

S E V E N A C E S

SEVEN ACES LIMITED (formerly Quantum International Income Corp.)

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019

GENERAL

*The following Management Discussion and Analysis ("MD&A") should be read in conjunction with the condensed interim consolidated financial statements (the "**Financial Statements**") and the notes contained therein of Seven Aces Limited (the "**Company**" or "**Seven Aces**") for the three and nine months ended September 30, 2019 and August 31, 2018.*

*The unaudited condensed interim 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**"). The unaudited condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's 2018 audited consolidated financial statements and the notes thereto, and the 2018 MD&A filed with Canadian regulatory agencies. The documents are available at www.sedar.com.*

This MD&A was prepared effective November 27, 2019.

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FORWARD LOOKING INFORMATION

Certain statements contained in this MD&A constitute forward-looking statements and forward-looking information (collectively, "**Forward-Looking Statements**") and Seven Aces cautions investors about important factors that could cause Seven 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 Seven 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 Seven Aces, including, but not limited to: general economic and business conditions; global financial conditions; the failure of Seven Aces to identify future acquisition targets; third parties honouring their contractual obligations with Seven 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 Seven 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 Seven 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 Seven Aces' business industries, structures and operations.

Seven Aces cautions that the list and description of Forward-Looking Statements, risks, assumptions and uncertainties set out above is not exhaustive. Seven 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 Seven Aces and its subsidiaries are included in disclosure documents filed by Seven Aces with the securities regulatory authorities, available under Seven Aces' profile on SEDAR at www.sedar.com.

BUSINESS OVERVIEW

Seven Aces Limited's ("**Seven Aces**", "**ACES**" or the "**Company**") mandate is to identify and acquire control positions, provide management oversight, acquisition strategies, and growth capital in gaming, skill gaming, and gaming related markets. Prior to October 2016, Seven 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, Seven Aces divested of this asset and shifted its focus to gaming and gaming related markets. Seven 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, United States of America through contracts with location owners. The Company is executing on its acquisition strategy in Georgia, U.S. through LB with a particular focus on cash-flows and high margins.

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.

Operating entities as at:

	September 2019 Ownership Interest	December 2018 Ownership Interest
Quantum Gaming Corp (" QGC ")	100%	100%
Southern Star Gaming, LLC (" SSG ")	100%	100%
Lucky Bucks HoldCo, LLC (" LBH ")	70%	60%
Lucky Bucks, LLC (" LB ")	70%	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. nudging the wheel). 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

3. **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.
4. **Distributor:** a person or business that buys, sells, or distributes Class B machines or major components or parts of machines to or from the route operators.
5. **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, gas stations and veterans clubs).
6. **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) The GLC tax rate was 9% until June 30, 2019 then it was increased to 10% as of July 1, 2019 which is the maximum rate.
- (2) Operated by Lucky Bucks

Gaming revenues from COAMs are incurred as follows:

The GLC receives a set percentage of the machine's net revenues (i.e. all monies put into a machine minus credits paid out to players). The GLC tax rate was 9% until June 30, 2019 then it was increased to 10% as of July 1, 2019 which is the maximum rate. The Class B master license holder (i.e. COAM route operator) enters into an agreement with the location operator (i.e. establishment) where the COAM route operator acts as a principal as it controls the service before the service is provided to the customer.

OVERALL PERFORMANCE

Highlights

- Gaming revenue for the three months ended September 30, 2019 was \$19.4M, which represents growth of ~13.8% compared to the three months ended August 31, 2018.
- Closed five acquisitions during the three months ended September 30, 2019, with total purchase prices of ~\$7.5M.
- Adjusted EBITDA (defined on page 7 under non-IFRS measures) of \$6.40M compared to adjusted EBITDA of \$7.05M for the three months ended August 31, 2018.
- Basic and diluted loss per share of \$0.030, compared to basic and diluted earnings per share of \$0.021 and \$0.018 respectively in the three months ended August 31, 2018.
- Cash flows from operations for the nine months ended September 30, 2019 was \$12.2M compared to \$13.2M for the nine months ended August 31, 2018.

RECENT DEVELOPMENTS

Acquisitions completed in the Georgia gaming market

- On February 27, 2019, the Company, through LB, acquired six (6) gaming contracts from Goldstar Amusement 2 LLC (“Goldstar 2”), a digital skill-based gaming terminal operator based in the U.S. State of Georgia.

The purchase price of Goldstar 2 was \$2,087,855, from which \$1,863,594 was paid on closing of the transaction. The remaining \$224,261 was payable to Goldstar 2 upon the satisfaction of certain post-closing obligations. These post-closing obligations were satisfied, and the remaining amount was paid on April 17, 2019.

The purchase price for the acquisition was funded by LB through proceeds from its multi-draw credit facility.

- On March 8, 2019, the Company, through LB, acquired three (3) gaming contracts from A&R Amusement, LLC (“A&R”), a digital skill-based gaming terminal operator based in the U.S. State of Georgia.

The purchase price of A&R was \$1,401,601, from which \$1,233,124 was paid on closing of the transaction. The remaining \$168,477 was payable to A&R upon the satisfaction of certain post-closing obligations. These post-closing obligations were satisfied, and the remaining amount was paid on May 17, 2019.

The purchase price for the acquisition was funded by LB through proceeds from its multi-draw credit facility.

- On March 12, 2019, the Company, through LB, acquired four (4) gaming contracts from Universal Games, LLC (“Universal”), a digital skill-based gaming terminal operator based in the U.S. State of Georgia.

The purchase price of Universal was \$1,037,758, from which \$912,852 was paid on closing of the transaction. The remaining \$124,906 was payable to Universal upon the satisfaction of certain post-closing obligations. These post-closing obligations were satisfied, and the remaining amount was paid on May 8, 2019.

The purchase price for the acquisition was funded by LB through proceeds from its multi-draw credit facility.

- On July 17, 2019, the Company, through LB, acquired four (4) gaming contracts from Ambaji Amusement, LLC (“Ambaji”), a digital skill-based gaming terminal operator based in the U.S. State of Georgia.

The purchase price of Ambaji was \$982,879, from which \$884,329 was paid on closing of the transaction. The remaining \$98,550 was payable to Ambaji upon the satisfaction of certain post-closing obligations. These post-closing obligations were satisfied, and the remaining amount was paid on September 25, 2019.

The purchase price for the acquisition was funded by LB through proceeds from its multi-draw credit facility.

- On August 16, 2019, the Company, through LB, acquired three (3) gaming contracts from Fareast Amusement Games, LLC (“Fareast”), a digital skill-based gaming terminal operator based in the U.S. State of Georgia.

The purchase price of Fareast was \$650,617, from which \$583,312 was paid on closing of the transaction. The remaining \$67,305 was payable to Fareast upon the satisfaction of certain post-closing obligations. These post-closing obligations have not yet been satisfied as at November 27, 2019.

The purchase price for the acquisition was funded by LB through proceeds from its multi-draw credit facility.

- On August 23, 2019, the Company, through LB, acquired five (5) gaming contracts from Ambaji Amusement, LLC (“Ambaji2”), a digital skill-based gaming terminal operator based in the U.S. State of Georgia.

