540	946,741	1,752,517	1,744,905	5,532,377	11,973,602
Business acquisition costs	1,109,644	(17,522)	927,688	355,898	(156,420)	2,722,099
Stock based compensation	919,567	53,048	866,519	-	-	1,406,393
Impairment	68,982	-	60,000	8,982	-	212,000
Loss on disposal of property and equipment	-	-	-	-	-	-
Financing income	(10,745)	(192)	(2,065)	(3,410)	(5,078)	(31,192)
Gain on settlement of accounts	(85,400)	-	(85,400)	-	-	(309,678)
Warrant fair value adjustment	932,936	139,158	(298,418)	(472,176)	1,564,372	1,440,760
Derivative asset fair value adjustment	2,765,000	-	-	-	2,765,000	(572,000)
Income tax expense	2,361,902	1,825,945	535,957	-	-	-
Foreign exchange	(32,027)	(94,832)	61,310	(7,670)	9,165	3,531
<b>Adjusted EBITDA</b>	<b>\$ 22,653,508</b>	<b>\$ 614,984</b>	<b>\$ 6,950,402</b>	<b>\$ 7,051,018</b>	<b>\$ 8,037,104</b>	<b>\$ 19,094,416</b>

\*\* Represents results for one month due to the change in fiscal year end to December 31.

## Net Debt

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

Net debt is a financial measure that does not have a standardized meaning under IFRS. Net debt is defined as 60% (ACES portion) of the face value of the long-term debt including the current portion, net of total cash available less 40% (non-controlling interest) of LB's operating cash.

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

Carrying value of long-term debt	\$ 67,327,321
Add: Unamortized transaction costs	3,777,775
Face value of the long-term debt including current portion	\$ 71,105,096
Parent's portion (60%)	42,663,058
Total cash	2,466,419
Less: 40% of Lucky Bucks, LLC's operating cash	(804,507)
ACES net debt	\$ 40,663,058

**SELECTED ANNUAL INFORMATION**

	<b>Ten month ended December 31, 2018</b>	<b>Year ended February 28, 2018</b>
Revenue <sup>(1)</sup>	\$ 59,713,046	\$ 51,488,496
Net gain (loss) for the year <sup>(2)</sup>	(3,341,799)	(4,507,530)
Loss per common share from continuing operations, basis and diluted <sup>(3)</sup>	(0.082)	(0.120)
Total assets <sup>(4)</sup>	72,484,155	72,186,697
Non-current liabilities <sup>(5)</sup>	60,809,972	57,163,626

**Notes:**

- (1) Revenue increased from \$51,488,496 for the fiscal year ended February 28, 2018 to \$59,713,046 for the ten month period ended December 31, 2018. The increase is due to the following reasons:
- a. The Company closed two acquisitions in the ten month period ended December 31, 2018. Please refer to the acquisition note in the ten month period ended December 31, 2018 audited financial statements to see the breakdown of the revenue earned from each acquisition since the date of acquisition.
  - b. The ten month period ended December 31, 2018 contains the full ten months of revenue associated with the nine acquisitions closed throughout fiscal year ended February 28, 2018.
- (2) Net loss decreased from \$4,507,530 for the fiscal year ended February 28, 2018 to a net loss of \$3,341,799 for the ten month period ended December 31, 2018. The decrease in net loss is due to the following reasons:
- a. An increase in revenue for the ten month period ended December 31, 2018 compared to the fiscal year ended 28, 2018.
  - b. A decrease in general and administrative expenses from \$10,900,324 for the fiscal year ended February 28, 2018 to \$9,232,226 for the ten month period ended December 31, 2018, largely a result of the fact that there was only one stock option grant in the ten month period ended December 31, 2018, compared to three stock option grants in fiscal year ended February 28, 2018. Specifically, acquisition costs decreased from \$2,722,099 for the fiscal year ended February 28, 2018 to \$1,109,644 for the ten month period ended December 31, 2018, as two acquisitions were closed in the ten month period, compared to nine acquisitions closed in the prior period end.
  - c. Additionally, finance costs decreased from \$11,973,602 for the fiscal year ended February 28, 2018 to \$9,976,540 for the ten month period ended December 31, 2018. The decrease is due to the Company accelerating its accretion expense in the prior period as a result of the debt refinance.
  - d. For the ten month period ended December 31, 2018, the Company had a fair value loss on the derivative liability of \$932,936, compared to a fair value loss of \$1,440,760 for fiscal year ended February 28, 2018. The difference in change of the fair value of the derivative liability is correlated to the change in the Company's share price.
- (3) Basic and diluted loss per share fluctuates from year to year and is impacted by the amount of the loss incurred and the number of weighted average number of common shares outstanding. The ten month period ended December 31, 2018 loss per share decreased compared to fiscal year ended February 28, 2018 due to the decrease in net loss.

- (4) The change in total assets is due to the following reasons:
- Intangible assets and goodwill increased by \$2,061,336 due to the intangibles acquired as part of the two business acquisitions closed in the ten month period ended December 31, 2018. Intangibles include, brand and gaming machine contracts. \*\*
  - Property and equipment increased by \$988,711 due to \$358,700 of equipment that was acquired as part of the two business acquisitions and \$1,720,877 of equipment, net of disposals, was acquired to deploy in the LB footprint. \*\*
  - The derivative asset was written down to \$Nil for the ten month period ended December 31, 2018 as the Company refinanced its debt. The derivative asset was originally recorded to reflect the early repayment option of its previous long term debt. The decrease in the value of the derivative asset partially offsets the increase in total assets.
- \*\* The intangible assets and property and equipment balance sheet figure represents value net of amortization.
- (5) Non-current liabilities increased due to proceeds the Company obtained to fund the two business acquisitions. The long-term debt balance sheet figure represents the value of the loan net of unamortized costs.

### SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

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

Ten month period ended December 31, 2018	Q4 **	Q3	Q2	Q1
	31/12/2018	30/11/2018	31/08/2018	31/05/2018
Revenue <sup>(1)</sup>	\$ 6,604,302	\$ 16,819,611	\$ 17,012,675	\$ 19,276,458
Net Income (Loss) and Comprehensive Income (Loss) <sup>(2)</sup>	(3,208,884)	743,998	3,098,868	(3,975,781)
Basic Earnings (Loss) per share <sup>(3)</sup>	(0.045)	(0.005)	0.021	(0.049)
Diluted Earnings (Loss) per share <sup>(3)</sup>	(0.045)	(0.005)	0.018	(0.049)
<b>Year ended February 28, 2018</b>	<b>Q4 2018</b>	<b>Q3 2018</b>	<b>Q2 2018</b>	<b>Q1 2018</b>
	<b>28/02/2018</b>	<b>30/11/2017</b>	<b>31/08/2017</b>	<b>31/05/2017</b>
Revenue <sup>(1)</sup>	\$ 16,401,311	\$ 14,172,534	\$ 12,143,400	\$ 8,771,251
Net Income (Loss) and Comprehensive Income (Loss) <sup>(2)</sup>	(2,886,497)	(805,927)	(393,184)	(421,922)
Basic Earnings (Loss) per share <sup>(3)</sup>	(0.041)	(0.027)	(0.025)	(0.030)
Diluted Earnings (Loss) per share <sup>(3)</sup>	(0.041)	(0.027)	(0.025)	(0.030)

\*\* Represents results for one month due to the change in fiscal year end to December 31.

#### Notes:

- (1) Revenue in Q4 is lower than other quarters, due to the fact that the Company changed its fiscal year end from February 28 to December 31 and, as such, Q4 represents only one month of operations. Revenue in Q3 is slightly lower than Q2. The slight decrease is as a result of some locations that went temporarily offline due to the GLC not renewing some location licenses until these locations rectified any outstanding Georgia Department of Revenue (“DOR”) issues. These locations are expected to be back online and generating revenue in the short term once the DOR issues are resolved. Revenue decreased from \$19,276,458 in Q1 to \$17,012,675 in Q2. The decrease is due to the fact that March, April and May are typically high revenue generating months for the Company, as customers tend to have a higher disposable income in these months due to tax refunds received during this period. Summer months are also traditionally slow months in the COAM market in Georgia.

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

- (2) Net loss for Q4 was \$3,208,884, compared to positive net income of \$743,998 in Q3. The difference is due to the following factors:
- a. Q4 represents only one month of revenue, as the Company changed their fiscal year end from February 28 to December 31.
  - b. In Q4, the Company incurred \$2,125,929 of professional and advisory fees, compared to \$561,376 in Q3. This increase is due to annual bonuses awarded to management by the Company's Board of Directors.
  - c. The Company recognized a deferred income tax expense of 1,239,172.

The fluctuations in the 2018 quarter over quarter losses stem from the volume of business acquisitions closed. LB closed two acquisitions in Q1 2018, two acquisitions in Q2 2018, three acquisitions in Q3 2018 and two acquisitions in Q4 2018. The one-time deal expenses are tied to the number of acquisitions closed in a quarter and the spike in Q4 2018 relates to the annual performance incentive accrued to a corporation controlled by the CEO. See Related Party Transactions section. In Q4 2018, the Company incurred more interest charges associated with its long-term debt and the accretion expense was accelerated due to the pending refinancing that closed in April 2018.

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

## OPERATING SEGMENTS

Management has identified one reportable business segment which is comprised of three subsidiaries; QGC, SSG and LB (collectively known as “LBL”). This reporting segment is managed separately and their results are based on internal management information that is regularly reviewed by the chief operating decision maker.

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

	Ten months ended December 31, 2018			Years ended February 28, 2018		
	Corporate	LBL	Total	Corporate	LBL	Total
<b>Revenue</b>						
Gaming revenue	\$ -	\$ 59,713,046	\$ 59,713,046	\$ -	\$ 51,488,496	\$ 51,488,496
Location costs	-	(29,856,523)	(29,856,523)	-	(25,744,248)	\$ (25,744,248)
Revenue after location costs	-	29,856,523	29,856,523	-	25,744,248	25,744,248
<b>Operating expenses</b>						
Amortization of property, equipment and intangible assets	-	(7,988,908)	(7,988,908)	-	(6,756,431)	(6,756,431)
Impairment	-	(68,982)	(68,982)	-	(212,000)	(212,000)
General and administrative expense	(5,484,646)	(3,747,580)	(9,232,226)	(6,869,340)	(4,030,984)	(10,900,324)
	(5,484,646)	(11,805,470)	(17,290,116)	(6,869,340)	(10,999,415)	(17,868,755)
<b>Other expenses</b>						
Finance costs	(59,752)	(9,916,788)	(9,976,540)	(42,377)	(11,931,225)	(11,973,602)
Other Income					122,000	122,000
Finance income	10,745	-	10,745	31,192		31,192
Fair value gain (loss) on derivative liabilities	(932,936)	-	(932,936)	(1,440,760)	-	(1,440,760)
Loss on foreign exchange	32,027	-	32,027	(3,531)	-	(3,531)
Gain on settlement of accounts payable	85,400	-	85,400	309,678	-	309,678
Fair value gain (loss) on derivative assets	-	(2,765,000)	(2,765,000)	-	572,000	572,000
	(864,516)	(12,681,788)	(13,546,304)	(1,145,798)	(11,237,225)	(12,383,023)
Net income (loss) and comprehensive income (loss) before tax	\$ (6,349,162)	\$ 5,369,265	\$ (979,897)	\$ (8,015,138)	\$ 3,507,608	\$ (4,507,530)
Current tax expense	-	\$ (1,122,730)	\$ (1,122,730)	-	-	-
Deferred tax expense		\$ (1,239,172)	\$ (1,239,172)			
Net Income (loss) and comprehensive income (loss) after tax	\$ (6,349,162)	\$ 3,007,363	\$ (3,341,799)	\$ (8,015,138)	\$ 3,507,608	\$ (4,507,530)
Total current assets	\$ 269,168	\$ 7,122,060	\$ 7,391,228	\$ 922,164	\$ 10,221,653	\$ 11,143,817
Total non-current assets	\$ 13,744	\$ 65,079,183	\$ 65,092,927	\$ 13,568	\$ 61,029,312	\$ 61,042,880
Total liabilities	\$ 8,017,868	\$ 72,959,796	\$ 80,977,664	\$ 6,254,934	\$ 60,287,003	\$ 66,541,937

## **RESULT OF OPERATIONS**

The following discourse highlights changes in selected financial results for the ten month period ended December 31, 2018 compared to the twelve month year ended February 28, 2018. The following information is expressed in United States Dollars and is derived from the Company's financial information prepared in accordance with IFRS.

