

**EVERGREEN GAMING CORPORATION**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**For the Quarter Ended June 30, 2022**

The following discussion and analysis of the financial position and results of operations of the Company are prepared as of August 29, 2022 and should be read in conjunction with the audited consolidated financial statements of the Company, and the notes thereto, for the years ended December 31, 2021 and 2020 and the unaudited consolidated interim financial statement of the Company, and the notes thereto, for the quarters ended June 30, 2022 and 2021.

In this discussion, unless the context otherwise dictates, a reference to the Company and its business and operations is a reference to Evergreen Gaming Corporation (“Evergreen”) and its wholly-owned subsidiary, Washington Gaming, Inc. and its subsidiaries, and the business and operations of both. Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Dollar amounts referred to herein are expressed in U.S. dollars unless otherwise stated.

### **Description of the Business**

Evergreen is in the business of overseeing the gaming operations of its principal U.S. subsidiary, Washington Gaming, Inc. (“WGI”).

WGI, through its subsidiary corporations, operates four casinos in Washington State: The Riverside Casino in Tukwila, Goldies Casino in Shoreline, and Chips and Palace Casinos in Lakewood. These are mini-casinos (or house-banked card rooms) that offer to persons of legal age a variety of card games of chance at which the player may win or lose money, a business commonly referred to as “gaming”. The Company also operates bars and restaurants in each casino, as required by state law. The Company’s casinos are open 18 to 24 hours a day, seven days a week.

The casinos currently offer card games such as Poker, Blackjack, Spanish 21, 4-Card Poker, Pai Gow, and Baccarat. Each casino has up to 15 gaming tables and a single betting limit of \$300 following Washington State gaming law. They also offer a game known as “pull-tabs”, a game in which the player can win specified prizes by matching certain combinations concealed under perforated strips on each paper game piece.

### **Overall Performance**

The Company’s financial results for the quarter ended June 30, 2022 were positively impacted by strong economics in the Seattle area and operating without any COVID-19 restrictions. Net revenues for the quarter ended June 30, 2022 were \$14,219,064, an increase of \$2,738,945 compared to 2021. Operating expenses were \$10,441,936 in the quarter ended June 30, 2022 compared to \$8,379,204 in 2021, an increase of \$2,395,732. Labor and benefits expenses increased by \$1,143,615 primarily as a result of the casino operating with COVID-19 restrictions in the second quarter of 2021 and being open without COVID-19 restrictions in 2022 as discussed under “COVID-19 Pandemic” on page 4.

Working capital at June 30, 2022 was \$29,310,464 compared to working capital of 21,425,575 as of December 31, 2021, an increase of \$7,884,889. Working capital was positively impacted by sustained healthy revenues and expense controls. Management expects continued profitable operations sufficient to exceed the cash demands necessary for the company to meet its future obligations. Lease liabilities as of June 30, 2022 were \$931,927, compared to \$856,801 as of December 31, 2021.

The Company's assets at June 30, 2022 totaled \$58,858,754 compared to total liabilities of \$17,934,409. At December 31, 2021, total assets were \$47,241,223 compared to total liabilities of \$18,146,175.

The Company's cash at June 30, 2022 was \$39,601,727 compared to \$28,214,077 at December 31, 2021. These amounts include "Restricted Cash" balances of \$4,099,044 and \$3,115,577 respectively. "Restricted Cash" balances are jackpot funds held for prizes being offered at the casinos. Cash provided in operating activities was \$14,479,130, for the six months ended June 30, 2022, compared to cash provided by operating activities of \$4,023,569 for the same period of 2021.

## Discussion of Operations

Revenue for the quarter ended June 30, 2022, amounted to \$14,219,064, an increase of \$2,738,945 over the same period in the prior year. The increase in revenue was attributable to the return to normal operations as COVID-19 restrictions were lifted, and to ongoing measures by management and employees to bring a safe and comfortable experience to our customers. Total expenses for the same periods increased by \$2,062,732 commensurate with the increase in revenues. Total expenses also increased due to the return to normal operation after COVID-19.

Net income for the quarter ended June 30, 2022, was \$9,654,629 compared to \$2,337,368 for the same period in 2021, an increase of \$7,317,261. The increase in income was attributable primarily to the write off the forgiven PPP loans and to the recovery efforts of staff following the government-imposed COVID-19 restrictions.

## Summary of Quarterly Results

The following table sets out selected financial information, presented in U.S. dollars and prepared in accordance with International Financial Reporting Standards, for the periods indicated.