The purchase price of Ambaji2 was \$3,252,909, from which \$2,946,484 was paid on closing of the transaction. The remaining \$306,425 was payable to Ambaji2 upon the satisfaction of certain post-closing obligations. These post-closing obligations were satisfied, and the remaining amount was paid on October 7, 2019.

The purchase price for the acquisition was funded by LB through proceeds from its multi-draw credit facility.

- On September 12, 2019, the Company, through LB, acquired thirteen (13) gaming contracts from Lee Caudell, Inc (“Lee Caudell”), a digital skill-based gaming terminal operator based in the U.S. State of Georgia.

The purchase price of Lee Caudell was \$2,014,120, from which \$1,856,809 was paid on closing of the transaction. The remaining \$157,311 was payable to Lee Caudell upon the satisfaction of certain post-closing obligations. These post-closing obligations have not yet been satisfied as at November 27, 2019. An additional \$320,935 will be paid only if revenues from certain locations meet specific revenue thresholds on or prior to March 31, 2020. These thresholds have not yet been satisfied.

The purchase price for the acquisition was funded by LB through proceeds from its multi-draw credit facility.

- On September 27, 2019, the Company, through LB, acquired two (2) gaming contracts from Platinum Amusements, LLC (“Platinum”), a digital skill-based gaming terminal operator based in the U.S. State of Georgia.

The purchase price of Platinum was \$566,637 from which \$508,019 was paid on closing of the transaction. The remaining \$58,618 was payable to Platinum upon the satisfaction of certain post-closing obligations. These post-closing obligations have not yet been satisfied as at November 27, 2019.

The purchase price for the acquisition was funded by LB through proceeds from its multi-draw credit facility.

Company recognized in 2019 TSX Venture 50™

On February 21, 2019, the Company announced that they were recognized in the 2019 TSX Venture 50™ as one of the top performing companies in the diversified industries sector. The TSX Venture 50™ is an award given to the top 10 companies listed on the TSX Venture Exchange in each of the five major industry sectors; mining, oil and gas, clean technology and life sciences, diversified industries and technology.

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), adjusted EBITDA, net debt and enterprise value.

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, amortization of right-of-use asset, stock-based compensation, foreign exchange, impairment, gain/loss on settlement of accounts payable, financing income, other 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:

	Q3 Three months ended September 30, 2019	Q2 Three months ended June 30, 2019	Q1 Three months ended March 31, 2019	Q4 2019 One month ended** December 31, 2018	Q3 2019 Three months ended November 30, 2018	Q2 2019 Three months ended August 31, 2018
Net income (loss)	\$ (1,787,216)	\$ 2,399,892	\$ 3,808,824	\$ (3,208,884)	\$ 743,998	\$ 3,098,868
Adjustments						
Amortization of property and equipment and intangible assets	3,174,677	3,005,977	2,854,140	971,522	2,388,296	-
Amortization of right-to-use asset	82,724	50,367	34,190	-	-	2,325,621
Financing costs	2,438,545	2,268,819	2,049,926	946,741	1,752,517	1,744,905
Business acquisition costs	938,702	134,778	110,740	(17,522)	927,688	355,898
Stock-based compensation	-	-	-	53,048	866,519	-
Impairment	65,900	-	90,000	-	60,000	-
Loss on disposal of property and equipment	-	-	-	-	-	8,982
Financing income	-	-	-	(192)	(2,065)	(3,410)
Other income	175,000	(630,000)	-	-	-	-
Gain on settlement of accounts payable	-	-	-	-	(85,400)	-
Warrant fair value adjustment	1,329,667	69,875	(1,131,150)	139,158	(298,418)	(472,176)
Derivative asset fair value adjustment	-	-	-	-	-	-
Income tax expense	-	370,000	480,000	1,825,945	535,957	-
Foreign exchange	(11,019)	5,127	1,316	(94,832)	61,310	(7,670)
Adjusted EBITDA	\$ 6,406,980	\$ 7,674,835	\$ 8,297,986	\$ 614,984	\$ 6,950,402	\$ 7,051,018

**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 70% (ACES portion) of the face value of the long-term debt including the current portion, net of total cash available less 30% (non-controlling interest) of LB's operating cash.

The following table represents the net debt calculation as at September 30, 2019:

Carrying value of long-term debt	\$ 83,275,168
Add: unamortized transaction costs	3,137,711
Face value of the long-term debt including current portion	86,412,879
Parent's portion (70%)	60,489,015
Cash and cash equivalents including restricted cash	6,529,308
Less: Lucky Bucks, LLC operating cash	(3,998,317)
ACES net debt	\$ 57,958,025

Enterprise value

Total enterprise value is a non-GAAP measure which is calculated by aggregating the market value of common shares, adding the face value of the Company's debt, adding the book value of non-controlling interest and subtracting cash and cash equivalents, including restricted cash. Management believes that total enterprise value provides useful information to investors to assess the overall market value of the Company and as an input to calculate financial ratios. Management utilizes total enterprise value to assess the Company's growth.

Share price (CAD) as at September 30, 2019	\$	1.16
Outstanding shares		68,334,718
Market value of common shares (CAD)		79,268,273
FX rate as at September 30, 2019		0.75512
Market value of common shares (USD)		59,856,741
Face value of total debt		86,412,879
Book value of non controlling interest		1,500,362
Cash and cash equivalents including restricted cash		(6,529,308)
Total enterprise value	\$	141,240,674

SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

	Three months ended September 30, 2019 ("Q3")	Three months ended June 30, 2019 ("Q2")	Three months ended March 31, 2019 ("Q1")	One month ended** December 31, 2018 ("Q4 2019")
Revenue ⁽¹⁾	\$ 19,356,638	\$ 19,875,746	\$ 20,095,522	\$ 6,604,302
Net income (loss) and comprehensive income (loss) ⁽²⁾	(1,787,216)	2,399,892	3,808,824	(3,208,884)
Basic earnings (loss) per share ⁽³⁾	(0.030)	0.017	0.031	(0.045)
Diluted earnings (loss) per share ⁽³⁾	(0.030)	0.014	0.026	(0.045)

	Three months ended November 30, 2018 ("Q3 2019")	Three months ended August 31, 2018 ("Q2 2019")	Three months ended May 31, 2018 ("Q1 2019")	Three months ended February 28, 2018 ("Q4 2018")
Revenue ⁽¹⁾	\$ 16,819,611	\$ 17,012,675	\$ 19,276,458	\$ 16,401,311
Net income (loss) and comprehensive income (loss) ⁽²⁾	743,998	3,098,868	(3,975,781)	(2,886,497)
Basic earnings (loss) per share ⁽³⁾	(0.005)	0.021	(0.049)	(0.041)
Diluted earnings (loss) per share ⁽³⁾	(0.005)	0.018	(0.049)	(0.041)

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

Notes:

- 1) There is a slight decrease in revenue in Q3 compared to Q2 as summer months are traditionally slower months in the COAM market in Georgia.

There is a slight decrease in revenue in Q2 compared to Q1 as a result of the following:

- March is typically a higher-than-average revenue generating month, as customers tend to have a higher disposable income in this month due to tax refunds received.
- Summer months are traditionally slower months in the COAM market in Georgia.