### **Revenue**

Revenue for the ten month period ended December 31, 2018 was \$59,713,046 (fiscal year ended February 28, 2018 - \$51,488,496). The increase in revenue is due to the fact that the ten month period ended December 31, 2018 includes revenue from the two acquisitions closed in November 2018. Additionally, the ten month period ended December 31, 2018 contains a full ten months of revenue earned from the nine business acquisitions that closed throughout fiscal year ended February 28, 2018.

### **Location Costs**

Location costs were \$29,856,523 and \$25,744,248 for the ten month period ended December 31, 2018 and fiscal year ended February 28, 2018 respectively. Location costs are directly correlated to the change in revenue.

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

Amortization of intangibles for the ten month period ended December 31, 2018 was \$6,898,042 (fiscal year ended February 28, 2018 – \$6,049,710) and amortization of property and equipment for the ten month period ended December 31, 2018 was \$1,090,866 (fiscal year ended February 28, 2018 – \$706,721).

This increase is a result of the following factors:

- An increase in the value of property, equipment and intangibles is due to the acquisitions closed in November 2018.
- The property and equipment that was acquired by acquisitions and on-going operations in the fiscal year ended February 28, 2018 were subject to a half year amortization policy. For the ten month period ended December 31, 2018, these assets were subject to a full year of amortization, therefore resulting in higher amortization expense for property and equipment.
- The ten month period ended December 31, 2018 included a full ten months of amortization of the intangibles acquired as part of the nine business acquisitions closed in the twelve month year ended February 28, 2018.

The Company acquired intangibles and property and equipment as part of its business acquisitions as follows:

**Ten months ended December 31, 2018 Acquisitions:**

	Goldstar Amusement LLC (a)	Feeling Lucky Amusement, LLC (b)	Total
Acquisition date	15-Nov-18	21-Nov-18	
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	4,012,000	4,649,999	8,661,999
Goodwill	211,084	86,295	297,379
	4,439,644	4,938,434	9,378,078
Acquisition costs	481,466	433,351	914,818

**Year ended February 28, 2018 Acquisitions:**

	Triple 7s Amusement (a)	Lucky Star Amusement (b)	AM PM Management (c)	American Amusement (d)	Fun Games (e)	FarEast Amusement (f)	WildHorse Amusement (g)	Lee Caudell (h)	Wise Amusement (i)	Total
Acquisition date	17-May-17	17-May-17	30-Jun-17	30-Jun-17	06-Oct-17	27-Nov-17	27-Nov-17	15-Dec-17	15-Dec-17	
Purchase cash consideration	\$ 4,200,000	\$ 1,620,000	\$ 11,923,599	\$ 4,000,000	\$ 5,069,504	\$ 3,190,006	\$ 2,229,915	\$ 4,000,000	\$ 350,000	\$ 36,583,024
Allocation of purchase price:										
Property and equipment	98,858	99,746	189,208	140,706	262,539	69,128	82,082	137,284	9,034	1,088,585
Owner/operator gaming machine contracts	2,510,000	590,000	8,220,000	2,600,000	2,970,000	1,640,000	930,000	2,150,000	200,000	21,810,000
Brand	30,000	10,000	70,000	20,000	30,000	20,000	10,000	20,000	2,000	212,000
Master license	700,000	700,000	700,000	700,000	700,000	-	-	-	-	3,500,000
Goodwill**	861,142	220,254	2,744,391	539,294	1,106,965	1,460,878	1,207,833	1,692,716	138,966	9,972,439
	\$ 4,200,000	\$ 1,620,000	\$ 11,923,599	\$ 4,000,000	\$ 5,069,504	\$ 3,190,006	\$ 2,229,915	\$ 4,000,000	\$ 350,000	\$ 36,583,024
Acquisition costs	\$ 370,590	\$ 251,091	\$ 454,485	\$ 338,190	\$ 536,601	\$ 258,843	\$ 225,019	\$ 147,824	\$ 64,542	\$ 2,647,185



## General & administrative costs

General and administrative costs incurred by nature are as follows:

	December 31, 2018	February 28, 2017
	\$	\$
Acquisition cost <sup>(4)</sup>	1,109,644	2,722,099
Professional and advisory fee	3,847,284	3,842,485
Regulatory and filing fee	12,701	91,684
Salaries and benefits <sup>(2)</sup>	1,404,769	1,514,832
Share based compensation <sup>(3)</sup>	919,567	1,406,393
Administrative fees <sup>(1)</sup>	1,938,261	1,322,831
	9,232,226	10,900,324

### Note:

- (1) There is an increase in administrative fees due to the growth of the business, driven by business acquisitions. Specifically, the increase can be attributable to director fees, travel expenses, donation expenses and higher decal fees due to the increase in the number of COAM machines deployed in our footprint. Additionally, the Company incurred additional expenses for marketing in the ten month period ended December 31, 2018, which were not incurred in the fiscal year ended February 28, 2018.
- (2) There is a decrease in salaries and benefits. The fiscal year ended February 28, 2018 includes a period of 12 months whereas the December 31 2018 includes a period of ten months of, hence the decrease.
- (3) Share based compensation decreased, as there was only one stock option grant in the ten month period ended December 31, 2018, where 1,462,589 options were issued, compared to three stock option grants in fiscal year ended February 28, 2018, where a cumulative of 9,045,214 options were issued.
- (4) Acquisition costs decreased in the ten month period ended December 31, 2018 as LB completed two business acquisitions during this period, compared to nine business acquisitions closed in fiscal year ended February 28, 2018. Please refer to the previous page to see the breakdown of acquisition costs per each acquisition.