2022 Quarter Ended (in 000's)				
			6/30/22	3/31/22
Revenue			\$14,219	\$12,909
Profit from continuing operations			\$3,777	\$2,869
Profit from continuing operations per share:				
Basic -			\$0.074	\$0.023
Fully Diluted -			\$0.074	\$0.023

2021 Quarter Ended (in 000's)				
	12/31/21	9/30/21	6/30/2021	3/31/2021
Revenue	13,060	12,020	\$ 11,480	\$ 8,802
Profit from continuing operations	3,033	2,218	\$ 3,101	\$ 376
Profit from continuing operations per share:				
Basic -	\$ 0.024	\$ 0.018	\$ 0.025	\$ 0.003
Fully Diluted -	\$ 0.024	\$ 0.018	\$ 0.025	\$ 0.003

2020 Quarter Ended (in 000's)				
	12/31/2020	9/30/2020		
Revenue	\$ 7,534	\$ 6,097		
Profit from continuing operations	\$ (270)	(372)		
Profit from continuing operations per share:				
Basic -	\$ -0.002	\$ -0.003		
Fully Diluted -	\$ -0.002	\$ -0.003		

Revenue and profit were dramatically impacted in the third, and fourth quarters of 2020, and for a portion of the first quarter of 2021, as a result of the closure of all of the Company's casinos as a result of the COVID-19 pandemic as discussed under "COVID-19 Pandemic" on page 4. Profits slowly recovered in the fourth quarter of 2020 and the first quarter of 2021 as operations were permitted to resume, primarily in tents due to COVID-19. The second quarter of 2021 saw a dramatic increase in profits as operations resumed indoors, and from the continued efforts of the staff. This trend continued throughout the rest of 2021 and into 2022.

### Liquidity and Capital Resources

Historically, the Company's sources of funding have been debt financing and cash flow from operations. As of June 30, 2022, the Company had arm's length debt under two mortgages totaling \$4,270,294. During the second quarter of 2022, the Company's advisors determined that all amounts lent by the SBA for Paycheck Protection Program (PPP) loans have been fully forgiven. Accordingly all amounts were written off in the 2<sup>nd</sup> quarter of 2022.

On June 30, 2022, the Company had cash of \$39,601,727 and net working capital of \$29,310,464. Total debt payments of \$56,857 were made for the quarter ended June 30, 2022. The monthly debt service cash requirement was \$34,232. The Company also has lease liabilities of \$931,927 due to the adoption of IFRS 16 Leases.

The Company considers its cash position and revenue from ongoing operations to be sufficient to meet its liquidity requirements to fund ongoing operations.

### Transactions with Related Parties

During the quarter ended June 30, 2022, related parties of the Company received remuneration as disclosed in the unaudited consolidated interim financial statements for the period. The Company's

Board of Directors consists of Tom Marvin (Secretary), Laurence Smith, Len Libin, Steve Michels (Chairman and CEO), and Larry Hoff. The compensation paid to the Company's directors and senior officers is based on the subjective assessment of the Board of Directors as to the value to the Company of the services provided by each. The compensation is considered consistent with the remuneration paid by other companies in similar industries at a similar stage of development, and appropriate to attract and retain qualified individuals with the level of experience and expertise required to effectively administer the operations of the Company.

## **Financial Instruments**

The Company's financial instruments include cash, restricted cash, accounts receivable, trade and other payables, lease liabilities, and current and long-term debt. On June 30, 2022, the Company had cash of \$39,601,727, which included restricted cash of \$4,099,044. The Company also had an ordinary course other receivable in the sum of \$23,599. Trade and other payables totaled \$8,233,188 which included \$3,695,728 in jackpot liabilities. Jackpot liabilities are offset by restricted cash which is discussed under "Overall Performance". Debt at June 30, 2022 consisted of \$4,270,294 in arms-length debt (current portion \$239,452). The Company also had lease liabilities balances as of June 30, 2022, totaling \$931,927.

## **Disclosure of Outstanding Share Data**

At the date hereof, the Company has 124,716,865 common shares without par value issued, of which 123,808,865 common shares are outstanding and 908,000 common shares are owned by the Company.

## **Other**

### ***Off-Balance Sheet Arrangements and Acquisitions and Dispositions***

The Company has no off-balance sheet arrangements. The Company has no proposed asset or business acquisition or disposition that the Company's Board of Directors has decided to proceed with, or that the Company's senior management has decided to proceed within the belief that confirmation by the Board is probable.

### ***COVID-19 Pandemic***

On March 11, 2020, the World Health Organization declared the novel coronavirus outbreak a pandemic. Beginning in August 2020 to around the middle of February 2021, per governor's decree, the Company's cardrooms were operational in outdoor tents. In February 2021, the cardrooms were allowed to open indoors. Under the governor's decree, the entire State of Washington has been moved to Phase 4 as of June 30<sup>th</sup>, 2021. Phase 4 lifts all restrictions on capacity, social distancing, and liquor service. Initially, the mask mandate was removed but shortly after June 30<sup>th</sup>, 2021 the mask mandate was brought back due to increasing COVID-19 cases. The mask mandate was later removed again on March 12<sup>th</sup>, 2022.

### ***Changes to Minimum Wage***

The State of Washington voters passed a minimum wage initiative on a ballot in November 2016. The initiative raises the hourly minimum wage for all workers in Washington State over four years. The minimum wage increased from \$11.50 to \$12.00 in January 2019 and from \$12.00/hour to \$13.50/hour in January 2020, and from \$13.50/hour to \$13.69/hour in January 2021, and from \$13.69/hour to \$14.49/hour in January 2022. Increases in the minimum wage also impact the pay rates of hourly employees with pay rates near the minimum wage. For fiscal 2021, the anticipated wage increase was minimal. The increase for 2022 is expected to cost an estimated amount of \$600,000 for minimum wage employees only, not including impacts from hourly rates near the minimum wage.