Revenue in Q1 is higher than revenue in Q4 2019, as a result of the following reasons:

- Q1 includes revenue earned from the three business acquisitions closed in the quarter.
- Additionally, March is typically a higher-than-average revenue generating month, as customers tend to have a higher disposable income in this month due to tax refunds received.
- Lastly, Q4 2019 includes only one month of operations, as a result of the Company changing its year end to December 31.

Revenue in Q4 2019 is lower than in Q3 2019 due to the fact that Q4 2019 includes only one month of operations as a result of the Company's year end change from February 28 to December 31. Revenue in Q3 2019 is comparable to Q2 2019. The slight decrease is due to some locations that went temporarily offline as a result of the GLC not renewing the location licenses until the 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 2019 to \$17,012,675 in Q2 2019. 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.

The increase in revenue throughout the 2018 quarters is directly related to the 9 acquisitions LB closed during the year. In Q1 2018 the Company closed the acquisition of Triple 7s Amusement LLC and Lucky Star Amusement, Inc, in Q2 2018 the Company closed the acquisition of American Amusement LLC and AM/PM Management Inc., in Q3 2018 the Company closed acquisitions of Fun Games Inc, FarEast Amusement Games and WildHorse Amusement Company LLC and in Q4 2018 the company closed the acquisition of Lee Caudell, Inc and Wise Amusement LLC.

- 2) The fluctuations in the quarters stem from the number of business acquisitions closed by the Company. The one-time deal expenses are tied to the number of acquisitions closed in a quarter. Generally, in the last quarter of every fiscal year, there is a spike in expenses as the Company accrues/pays annual performance incentives. Also, as the business has grown there has been a general increase in operating expenses.
- 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.

	Three months ended September 30, 2019			Nine months ended September 30, 2019		
	Corporate	LBL	Total	Corporate	LBL	Total
Revenue						
Gaming revenue	\$ -	\$ 19,356,638	\$ 19,356,638	\$ -	\$ 59,327,906	\$ 59,327,906
Location costs	-	(9,678,319)	(9,678,319)	-	(29,663,953)	(29,663,953)
Revenue after location costs	-	9,678,319	9,678,319	-	29,663,953	29,663,953
Operating expenses						
Amortization of property, equipment and intangible assets	-	(3,174,677)	(3,174,677)	-	(9,034,794)	(9,034,794)
Amortization of right-of-use asset	(66,546)	(16,178)	(82,724)	(134,925)	(32,356)	(167,281)
Impairment	-	(65,900)	(65,900)	-	(155,900)	(155,900)
General and administrative expense	(625,059)	(3,584,982)	(4,210,041)	(2,210,956)	(6,257,414)	(8,468,370)
	(691,605)	(6,841,737)	(7,533,342)	(2,345,881)	(15,480,464)	(17,826,345)
Other expenses						
Finance costs	(1,608)	(2,436,937)	(2,438,545)	(7,971)	(6,749,319)	(6,757,290)
Other income	(175,000)	-	(175,000)	455,000	-	455,000
Finance income	-	-	-	-	-	-
Fair value gain (loss) on derivative liabilities	(1,329,667)	-	(1,329,667)	(268,392)	-	(268,392)
Loss on foreign exchange	11,019	-	11,019	4,574	-	4,574
	(1,495,256)	(2,436,937)	(3,932,193)	183,211	(6,749,319)	(6,566,108)
Net income (loss) and comprehensive income (loss) before tax	(2,186,861)	399,645	(1,787,216)	(2,162,670)	7,434,170	5,271,500
Current tax expense	-	-	-	-	(850,000)	(850,000)
Net Income (loss) and comprehensive income (loss)	\$ (2,186,861)	\$ 399,645	\$ (1,787,216)	\$ (2,162,670)	\$ 6,584,170	\$ 4,421,500
Total current assets	\$ 782,796	\$ 7,521,953	\$ 8,304,749	\$ 782,796	\$ 7,521,953	\$ 8,304,749
Total non-current assets	\$ 484,673	\$ 69,510,034	\$ 69,994,707	\$ 484,673	\$ 69,510,034	\$ 69,994,707
Total liabilities	\$ 6,945,824	\$ 89,214,661	\$ 96,160,485	\$ 6,945,824	\$ 89,214,661	\$ 96,160,485

	Three months ended August 31, 2018			Nine months ended August 31, 2018		
	Corporate	LBL	Total	Corporate	LBL	Total
Revenue						
Gaming revenue	\$ -	\$ 17,012,675	\$ 17,012,675	\$ -	\$ 52,690,444	\$ 52,690,444
Location costs	-	(8,506,337)	(8,506,337)	-	(26,345,222)	(26,345,222)
Revenue after location costs	-	8,506,338	8,506,338	-	26,345,222	26,345,222
Operating expenses						
Amortization of property, equipment and intangible assets	-	(2,325,621)	(2,325,621)	-	(6,740,724)	(6,740,724)
Impairment	-	-	-	-	(212,000)	(212,000)
General and administrative expenses	(812,739)	(1,007,461)	(1,820,200)	(2,287,938)	(2,853,136)	(5,141,073)
	(812,739)	(3,333,082)	(4,145,821)	(2,287,938)	(9,805,860)	(12,093,797)
Other expenses						
Finance costs	(4,004)	(1,740,901)	(1,744,905)	(26,671)	(13,926,511)	(13,953,182)
Other income	-	-	-	-	122,000	122,000
Finance income	3,410	-	3,410	39,679	-	39,679
Fair value gain (loss) on derivative liabilities	472,176	-	472,176	(2,058,288)	-	(2,058,288)
Loss on foreign exchange	7,670	-	7,670	27,956	-	27,956
Derivative asset	-	-	-	-	(2,193,000)	(2,193,000)
	479,252	(1,740,901)	(1,261,649)	(2,017,324)	(15,997,511)	(18,014,835)
Net Income (loss) and comprehensive income (loss)	\$ (333,487)	\$ 3,432,355	\$ 3,098,868	\$ (4,305,262)	\$ 541,851	\$ (3,763,410)
Total current assets	\$ 278,456	\$ 5,803,279	\$ 6,081,735	\$ 278,456	\$ 5,803,279	\$ 6,081,735
Total non-current assets	\$ 13,568	\$ 58,435,174	\$ 58,448,742	\$ 13,568	\$ 58,435,174	\$ 58,448,742
Total liabilities	\$ 6,155,832	\$ 63,251,922	\$ 69,407,754	\$ 6,155,832	\$ 63,251,922	\$ 69,407,754

RESULTS OF OPERATIONS

The following highlights the changes in selected financial results. The following information is expressed in United States Dollars and is derived from the Company's financial information prepared in accordance with IFRS.

Quarter ended September 30, 2019 (“Q3”) compared with the quarter ended August 31, 2018 (“Q2 2019”)

Revenue

Revenue for the three months ended September 30, 2019 was \$19,356,638 (August 31, 2018 - \$17,012,675). The increase in revenue is due to the following reasons:

- Three business acquisitions were closed in Q1, and as such, Q3 includes revenue from these business acquisitions for the entire three months.
- The Company closed five additional acquisitions in Q3, and as such, Q3 includes revenue from these acquisitions.