## Finance costs

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

Finance costs consist of the following:

	December 31, 2018	February 28, 2018
<b>Previous long term debt</b>		
Accretion expense	\$ 1,219,207	\$ 6,297,594
Interest expense	946,849	5,539,327
Make whole payment	2,373,786	-
	4,539,842	11,836,921
<b>Existing long term debt</b>		
Accretion expense	815,733	-
Cash interest expense	3,411,156	-
Accrued interest expense	1,146,009	-
Commitment fee	48,111	-
	5,421,009	-
<b>Other</b>	15,689	136,681
<b>Total finance costs</b>	\$ 9,976,540	\$ 11,973,602

Finance costs decreased for the following reasons:

- The Company incurred accretion expense of \$2,034,940 in the ten month period ended December 31, 2018, compared to \$6,297,594 in fiscal year ended February 28, 2018. The accretion expense in the prior year was high as the Company refinanced its existing debt facility with Trive Capital and, as a result, the Company accelerated its accretion expense in the prior year.
- Additionally, a one-time make whole payment of \$2,373,786 was incurred during Q1 2019 relating to the refinance. This expense was included as part of finance costs and was incurred as a result of the early repayment of its prior outstanding long-term debt. This offsets the decrease in accretion expense mentioned in the paragraph above.

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

The early repayment option tied to the long-term debt resulted in an embedded derivative that required separation from the original loan. As of February 28, 2018, the aggregate fair value of the derivative asset was recorded as \$2,765,000. The previous long-term debt was repaid on April 9, 2018 and, as such, the derivative asset was revalued to \$Nil with a decrease in value of \$2,765,000 recognized in the consolidated statement of comprehensive loss.

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

As of December 31, 2018, there are 5,985,904 (February 28, 2018 – 5,985,904) warrants outstanding recorded as a derivative liability with a value of \$3,354,662 (February 28, 2018 - \$2,421,726). The fair value loss on derivative liabilities of \$932,936 (February 28, 2018 - \$1,440,760) relates to the fair value change in warrant derivative liability.

### **Financial Performance**

The Company incurred a net loss of \$3,341,799 for the ten month period ended December 31, 2018 compared to a net loss of \$4,507,530 for the fiscal year ended February 28, 2018. This is as a result of the increase in revenue being greater than the increase in consolidated expenses.

### **QUARTER ENDED DECEMBER 31, 2018**

The quarter ended December 31, 2018 (“Q4”) includes one month of revenue and expenses, whereas the quarter ended February 28, 2018 (“Q4 2018”) includes a full three months of revenue and expenses, as a result of the Company’s fiscal year end change from February 28 to December 31.

### **Revenue**

For the one month period ended December 31, 2018, revenue amounted to \$6,604,302, compared to revenue of \$16,401,312 for the three month period ended February 28, 2018. This significant decrease is due to the fact that the quarter ending December 31, 2018 represents only one month of operations, due to the year end change from February 28 to December 31.

### **Location Costs**

Location costs were \$3,302,151 and \$8,200,656 for the one month period ended December 31, 2018 and three month period ended February 28, 2018 respectively. Location costs are directly correlated to the change in revenue.

### **Financial condition**

As at December 31, 2018, the Company reported a working capital deficiency of \$8,182,630 compared to a surplus of \$1,422,232 at February 28, 2018. The working capital deficiency is largely a result of the requirement to report 12 months of principal debt repayments as a current liability. This did not exist in Q4 2018 as the previous credit facility did not require amortization of principal payments. If we adjust these instalment payments from current liabilities, the Company has a working capital deficiency of \$1,665,281 as of December 31, 2018.

Additionally, the Company paid \$6,000,000 as of December 31, 2018, to acquire an additional 9% interest in LBH, increasing its' ownership from 51% to 60%, which was a contributing factor to the negative working capital as of December 31, 2018.

### **Financial performance**

The Company incurred a loss of \$3,208,884 for the one month period ended December 31, 2018, compared to a net loss of \$2,886,497 for the three month period ended February 28, 2018. The increase in loss is primarily due to the Company recognizing a deferred income tax expense.

## **LIQUIDITY AND CAPITAL RESOURCES**

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

### **Cash**

During the ten month period ended December 31, 2018, the Company's cash decreased by \$2,250,312. We currently believe that our cash, cash flows from operations and borrowing availability under our long-term debt facility will be sufficient to meet our capital requirements during the next 12 months.

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

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

Cash generated from operating activities during the ten month period ended December 31, 2018 was \$13,953,554 compared with \$8,229,553 of cash generated from operating activities during the fiscal year ended February 28, 2018. Cash generated from operating activities during the ten month period ended December 31, 2018 consisted of (i) \$12,522,306 of cash generated from revenue net of operating, general and administrative, regulatory compliance and professional fees and (ii) there was a \$1,431,248 increase in cash due to decreased non-cash working capital.

Cash generated from operating activities during the year ended February 28, 2018 consisted of (i) \$10,798,987 cash used from revenue net of operating, general and administrative, regulatory compliance and professional fees and (ii) there was a \$2,569,434 decrease in cash due to increased non-cash current working capital.

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

Cash used in investing activities during the ten month period ended December 31, 2018 was \$17,131,489, compared with \$40,344,269 of cash used in investing activities during the fiscal year ended February 28, 2018. Cash used in investing activities during the ten month period ended December 31, 2018 included additions to property and equipment of \$1,753,411, \$9,378,078 spent on two business acquisitions, and cash paid for an additional 9% interest in LB of \$6,000,000.

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

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

Cash generated from financing activities during the ten month period ended December 31, 2018 was \$927,623, compared to \$33,434,660 of cash generated from investing activities during the fiscal year ended February 28, 2018. Cash generated from financing activities during the ten month period ended December 31, 2018 included \$4,593,508 of debt transaction costs, repayment of long-term debt of \$63,087,068, proceeds from long term debt of \$75,704,240, restricted cash of \$1,000,000, proceeds of \$215,869 from options exercised, and cash distributions of \$6,382,338 paid to non-controlling interest.

Cash generated from financing activities during the fiscal year ended February 28, 2018 included advances from long-term-debt of \$43,000,000 to finance nine business acquisitions, \$2,438,797 of debt transaction costs, proceeds of \$446,253 from the non-brokered private placement, proceeds of \$1,129,371 from options exercised, proceeds of \$75,360 from warrants exercised, proceeds of \$111,105 from the share transfer option, repayment of \$227,335 of loans payable (net of repayments of loans of \$500,000) and cash distributions of \$8,615,967 paid to non-controlling interest.

## Working Capital

As of December 31, 2018, the Company had negative net working capital of \$8,182,630 compared with positive net working capital of \$1,422,232 as of February 28, 2018. Working capital is calculated by subtracting current liabilities from current assets without taking into consideration the derivative asset and liability.

The working capital deficiency as of December 31, 2018 is due to the following reasons:

- Cash was used to pay down the promissory note related to the acquisition of the additional 9% interest in LBH.
- The working capital deficiency is a result of the requirement to report 12 months of principal debt repayments as a current liability. If we adjust these installment payments from current liabilities, the Company has a working capital deficiency of \$1,665,281.

The Company has worked to reduce and settle liabilities that existed from its prior business ventures and it expects positive working capital going forward as a result of the cash flowing nature of its gaming business in Georgia.

## Recent Financings

<u>Financing</u>	<u>Purpose of Financing</u>	<u>Actual use of proceeds</u>
On April 9, 2018, LB closed a \$75 million multi-draw credit facility, consisting of a term loan and a multi-draw term facility.	To refinance the Company's previous long-term debt and to finance future acquisitions.	Loan proceeds were used as intended.
On November 14, 2018, LB entered into the first amendment to the multi-draw credit facility. The amendment increased the aggregate principal amount of the multi-draw credit facility to \$100 million.	To finance future acquisitions.	Loan proceeds were used as intended.
On November 15, 2018, LB obtained financing of \$5,747,712	To fund the acquisition of Goldstar Amusements LLC	Loan proceeds were used as intended.
On November 21, 2018, LB obtained financing of \$5,447,179	To fund the acquisition of Feeling Lucky LLC	Loan proceeds were used as intended.

## Liquidity Outlook

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

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

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

### **Other Items Affecting Liquidity**

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

### **Capital Management**

The Company manages and adjusts its capital structure based on available funds in order to support its operations and acquisitions. The capital of the Company consists of share capital, warrants and long-term debt. The Board of Directors do 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 seeks to acquire additional businesses, the Company may continue to rely on capital markets to support continued growth. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

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

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

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

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

- **Minimum Consolidated Liquidity:** Consolidated liquidity is defined as an amount determined for LBH and LB on a consolidated basis equal to unrestricted Cash of LBH and LB in which GSSLG has a first priority perfected Lien. LBH and LB cannot permit consolidated liquidity at any time to be less than the sum of (x) \$1,000,000 plus (y) the Quarterly ECF Holdback at such time.

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

### Other Opportunities

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

### RELATED PARTY TRANSACTIONS

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

<u>Name/ Corporate Entity</u>	<u>Relationship</u>	<u>Nature of Transaction</u>
Chad Williams/Gray Sky LLC	Chairman & Director	Director's fees and stock-based compensation
Manu K. Sekhri/ Ascendant Group Holdings Inc.	CEO & Director	Consulting fees and stock-based compensation
Peter Shippen/ Extra Medium Inc.	Director	Director's fees and stock-based compensation
Mark Lerohl/Lerohl Consulting Inc.	Director	Director's fees and stock-based compensation
Sheila Ogilvie-Harris/ Ballakilley Property Holdings Limited	Director	Director's fees and stock-based compensation

<u>Name/ Corporate Entity</u>	<u>Relationship</u>	<u>Nature of Transaction</u>
Anil Damani	CEO, Lucky Bucks, LLC and 40% shareholder of Lucky Bucks Holdco, LLC	Management salaries
Ryan Bouskill/ Durward Jones Barkwell & Company LLP/ 2568646 Ontario Inc.	CFO	Consulting fees and stock-based compensation

Key management personnel are those persons that have authority and responsibility for planning, directing and controlling the activities of the Company, directly and indirectly. As of December 31, 2018, the Company's key management personnel consisted of the Company's directors and senior management. The Company incurred fees and expenses in the normal course of operations in connection with the key management and directors. Details are as follows:

<u>Nature of Transactions</u>	<u>December 31, 2018</u>	<u>February 28, 2018</u>
Director fees (3)	\$254,529	\$107,238
Salaries and short-term benefits and bonus (4)	\$400,000	387,874
Share based compensation (2)	\$888,456	3,071,024
Consulting fees (1)	\$3,204,290	3,910,824
	<u>\$4,747,275</u>	<u>\$7,476,960</u>