Location Costs

Location costs were \$9,678,319 and \$8,506,337 for the three months ended September 30, 2019 and August 31, 2018 respectively. The increase in location costs is directly correlated to the increase in gaming revenue.

Amortization of property, equipment and intangibles

Amortization of intangibles for the three months ended September 30, 2019 was \$2,752,802 (August 31, 2018 - \$2,005,000) and amortization of property and equipment for the three months ended September 30, 2019 was \$421,875 (August 31, 2018 – \$320,621).

This increase is a direct result of the increase in the value of property, equipment and intangibles due to acquisitions, which is driven by capital expenditures and assets purchased via acquisition.

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

	Goldstar Amusement, LLC (a)	A&R Amusement, LLC (b)	Universal Games, LLC (c)	Ambaji Amusement, LLC (d)	Fareast Amusement Games, LLC (e)
Acquisition date	27-Feb-19	8-Mar-19	12-Mar-19	17-Jul-19	16-Aug-19
Purchase cash consideration	\$ 2,087,855	\$ 1,401,601	\$ 1,037,758	\$ 982,879	\$ 650,617
Allocation of purchase price:					
Property and equipment	88,360	47,260	72,900	65,540	21,980
Brand	30,000	30,000	30,000	5,900	-
Owner/operator gaming machine contracts	1,903,310	1,279,910	901,961	880,282	608,012
Goodwill	66,185	44,431	32,897	31,157	20,625
	\$ 2,087,855	\$ 1,401,601	\$ 1,037,758	\$ 982,879	\$ 650,617
Acquisition costs	\$ 109,396	\$ 67,317	\$ 58,368	\$ 212,181	\$ 93,041

	Ambaji Amusement, LLC (f)	Lee Caudell, Inc (g)	Platinum Amusements, LLC (h)	Total
Acquisition date	23-Aug-19	12-Sep-19	27-Sep-19	
Purchase cash consideration	\$ 3,252,909	\$ 2,014,120	\$ 566,637	\$ 11,994,376
Allocation of purchase price:				
Property and equipment	86,520	141,300	16,840	\$ 540,700
Brand	30,000	30,000	-	\$ 155,900
Owner/operator gaming machine contracts	3,033,272	1,778,972	531,835	\$ 10,917,554
Goodwill	103,117	63,848	17,962	\$ 380,222
	\$ 3,252,909	\$ 2,014,120	\$ 566,637	\$ 11,994,376
Acquisition costs	\$ 359,951	\$ 241,297	\$ 42,669	\$ 1,184,220

General & administrative costs

General and administrative costs incurred by nature are as follows:

	Three months ended	
	September 30, 2019	August 31, 2018
Acquisition costs ⁽¹⁾	\$ 938,702	\$ 355,898
Professional and advisory fees ⁽²⁾	698,027	434,167
Regulatory and filing fees	3,729	4,383
Salaries and benefits	382,682	357,553
Administrative and corporate expenses ⁽³⁾	2,186,901	659,217
Loss on disposal of property and equipment	-	8,982
	\$ 4,210,041	\$ 1,820,200

Notes:

- (1) Acquisition costs for the three months ended September 30, 2019 increased as a direct result of the acquisitions that the Company closed in the quarter. There were no such acquisition costs in Q2 2019.
- (2) There was an increase in professional and advisory fees due to the following reasons:
 - LB is paying performance bonuses to Anil Damani, CEO of Lucky Bucks. These bonuses did not exist in the three months ended August 31, 2018.
 - LB engaged a local law firm to help with the specific COAM regulations in Georgia.
- (3) There is an increase in administrative and corporate expenses due to the following reasons:
 - The Company entered into a consulting agreement for business development services. The consultant provides market research and business development services relating to COAM games in Georgia as well as other markets, which shall include but not be limited to studying rules and regulations, building relationships with the relevant government agencies, and doing field research on optimization of COAM businesses. This did not exist in Q2 2019.
 - The Company incurred expenses to promote LB's brand to stimulate more growth and shore up LB's acquisition pipeline by sponsoring various events and concerts. By sponsoring these events and concerts LB engages with location owners as these events are attended by gaming audiences. This did not exist in Q2 2019.

Finance costs

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

Finance costs increased as a result of additional interest incurred related to the draw downs on the multi-draw credit facility for the acquisitions closed subsequent to August 31, 2018.

Other income

The Company had accrued \$630,000 relating to litigation with Columbus LTACH Management LLC and Columbus LTACH, LLC that was filed in the Superior Court of New Jersey. Refer to the 2018 audited financial statements (Note 21) for details regarding litigation. Subsequent to Q3, the Company settled this litigation in principal for \$175,000 to be paid over a period of six months in 2020.

Fair value loss on derivative liabilities

As of September 30, 2019, there are 5,485,904 (December 31, 2018 – 5,985,904) warrants outstanding and the Company recorded a derivative liability with a value of \$3,489,659 (December 31, 2018 - \$3,354,662). The fair value loss on derivative liabilities for the three months ended September 30, 2019 of \$1,329,667 (August 31, 2018 – (\$472,176)) relates to the fair value change in the warrant derivative liability.

Fair value gain (loss) on derivative asset

The early repayment option tied to the prior outstanding long-term debt resulted in an embedded derivative that required separation from the original loan. As at February 28, 2018 the value of the derivative asset was \$2,765,000. The prior long-term debt was repaid on April 9, 2018, and as such, the Company recorded a fair value loss of \$2,765,000 in Q1 2019. There is no derivative asset recorded by the Company as of September 30, 2019.

Financial performance

The Company recognized net loss of \$1,787,216 for the three months ended September 30, 2019, compared to a net income of \$3,098,868 for the three months ended August 31, 2018. This is mainly due to the increase in amortization expense, acquisition costs, administrative and corporate expenses, finance costs, and an increase in fair value loss on derivative liability.

Financial condition

As at September 30, 2019, the Company reported a working capital deficiency of \$6,902,738 compared to a deficiency of \$8,182,630 at December 31, 2018. The working capital deficiency is largely a result of the requirement to report 12 months of principal debt repayments as a current liability. If we adjust these instalment payments from current liabilities, the Company has positive working capital of \$1,190,173 as of September 30, 2019.

Nine months ended September 30, 2019 compared with the nine months ended August 31, 2018

Revenue

Revenue for nine months ended September 30, 2019 was \$59,327,906 (August 31, 2018 - \$52,690,444).

The increase in revenue is due to the following reasons:

- The nine months ended September 30, 2019 includes revenue from three business acquisitions that the Company closed in Q1 and an additional five business acquisitions that closed in Q3. These revenues did not exist in the nine months ended August 31, 2018.
- Additionally, the nine months ended September 30, 2019 includes revenue for the entire nine months from the two business acquisitions that the Company closed in Q3 2019. These revenues did not exist in the nine months ended August 31, 2018.

Location Costs

Location costs were \$29,663,953 and \$26,345,222 for the nine months ended September 30, 2019 and August 31, 2018 respectively. The increase in location costs is directly correlated to the increase in gaming revenue.

Amortization of property, equipment and intangibles

Amortization of intangibles for the nine months ended September 30, 2019 was \$7,809,041 (August 31, 2018 - \$5,954,017) and amortization of property and equipment for the nine months ended September 30, 2019 was \$1,225,753 (August 31, 2018 – \$786,707).

This increase is a direct result of the increase in the value of property, equipment and intangibles due to acquisitions, which is driven by capital expenditures and assets purchased via acquisition.

An outline of the value of assets acquired during the nine months ended September 30, 2019 is shown on pages 12 and 13.

General & administrative costs

General and administrative costs incurred by nature are as follows:

	Nine months ended	
	September 30, 2019	August 31, 2018
Acquisition costs ⁽¹⁾	\$ 1,184,220	\$ 256,098
Professional and advisory fees ⁽²⁾	2,167,986	3,740,650
Regulatory and filing fees	51,702	34,357
Salaries and benefits	1,155,077	1,232,396
Share based compensation ⁽³⁾	-	(1,748,198)
Administrative and corporate expenses ⁽⁴⁾	3,909,385	1,616,788
Loss on disposal of property and equipment	-	8,982
	\$ 8,468,370	\$ 5,141,073

Notes:

- (1) There was an increase in acquisition costs for the following reasons:
 - The acquisition costs for the nine months ended September 30, 2019 directly relates to the costs associated with the eight acquisitions that the Company closed whereas, for the nine months ended August 31, 2018 the Company only closed two acquisitions.
- (2) Professional and advisory fees decreased as the Company accrued and paid a discretionary annual performance incentive to Ascendant Group Holdings Inc., a company controlled by Manu K Sekhri (CEO of the Company) of \$1,468,999 in the nine months ended August 31, 2018. This discretionary annual performance incentive has not been determined yet for fiscal 2019.
- (3) Share-based compensation has a negative balance for the nine months ended August 31, 2018 due to an adjustment that was made as part of the 2018 year end audit.
- (4) There was an increase in administrative and corporate expenses due to the following reasons:
 - The Company entered into a consulting agreement for business development services. The consultant provides market research and business development services relating to COAM games in Georgia as well as other markets, which shall include but not be limited to studying rules and regulations, building relationships with the relevant government agencies, and doing field research on optimization of COAM businesses. This did not exist in the nine months ended August 31, 2018.
 - The Company incurred expenses to promote LB's brand to stimulate more growth and shore up LB's acquisition pipeline by sponsoring various events and concerts. By sponsoring these events and concerts LB engages with location owners as these events are attended by gaming audiences. This did not exist in the nine months ended August 31, 2018.
 - The company sponsored an inauguration event in Georgia for the new governor, Brian Kemp. This did not exist in the nine months ended August 31, 2018.
Finance costs

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

Finance costs decreased for the following reasons:

- The accretion expense in the nine months ended August 31, 2018 was high relative to the nine months ended September 30, 2019 as the Company refinanced its original debt facility with Trive Capital and, as a result, the Company accelerated its accretion expense.
- Additionally, a one-time make whole payment of \$2,373,786 was incurred during the nine months ended August 31, 2018 relating to the refinance noted above. 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 with Trive Capital.

Other income

The Company had accrued \$630,000 relating to litigation with Columbus LTACH Management LLC and Columbus LTACH, LLC that was filed in the Superior Court of New Jersey. Refer to the 2018 audited financial statements (Note 21) for details regarding litigation. Subsequent to Q3, the Company settled this litigation in principal for \$175,000 to be paid over a period of six months in 2020.

Fair value loss on derivative liabilities

As of September 30, 2019, there are 5,485,904 (December 31, 2018 – 5,985,904) warrants outstanding and the Company recorded a derivative liability with a value of \$3,489,659 (December 31, 2018 - \$3,354,662). The fair value loss on derivative liabilities for the nine months ended September 30, 2019 of \$268,392 (August 31, 2018 – \$2,058,288) relates to the fair value change in the warrant derivative liability.

Fair value gain (loss) 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 at February 28, 2018, the aggregate fair value of the derivative asset was recorded as \$2,765,000. In nine months ended August 31, 2018, the Company reported a fair value gain on the derivative asset of \$572,000 in the statement of income and comprehensive income. When the Company refinanced its previous debt facility with Trive Capital (April 9, 2018), the Company wrote down the aggregate fair value of the derivative asset to a value of \$Nil.

Financial performance

The Company recognized net income of \$4,421,500 for the nine months ended September 30, 2019, compared to a net loss of \$3,763,410 for the nine months ended August 31, 2018. This is mainly due to the following:

- There was a decrease in finance costs for the nine months ended September 30, 2019 compared to the nine months ended August 31, 2018.
- There was no fair value loss on derivative asset for the nine months ended September 30, 2019 compared to a loss of \$2,193,000 for the nine months ended August 31, 2018.
- There was a decrease in the fair value loss on derivative liability for the nine months ended September 30, 2019 compared to the nine months ended August 31, 2018.

LIQUIDITY AND CAPITAL RESOURCES

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

Cash

As at September 30, 2019, the Company's cash increased by \$46,855 from the year ended December 31, 2018. 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 nine months ended September 30, 2019 was \$12,225,788 compared with \$13,238,339 of cash generated from operating activities during the nine months ended August 31, 2018. Cash generated in operating activities during the nine months ended September 30, 2019 consisted of (i) \$14,996,023 of cash generated from revenue net of operating, general and administrative, regulatory compliance and professional fees and (ii) there was a \$2,770,235 decrease in cash due to changes in non-cash operating working capital.

Cash generated from operating activities during the nine months ended August 31, 2018 consisted of (i) \$12,082,001 of cash flows from revenue net of operating, general and administrative, regulatory compliance and professional fees and (ii) there was a \$1,156,338 increase in cash due to changes in non-cash operating working capital.

Cash Used In/Generated from Investing Activities

Cash used in investing activities during the nine months ended September 30, 2019 was \$12,974,414, compared with \$10,623,293 of cash used in investing activities during the nine months ended August 31, 2018. Cash used in investing activities during the nine months ended September 30, 2019 included additions to property and equipment of \$1,950,769 and \$11,994,376 spent on eight business acquisitions, offset by cash refunded pertaining to an acquisition of \$970,731.

Cash used in investing activities during the nine months ended August 31, 2018 included additions to property and equipment of \$2,123,293 and \$8,500,000 spent on business acquisitions.

Cash Used In/Generated from Financing Activities

Cash generated from financing activities during the nine months ended September 30, 2019 was \$795,481 compared with \$3,058,468 of cash used in financing activities during the nine months ended August 31, 2018. Cash used in financing activities during the nine months ended September 30, 2019 included proceeds from long term debt of \$20,198,371, repayment of long-term debt of \$4,890,588, repayment of lease liabilities of \$163,650, repurchase of the Company's common shares of \$2,382,391, cancellation of non-controlling interest membership units of \$6,715,265, share redemption costs of \$211,165, debt transaction costs of \$235,000, proceeds from options exercised of \$17,500, and cash distributions of \$4,822,331 paid to non-controlling interest.