**Notes:**

- (1) During the ten month period ended December 31, 2018, the Company incurred consulting fees of \$913,417 (February 28, 2018 - \$662,267) from Ascendant Group Holdings Inc., a company controlled by Manu K. Sekhri (CEO of the Company). In addition, the Company accrued or paid performance incentives of \$516,537 (February 28, 2018 - \$1,145,828) to Ascendant Group Holdings Inc., which are directly tied to the business acquisitions closed in the ten month period ended December 31, 2018. The Company also accrued an annual discretionary performance incentive of \$1,582,000 (February 28, 2018 - \$1,611,864) to Ascendant Group Holdings Inc. Lastly, the Company accrued or paid a performance incentive of \$Nil (February 28, 2018 - \$398,368) to Ascendant Group Holdings Inc. that relates to the 3 for 1 share consolidation that occurred in fiscal year ended February 28, 2018, as well as 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 December 31, 2018, \$2,098,536 was owed relating to these consulting fees (February 28, 2018 – \$1,571,917).  
During the ten month period ended December 31, 2018, the Company incurred consulting fees of \$192,337 (February 28, 2018 - \$92,496) 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 December 31, 2018, \$8,283 was owed relating to these consulting fees (February 28, 2018 – \$15,879).
- (2) To provide meaningful incentives, the Company issued stock-based compensation to directors and senior management.
- (3) Honorarium for serving as directors of the Board. As at December 31, 2018, the Company owed \$94,550 relating to director fees (February 28, 2018 – \$86,686).
- (4) Salary and short-term benefits and bonus paid to Anil Damani for carrying out the CEO function at LB.

During the ten month period ended December 31, 2018, the Company paid rent of \$60,222 (February 28, 2018 – \$154,325) to Ascendant Group Holdings Inc., a company controlled by Manu K. Sekhri (CEO of the Company).



Total distributions declared by Lucky Bucks Holdco, LLC to Anil Damani, 40% shareholder of Lucky Bucks Holdco, LLC totaled \$5,931,906 (February 28, 2018 - \$8,532,353). As of December 31, 2018, \$436,272 was owed relating to these distributions (February 28, 2018 - \$886,704).

During the year ended December 31, 2018, the Company had a write off of \$27,500 from 27th Group, a Company controlled by the CEO of Lucky Bucks, LLC and 40% shareholder of Lucky Bucks Holdco, As a result, as at December 31, 2018, \$Nil (February 28, 2018 - \$27,500) is due from 27th Group.

As at December 31, 2018, \$44,853 is due from the CEO of Lucky Bucks, LLC and 40% shareholder of Lucky Bucks Holdco, LLC.

During the ten month period ended December 31, 2018, the Company engaged in a foreign exchange transaction with a director of the Company in which the Company exchanged CAD \$783,926 for USD \$611,648.

The above transactions occurred in the normal course of operations and are measured at the amount of consideration established and agreed to by the related parties. All amounts due from (to) related parties are non-interest bearing, unsecured and due on demand.

### **SUBSEQUENT EVENTS**

1. On February 14, 2019, the Company's shareholders authorized and approved the name change of the Company from "Quantum International Income Corp." to "Seven Aces Limited".
2. On February 21<sup>st</sup>, 2019, the Company was recognized in the 2019 TSX Venture50<sup>TM</sup> as one of its' top performing companies in the diversified industries sector.
3. On February 15, 2019, the Company announced that the TSX Venture Exchange has accepted the Company's notice to implement a normal course issuer bid ("NCIB") to purchase, for cancellation, up to 5,587,431 of its common shares, representing approximately 10% of the Company's public float. The Company has received approval from the Exchange to commence the NCIB on February 19, 2019 and continue to February 18, 2020, or earlier in the event that the Company has acquired the maximum number of Shares that may be purchased under the NCIB. The Corporation may also terminate the NCIB earlier if it feels it is appropriate to so.

The Company has engaged Cormark Securities Inc. to act as its agent to conduct the NCIB transactions.

In March 2019, under the NCIB, the Company repurchased 44,000 common shares at a price of CAD \$0.7282 for total consideration of CAD \$32,040.

4. On February 27, 2019, Lucky Bucks, LLC, a company controlled by the Company, acquired six additional location contracts from Goldstar Amusement LLC, a digital skill-based gaming terminal operator based in the U.S. State of Georgia.

The respective purchase price was \$2,087,855, from which \$1,863,594 was paid on closing of the acquisition, with the remaining \$224,261 being payable upon satisfaction of certain-post closing obligations. These post-closing obligations were satisfied and the amount was paid.

These acquisitions were financed by a \$2,278,065 multi-draw term facility advance subject to the base rate. The financing was provided by the lender pursuant to the financing agreement dated November 15, 2018.

5. On March 11, 2019 Lucky Bucks, LLC, a company controlled by the Company, acquired three location contracts from A&R Entertainment Inc, a digital skill-based gaming terminal operator based in the U.S. State of Georgia.

The respective purchase price was \$1,401,601, from which \$1,233,154 was paid on closing of the acquisition, with the remaining \$168,477 being payable upon satisfaction of certain-post closing obligations. These post-closing obligations were satisfied and the amount was paid.

These acquisitions were financed by a \$1,473,556 multi-draw term facility advance subject to the base rate. The financing was provided by the lender pursuant to the financing agreement dated November 15, 2018.