Cash generated from financing activities during the nine months ended August 31, 2018 included proceeds from loans payable of \$227,335, repayment of loans payable of \$500,000, proceeds from long-term-debt of \$69,179,777, repayment of long-term debt of \$59,839,269, debt transaction costs of \$3,972,268, restricted cash of \$1,000,000, and cash distributions of \$7,154,043 paid to non-controlling interest.

Working Capital

As of September 30, 2019, the Company had negative net working capital of \$6,902,738 compared with negative net working capital of \$8,182,630 as of December 31, 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 September 30, 2019 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 positive working capital of \$1,190,173.

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

Financing	Purpose of Financing	Actual use of proceeds
On February 27, 2019, LB obtained financing of \$2,278,065.	To fund the acquisition of Goldstar Amusements LLC.	Loan proceeds were used as intended.
On March 8, 2019, LB obtained financing of \$1,473,556.	To fund the acquisition of A&R Amusement, LLC.	Loan proceeds were used as intended.
On March 12, 2019, LB obtained financing of \$1,110,208.	To fund the acquisition of Universal Games, LLC.	Loan proceeds were used as intended.
On July 15, 2019, LB obtained financing of \$6,850,000.	To fund the cancellation of non-controlling interest membership units	Loan proceeds were used as intended.
On July 17, 2019, LB obtained financing of \$1,300,000.	To fund the acquisition of Ambaji Amusement, LLC.	Loan proceeds were used as intended.
On August 16, 2019, LB obtained financing of \$800,000.	To fund the acquisition of Fareast Amusement Games, LLC.	Loan proceeds were used as intended.
On August 23, 2019, LB obtained financing of \$3,600,000.	To fund the acquisition of Amabji Amusement, LLC.	Loan proceeds were used as intended.
On September 12, 2019, LB obtained financing of \$2,050,000.	To fund the acquisition of Lee Caudell, Inc.	Loan proceeds were used as intended.
On September 27, 2019, LB obtained financing of \$700,000.	To fund the acquisition of Platinum Amusement Games, LLC.	Loan proceeds were used as intended.

Liquidity Outlook

The Company's cash flow is generated largely 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 COAM 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 contains the following covenants:

- **Fixed Charge Coverage Ratio:** LB cannot permit the Fixed Charge Coverage Ratio as of the last day of any fiscal year, 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 the lender 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 September 30, 2019, the Company was in compliance with the financial covenants related to its term loan and 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 September 30, 2019, the Company's related parties and key management personnel consists of the Company's directors and executive officers.

<u>Name/ Corporate Entity</u>	<u>Relationship</u>	<u>Nature of Transaction</u>
Chad Williams/Gray Sky LLC	Chairman & Director	Director's fees and stock-based compensation
Manu K. Sekhri/ Ascendant Group Holdings Inc.	CEO & Director	Consulting fees and stock-based compensation
Peter Shippen/ Extra Medium Inc.	Director	Director's fees and stock-based compensation
Mark Lerohl/Lerohl Consulting Inc.	Director	Director's fees and stock-based compensation
Sheila Ogilvie-Harris/ Ballakilley Property Holdings Limited	Director	Director's fees and stock-based compensation
Anil Damani	CEO, Lucky Bucks, LLC and 30% ⁽¹⁾ shareholder of Lucky Bucks Holdco, LLC	Management salaries and distributions
Ryan Bouskill/ Durward Jones Barkwell & Company LLP/ 2568646 Ontario Inc.	CFO	Consulting fees and stock-based compensation

(1) On July 15, 2019 Anil Damani's interest in Lucky Bucks Holdco, LLC was reduced to 30% from 40%.

Key management personnel are those people that have authority and responsibility for planning, directing and controlling the activities of the Company, directly and indirectly. As of September 30, 2019, 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>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30, 2019</u>	<u>August 31, 2018</u>	<u>September 30, 2019</u>	<u>August 31, 2018</u>
Salaries and short term benefits ⁽¹⁾	\$ 185,000	\$ 60,000	\$ 605,000	\$ 327,874
Director fees ⁽²⁾	93,264	53,094	244,925	201,336
Share based compensation ⁽³⁾	-	-	-	(83,567)
Consulting fees ⁽⁴⁾	723,361	568,741	1,458,099	2,650,936
	<u>\$ 1,001,625</u>	<u>\$ 681,835</u>	<u>\$ 2,308,024</u>	<u>\$ 3,096,579</u>

Notes:

(1) Salary and short-term benefits and bonus paid to Anil Damani for carrying out the CEO function at LB. During the three and nine months ended September 30, 2019, the Company incurred salaries and short-term benefits of \$60,000 and \$180,000 (August 31, 2018 - \$60,000 and \$180,000) and paid discretionary performance bonuses of \$125,000 and \$425,000 (August 31, 2018 - \$Nil and \$147,874) to Anil Damani. As at September 30, 2019, \$Nil was owed relating to these salaries and short-term benefits (December 31, 2018 - \$200,000).

- (2) Honorarium for serving as directors of the Board. As at September 30, 2019, the Company owed \$75,800 relating to director fees (December 31, 2018 – \$94,550).
- (3) To provide meaningful incentives, the Company issued stock-based compensation to directors and senior management. Share-based compensation has a negative balance for the nine months ended August 31, 2018 due to an adjustment that was made as part of the 2018 year end audit.
- (4) During the three and nine months ended September 30, 2019, the Company incurred consulting fees of \$288,311 and \$864,514 (August 31, 2018 - \$274,854 and \$760,000) 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 \$Nil and \$107,674 (August 31, 2018 – \$263,532 and \$411,706) to Ascendant Group Holdings Inc., which are directly tied to business acquisitions. The Company also accrued or paid a discretionary annual performance incentive of \$Nil and \$Nil (August 31, 2018 – \$Nil and \$1,469,000) to Ascendant Group Holdings Inc. As at September 30, 2019, \$937,066 was owed relating to these consulting fees (December 31, 2018 - \$2,098,536).

During the three and nine months ended September 30, 2019, the Company incurred consulting fees of \$25,710 and \$76,571 (August 31, 2018 – \$30,355 and \$10,230) from an accounting firm which carried out duties of the CFO. As at September 30, 2019, \$8,533 was owed relating to these consulting fees (December 31, 2018 - \$8,283). These consulting fees were incurred by the Company for Ryan Bouskill to carry out the CFO duties.

During the three and nine months ended September 30, 2019, the Company paid rent of \$Nil and \$Nil (August 31, 2018 - \$50,495 and \$110,347) to Ascendant Group Holdings Inc., a company controlled by Manu K. Sekhri (CEO of the Company).

During the three and nine months ended September 30, 2019, total distributions declared by Lucky Bucks Holdco, LLC to Anil Damani, CEO of Lucky Bucks, LLC and 30% (August 31, 2018 – 40%) shareholder of Lucky Bucks Holdco, LLC totaled \$4,631,094 (August 31, 2018 – \$7,193,172). As at September 30, 2019, \$245,035 was owed relating to these distributions (December 31, 2018 - \$436,272).

As at September 30, 2019, \$35,853 is due from the Anil Damani, CEO of Lucky Bucks, LLC and 30% shareholder of Lucky Bucks Holdco, LLC (December 31, 2018 - \$44,853).