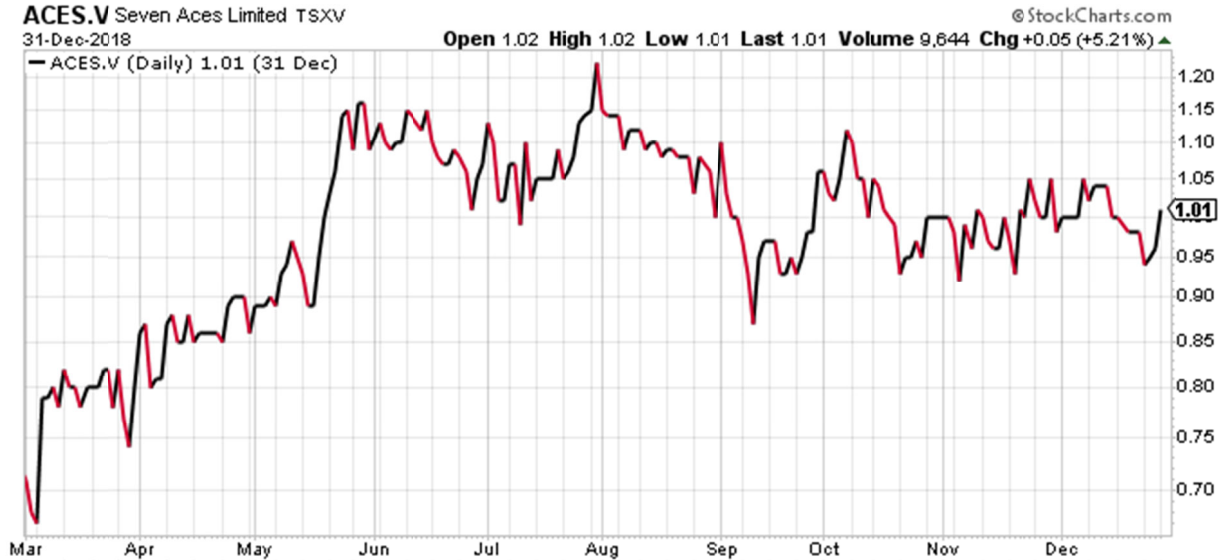
6. On March 13, 2019, Lucky Bucks, LLC, a company controlled by the Company, acquired four location contracts from Universal Games LLC, a digital skill-based gaming terminal operator based in the U.S. State of Georgia.

The respective purchase price was \$1,037,758, from which \$912,852 was paid on closing of the acquisition, with the remaining \$124,906 being payable upon satisfaction of certain-post closing obligations. These post-closing obligations were satisfied and the amount was paid.

These acquisitions were financed by a \$1,110,208 multi-draw term facility advance subject to the base rate. The financing was provided by the lender pursuant to the financing agreement dated November 15, 2018.

### **STOCK PERFORMANCE FOR FY2018**

Time frame: March 1, 2018 – December 31, 2018



## CRITICAL ACCOUNTING ESTIMATES AND USE OF JUDGEMENT

There have been no changes in the Company's critical accounting estimates and use of judgements in the ten months ended December 31, 2018.

## RECENT ACCOUNTING PRONOUNCEMENTS

### Standards issued and adopted

#### *IFRIC 22 Foreign Currency Transactions and Advance Considerations ("IFRIC 22")*

IFRIC 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The IASB has reached the consensus that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. IFRIC 22 is effective for annual reporting periods beginning on or after January 1, 2018. The adoption of this accounting interpretation did not have any impact.

#### *IFRS 9 Financial Instruments ("IFRS 9")*

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

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

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

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

New impairment requirements use an expected credit loss (“ECL”) model to recognise an allowance. At each reporting date, each financial asset measured at amortized cost is assessed for impairment under ECL model. The Company applies the simplified approach which uses lifetime ECLs for accounts receivables.

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.

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

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

Financial Instruments	Classification Category	
	Original (IAS 39)	New (IFRS 9)
Related party balances	Amortized cost	Amortized cost
Derivative asset	Fair value through profit or loss	Fair value through profit or loss
<b>Liabilities</b>		
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Distribution payable	Amortized cost	Amortized cost
Long-term debt	Amortized cost	Amortized cost
Promissory note	Amortized cost	Amortized cost
Related party balances	Amortized cost	Amortized cost
Derivative liability	Fair value through profit or loss	Fair value through profit or loss

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

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

The Company adopted IFRS 15 effective March 1, 2018 using the modified 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.

#### **Standards issued but not yet effective**

##### ***IFRS 16 Leases ("IFRS 16")***

Effective for annual periods beginning on or after January 1, 2019, IFRS 16 Leases was issued by the IASB in January 2016 and will replace IAS 17 Leases. IFRS 16 introduces a single accounting model for lessees and for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognize a right of use asset,

representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. The accounting treatment for lessors will remain largely the same as under IAS 17. Earlier application is permitted only if the Company early adopts IFRS 15.

The Company has started the assessment relating to five operating leases for the impact of IFRS 16. Management anticipates that IFRS 16 may have an impact on the statement of financial position.

### ***IFRIC 23 Uncertainty over Income Tax Treatments (“IFRIC 23”)***

In June 2017, the IASB issued IFRIC 23 to clarify how the requirements of IAS 12 Income Taxes should be applied when there is uncertainty over income tax treatments. The interpretation specifically addresses:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determine taxable profit (or loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

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

### ***Amendments to IFRS 3 – Business combinations***

The IASB issued amendments to IFRS 3 - Business combinations to revise the definition of a business. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

Financial assets and financial liabilities were as follows:

<b>Financial assets at amortized cost</b>	<b>December 31, 2018</b>	February 28, 2018
Cash	\$ 2,466,419	\$ 4,716,731
Restricted cash	2,735,586	1,204,785
Accounts receivable	2,065,871	1,422,333
Notes receivable	-	346,040
Related party balances	44,853	82,353
	<b>\$ 7,312,729</b>	<b>\$ 7,772,242</b>

<b>Financial liabilities at amortized cost</b>	<b>December 31, 2018</b>	February 28, 2018
Accounts payable and accrued liabilities	\$ 5,638,444	\$ 4,353,063
Distribution payable	436,272	886,704
Related party balances	2,393,086	1,658,603
Long-term debt	67,327,321	57,221,841
	<b>\$ 75,795,123</b>	<b>\$ 64,120,211</b>

<b>Fair value through profit and loss, assets (liabilities)</b>	<b>December 31, 2018</b>	February 28, 2018
Derivative asset	\$ -	\$ 2,765,000
Derivative liability	(3,354,662)	(2,421,726)
	<b>\$ (3,354,662)</b>	<b>\$ 343,274</b>

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

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

The carrying amounts of long-term debt approximate its fair value since the interest rates on these instruments approximate the current market rates offered to the Company. On initial recognition, the fair value of long-term debt was established based on the current interest rates, market values and pricing of financial instruments with comparable terms.