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. Normal Course Issuer Bid (“NCIB”)

In September 2019, under the NCIB, the Company repurchased 839,500 common shares at a price of CAD \$1.0922 for total consideration of CAD \$916,897. These repurchased common shares were cancelled on October 2, 2019

In October 2019, under the NCIB, the Company repurchased 103,000 common shares at a price of CAD \$1.0697 for total consideration of CAD \$110,180. These repurchased common shares were cancelled on November 4, 2019.

2. Compensation Waiver Agreement

On November 12, 2019 the Company entered into the Acquisition Compensation Waiver Agreement with an officer and director of the Company waiving entitlement to any future potential payments relating to acquisition compensation. The acquisition compensation was defined in section 3.2 of the Consulting Agreement dated April 1, 2016 between the Company and Ascendant Group Holdings Inc., a corporation controlled by the CEO, Manu Sekhri. The acquisition compensation was two percent of the total value of all forms of payment made and liabilities assumed pertaining to each acquisition multiplied by a number reflective of shareholder return between the public announcement of the acquisition and closing of the acquisition. In consideration for waiving its rights to such payments, the Company agreed to pay Ascendant Group Holdings Inc. cash payments in the amount of \$2,300,000.

Of this amount, \$1,281,721 was used by the officer to exercise options and common share purchase warrants on November 14, 2019 and the remaining \$1,018,279 will be paid in equal, pro-rated monthly installments commencing in 2020.

3. Exercise of Warrants and Options

In October 2019, a cashless exercise of 418,600 common share purchase warrants with an exercise price of \$0.2614 per share, based on the weighted average price of \$1.1603 per common share was completed in exchange for 324,295 common shares.

In November 2019, an officer of the Company exercised 3,582,534 options to acquire 3,582,534 common shares. The exercise price for these options ranged from CAD \$0.3525 to \$1.00 for total cash proceeds of \$1,265,304.

In November 2019, an officer of the Company exercised 101,232 common share purchase warrants to acquire 101,232 common shares. The exercise price for these common share purchase warrants was CAD \$0.215 for total cash proceeds of \$16,417.

4. Appointment of Board Member

On November 14, 2019, the Company appointed Mr. Kurt Freedlund to the board of directors. Mr. Freedlund, a resident of Georgia, earned his law degree from Northwestern University and was called to Illinois State Bar in 1982. He practiced corporate and commercial real estate law in Chicago for eight years before serving as Executive Deputy Director and General Counsel of the Illinois State Lottery in 1994 where he remained for 10 years. In 2004 he would go on to serve as COO and General Counsel of the Georgia Lottery Corporation. He was instrumental in the development of the Georgia COAM industry while actively being involved in the daily operation of the lottery and implementing several initiatives, which included developing and installing GLC-operated lottery stores at Hartsfield-Jackson Airport and the launch of iGaming. Since February 2014, Mr. Freedlund has served as President of LottoInteractive Inc., a mobile lottery games platform.

5. Stock Option Grant

On November 14, 2019, the Company granted an aggregate 3,686,522 stock options to certain officers, directors and employees of the Company. Each of the stock options entitles the holder thereof to purchase one common share of the Company at a price of \$1.05 until November 14, 2024.

6. Settlement of Litigation

On August 31, 2016, Columbus LTACH Management LLC and Columbus LTACH, LLC filed in the Superior Court of New Jersey a verified complaint on order to show cause in summary proceeding to compel arbitration against Quantum LTACH Holdings, LLC and the Company. The Company removed the matter to the United States District Court for the District of New Jersey on October 4, 2016. The Company filed a motion to dismiss on November 3, 2016, because it is not a party to the underlying Membership Interest Purchase Agreement ("MIPA") that contains an arbitration clause. The Court granted ACES's motion and dismissed the complaint without prejudice on May 19, 2017.

On June 15, 2017, plaintiffs filed their First Amended Complaint against Quantum LTACH, the Company, and both the President ("current CEO") and CEO of the Company at the time the MIPA was entered into (collectively, "defendants"). The First Amended Complaint does not seek to compel arbitration, but instead, asserts claims against the Company for tortious interference with contractual relationships and fraud and negligent misrepresentation. Plaintiffs seek to recover from all defendants, jointly and severally, \$580,000, pursuant to a breakup clause in the MIPA, plus interest, attorneys' fees and costs, and other damages to be proven at trial. The Company and the current CEO of the Company, in his personal capacity, filed a motion seeking a dismissal of Count III of the First Amended Complaint as to the Company, and a dismissal of Count IV as to both ACES and the current CEO of the Company, in his personal capacity. On May 31, 2018, the Court granted the motion and dismissed the First Amended Complaint without prejudice on Count III, as to ACES, and on Count IV as to both ACES and the current CEO of the Company, in his personal capacity. The dismissal is without prejudice to allow plaintiffs an opportunity to file a Second Amended Complaint. In the event that plaintiffs fail to file a Second Amended Complaint within thirty (30) days from the date of the Court's Order on May 31, 2018, the dismissals as to ACES and the current CEO of the Company, in his personal capacity, will convert to with prejudice.

On June 30, 2018, the plaintiffs filed a Second Amended Complaint asserting a single claim against ACES and the current CEO of the Company for tortious interference. After extensions of time to respond and on September 19, 2018, ACES and the current CEO of the Company filed a motion to dismiss the claim. The Plaintiffs filed an opposition brief on October 8, 2018, and ACES and the current CEO of the Company filed a reply on October 29, 2018. As at December 31, 2018, the Company had accrued \$630,000.

On November 19, 2019, the Company settled this litigation for \$175,000 to be paid over a period of six months in 2020 following the finalization of the settlement agreement.

STOCK PERFORMANCE FOR THE QUARTER

Time frame: July 1, 2019 to September 30, 2019



CRITICAL ACCOUNTING ESTIMATES AND USE OF JUDGEMENT

There have been no changes in the Company's critical accounting estimates and use of judgements in the three and nine months ended September 30, 2019. Further information on the Company's critical accounting estimates and use of judgements can be found in the notes to the annual consolidated financial statements and MD&A for the year ended December 31, 2018.

RECENT ACCOUNTING PRONOUNCEMENTS

Changes in Accounting Policies Adopted

IFRS 16 ("Leases")

In January 2016, the IASB released IFRS 16 ("Leases") replacing IAS 17 ("Leases") and related interpretations. The new standard eliminates the classification of leases as either operating or finance leases for lessees and requires the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value.

IFRS 16 is effective for reporting periods beginning on or after January 1, 2019.

The Company adopted IFRS 16, effective January 1, 2019, using the modified retrospective approach and has not restated prior periods for the impact of IFRS 16. Comparative information is still reported under IAS 17.

On initial adoption, the Company applied the following practical expedients permitted under the standard:

- Short-term leases that have been identified at January 1, 2019 are not recognized in the Consolidated Statement of Financial Position.
- Leases with terms ending within 12 months of January 1, 2019 are treated as short-term leases and have not been recognized in the Consolidated Statement of Financial Position.
- Initial direct costs were excluded from the measurement of right-of-use assets for the purpose of initial measurement on transition.
- A single discount rate was used for remaining lease payments on leases with similar characteristics.
- The Company elected to measure the right-of-use asset at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.
- Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition to IFRS 16, the incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 9.47%.

On transition to IFRS 16, the Company recognized right-of-use assets and lease liabilities. This non-cash adjustment has been excluded from the Consolidated Statements of Cash Flows. There was no impact on opening retained earnings.

The following table reconciles the Company's operating lease commitments at December 31, 2018, as previously disclosed in the Company's consolidated financial statements, to the lease liabilities recognized on initial application of IFRS 16 at January 1, 2019:

Operating lease commitments at December 31, 2018	\$	1,596,250
Short term leases		(63,218)
<u>Operating lease commencing on April 1, 2019</u>		<u>(739,946)</u>
		793,086
<u>Discounted using incremental borrowing rates</u>		<u>(154,876)</u>
<u>Lease liabilities recognized at January 1, 2019</u>	\$	<u>638,210</u>

Please refer to Note 8 of the condensed interim consolidated financial statements for the impact to the nine months ended September 30, 2019.

Recent accounting pronouncements

There were no new accounting pronouncements relevant to the Company's operations issued subsequent to September 30, 2019. For further details, please refer to the annual consolidated financial statements of the Company for the year ended December 31, 2018.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Financial assets and financial liabilities were as follows:

Financial assets at amortized cost	September 30, 2019	December 31, 2018
Cash	\$ 2,513,274	\$ 2,466,419
Restricted cash	3,016,034	2,735,586
Accounts receivable	2,162,215	2,065,871
Related party balances	35,853	44,853
	\$ 7,727,376	\$ 7,312,729
Financial liabilities at amortized cost	September 30, 2019	December 31, 2018
Accounts payable and accrued liabilities	\$ 4,518,687	\$ 5,638,444
Distribution payable	245,035	436,272
Contingent liability	320,935	-
Related party balances	1,012,866	2,393,086
Long-term debt	83,275,168	67,327,321
	\$ 89,372,691	\$ 75,795,123
Fair value through profit and loss, assets (liabilities)	September 30, 2019	December 31, 2018
Derivative liability	\$ (3,489,659)	\$ (3,354,662)

As of September 30, 2019, the Company's financial instruments consists of cash, restricted cash, accounts receivable, related party balances, accounts payable and accrued liabilities, long-term debt, distribution payable, contingent liability and derivative liability.

The carrying value of cash, restricted cash, accounts receivable, related party balances, accounts payable and accrued liabilities, distribution payable, contingent liability and long-term debt 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 rate on this instrument approximates the current market rates offered to the Company. On initial recognition, the fair value of long-term debt was established based on the current interest rates, market values and pricing of financial instruments with comparable terms.

The Company measures the derivative liability at fair value at the end of the reporting period. The Company's risk exposures and the impact on its financial instruments are summarized below.

Credit Risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and accounts 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 three and nine months ended September 30, 2019, all of the Company's gaming revenue is collected from the GLC after location costs. These amounts are current at year end. Based on historic default rates and the credit quality of the GLC, no provisions have been recorded and no collateral is requested for the Company's receivables related to its gaming revenue.

Liquidity Risk

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

The Company's cash flow is generated from the distributions received 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 September 30, 2019, the Company had cash and cash equivalents balance of \$2,513,274 (December 31, 2018 - \$2,466,419). The Company is also expecting its revenue to continue to increase as a result of existing and new machine placements and future planned acquisitions.

The Company expects the following maturities of its financial liabilities:

	Within 1 Year	2-3 years	4-5 years	Total
Accounts payable and accrued liabilities	\$ 4,518,687	\$ -	\$ -	\$ 4,518,687
Distribution payable	245,035	-	-	245,035
Contingent liability	320,935	-	-	320,935
Related party balances	1,012,866	-	-	1,012,866
Long-term debt	8,092,911	19,300,156	59,019,811	86,412,878
	\$ 14,190,434	\$ 19,300,156	\$ 59,019,811	\$ 92,510,401

Interest Rate Risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the term loan and multi-draw credit facilities. As a result, the Company is subject to interest rate risk. All other financial assets and liabilities are non-interest bearing or bear interest at fixed rates.

A 1.0% increase/decrease in the LIBOR rate would have increased/decreased the interest paid by \$861,897.

Fair Value Risk

The Company is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

The derivative liability was determined a level 2 instrument and valued using the Black Scholes valuation model derived from observable market inputs.

There were no transfers between level 2 and level 3 during the year.

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

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

The Company measures derivative assets and liabilities at fair value at the end of the reporting period.

Foreign Currency Risk

The Company's functional currency is the United States dollar and major purchases are transacted in United States dollars. However, the Company is exposed to currency risk with fluctuations in the United States dollar relative to the Canadian dollar as the Company incurs expenses in Canadian dollar. As well, the Company is exposed to currency risk on cash denominated in Canadian dollars. The Company currently does not use derivatives to mitigate its foreign currency risk.

Based on the Company's net monetary liabilities denominated in Canadian dollars, a 10% fluctuation in the exchange rate from CAD to USD will generate increases or decreases in income of approximately \$112,652.

Capital Management

The Company manages and adjusts its capital structure based on available funds in order to support its operations and acquisitions. The capital of the Company consists of share capital, warrants and long-term debt. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

As the Company continues to assess and seek to acquire an interest in additional businesses, the Company may continue to rely on capital markets to support continued growth. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company monitors its capital structure and must comply with certain financial covenants related to its long-term debt. The Company intends to manage its capital by operating at a level that provides a conservative margin compared to the limits of its covenants. For the period ended September 30, 2019 the Company was in compliance with the financial covenants related to its long-term debt.

OUTSTANDING SHARE DATA

The following table summarizes the maximum number of common shares potentially outstanding as at September 30, 2019 and as of the date of this MD&A if all share options outstanding and warrants outstanding were converted to common shares:

	<u>September 30, 2019</u>	<u>November 27, 2019</u>
Common shares outstanding	68,334,718	71,400,279
Warrants outstanding	5,485,904	5,384,672
Share options outstanding	7,036,035	7,140,023
Total	<u>83,048,707</u>	<u>83,924,974</u>

Normal Course Issuer Bid

On February 15, 2019, the Company announced that the TSX Venture Exchange 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 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 engaged Cormark Securities Inc. to act as its agent to conduct the NCIB transactions.

Please refer to subsequent event section for details on common shares that were repurchased and cancelled by the Company subsequent to September 30, 2019.

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 key employee life insurance policies on the CEO of Seven Aces 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 September 30, 2019, LB closed nineteen 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 nineteen business acquisitions 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 nineteen business acquisitions closed. As of September 30, 2019, the total principal amount of our long-term debt was

\$86,189,665. As a result of the increases in our outstanding debt, demands on our cash resources have increased. The increased level of debt could, among other things:

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

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

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

LB may incur significant additional indebtedness in the future, which may include financing relating to capital expenditures, potential acquisitions or business expansion, working capital or general corporate purposes. The long-term debt that we entered into in connection with the refinancing of LB's debt facility with Trive Capital included a multi-draw term loan, from which \$4,133,931 was undrawn at September 30, 2019. 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 affect 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 includes 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.