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

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

### **Credit Risk**

Credit risk is the risk of financial loss to the Company if 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 ten month period ended December 31, 2018, all of the Company's gaming revenue is collected from Georgia Lottery Corporation ("GLC") after location costs. These amounts receivable are current at period 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 December 31, 2018, the Company had cash balance of \$2,466,419 (February 28, 2018 - \$4,716,731). The following table summarizes amounts and maturity dates of the Company's contractual obligations as of December 31, 2018:

	<b>Within 1 Year</b>	<b>2 - 3 years</b>	<b>4 - 5 years</b>	<b>Total</b>
Accounts payable and accrued liabilities	\$ 5,638,444	\$ -	\$ -	\$ 5,638,444
Distribution payable	436,272	-	-	\$ 436,272
Related party balances	2,393,086	-	-	2,393,086
Long-term debt	6,517,349	14,987,949	49,599,798	71,105,096
	<b>\$ 14,985,151</b>	<b>\$ 14,987,949</b>	<b>\$49,599,798</b>	<b>\$79,572,898</b>

### Interest Rate Risk

As of December 31, 2018, the Company had a multi draw credit facility with a carrying value of \$67,088,264, with a contractual obligation of \$75,704,240 and with a variable annual interest rate of LIBOR plus 7%. LIBOR rates fluctuate over time, new loan agreements may be entered



into in the future or existing loans may be renewed at new interest rates, therefore the Company is subject to interest rate risk.

### **Foreign Currency Risk**

The Company's functional currency is the United States dollar and major purchases are transacted in United States dollars. However, the Company is exposed to currency risk with fluctuations in 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.

Based on the Company's net monetary liabilities dominated in Canadian dollars, 10% fluctuations in the exchange rate from CAD to USD will generate increases or decrease in income of approximately \$155,254 (February 28, 2018 - \$181,398).

## OUTSTANDING SHARE DATA

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

	<u>December 31, 2018</u>	<u>April 30, 2019</u>
Common shares outstanding	71,650,833	71,996,168
Warrants outstanding	5,985,904	5,485,904
Share options outstanding	7,165,068	7,036,035
Total	<u>84,801,805</u>	<u>84,518,107</u>

## RISK FACTORS

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

#### *General economic conditions*

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

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

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

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

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

#### *Key personnel*

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

Our success also depends on the efforts and abilities of our management, as well as our ability to attract additional qualified personnel to manage operations and future growth. Also, we maintain a key employee life insurance policies on the CEO of Quantum and the CEO of LB. The loss of a member of management, other key employee or partners could have an adverse effect on our business, operating results and financial condition.

### ***Regulatory risks***

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

### ***Gaming regulation***

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

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

The Company currently owns an interest in one digital skill-based gaming business (LB). Therefore, all of the risks are currently concentrated in a single business. LB owns terminals installed in various locations across the State of Georgia so the risks are diversified. The Company will continue to execute on its aggressive growth strategy through acquisitions in the Georgia digital skill-based gaming space. Failure to identify suitable acquisition targets and negotiate attractive consideration and acceptable financing terms may adversely affect the Company's performance. As of December 31, 2018, LB closed eleven acquisitions of other digital skill-based gaming businesses in Georgia.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***LB incurred significant indebtedness in connection with the eleven business acquisitions since October 2016 and our significant indebtedness could adversely affect our financial health and prevent us from fulfilling our obligations.***

We incurred significant indebtedness in connection with the eleven business acquisitions that the Company has closed. As of December 31, 2018, the total principal amount of our long term debt, was \$70.9M. As a result of the increases in our outstanding debt, demands on our cash resources have increased. The increased level of debt could, among other things:

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

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

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

LB may incur significant additional indebtedness in the future, which may include financing relating to capital expenditures, potential acquisitions or business expansion, working capital or general corporate purposes. The long term debt facility with the Company's lender includes a \$29.1M multi-draw term loan, which was undrawn at December 31, 2018. In addition, our long term debt permits us, subject to specific limitations, to incur additional indebtedness. If new indebtedness is added to our current level of indebtedness, the related risks that we now face could intensify.

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

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

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

LB's long-term debt facility contain, and any future debt instruments likely will contain, covenants that may restrict our ability to implement our business plan, finance future operations, respond to changing business and economic conditions, secure additional financing, and engage in opportunistic transactions, such as strategic acquisitions. Our long-term debt facility include covenants restricting, among other things, our ability to do the following:

- incur, assume or guarantee additional indebtedness;
- issue redeemable stock and preferred stock;
- grant or incur liens;
- sell or otherwise dispose of assets, including capital stock of subsidiaries;

- make loans and investments;
- pay dividends, make distributions, or redeem or repurchase capital stock;
- enter into transactions with affiliates; and
- consolidate or merge with or into, or sell substantially all of our assets to, another person.

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

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

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

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

Although LB has comprehensive property, automobile and liability insurance policies for our operations, with coverage features and insured limits that we believe are customary in their breadth and scope, each such policy has certain exclusions. Certain types of losses, generally of a catastrophic nature, such as earthquakes, hurricanes, floods or terrorist acts, or certain liabilities may be uninsurable or too expensive to justify obtaining insurance. Market forces beyond our control may also limit the scope of the insurance coverage LB can obtain or its ability to obtain coverage at reasonable rates. As a result, LB may not be successful in obtaining insurance without increases in cost or decreases in coverage levels. In addition, in the event of a major casualty, the insurance coverage LB carries may not be sufficient to pay the full market value or replacement cost of its lost investment or in some cases could result in certain losses being



totally uninsured. As a result, LB could lose some or all of the capital we have invested, as well as the anticipated future revenue from operations, and LB could remain obligated for debt or other financial obligations, any of which could have a material adverse effect on LB's business, financial condition, results of operations and prospects. In addition to the damage caused to LB's operation by a casualty loss (such as fire, natural disasters, acts of war or terrorism), LB may suffer business disruption as a result of these events or be subject to claims by third parties injured or harmed. While we carry general liability insurance, this insurance may not be adequate to cover all losses in such event.

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