

# **Real Luck Group Ltd.**

## **Management's Discussion and Analysis**

For the years ended December 31, 2022 and 2021

**(Expressed in Canadian dollars)**

## INTRODUCTION

The following management's discussion and analysis ("**MD&A**") is dated April 27, 2023, and provides information concerning the financial condition and results of operations of Real Luck Group Ltd. ("**Real Luck**" or the "**Company**"), for the year ended December 31, 2022. This MD&A should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2022, and 2021 and the related notes thereto. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"). All currency amounts are expressed in Canadian dollars, unless otherwise noted.

Additional information relating to the Company is available on the Company's website at [www.realluckgroup.com](http://www.realluckgroup.com). The Company's annual information form ("**AIF**") and other public filings made by the Company with Canadian securities regulatory authorities can be found under the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com).

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities legislation ("**forward-looking information**"). Such forward-looking information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth below and as detailed under section "Risks and Uncertainties" in this MD&A.

In some cases, forward-looking information can be identified by the use of forward-looking terminology such as "anticipate", "believe", "expects" or "does not expect", "estimates", "outlook", "prospects"; "projection", "intends", "believes", "should", "will", "would" or the negative of these terms, and similar expressions intended to identify forward looking statements. Statements containing forward-looking information are not historical facts but instead represent management's expectations, estimates and projections regarding future events or circumstances. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking information contained herein is given as of the date of this MD&A, and the Company disclaims any obligation to update any forward-looking information, whether as a result of new information, future events or results, except as may be required by applicable securities laws. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.

## NON-IFRS FINANCIAL MEASURES

This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to compliment those IFRS measures by providing further understanding of the results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under IFRS. Non-IFRS measures including "Working Capital" (calculated as current assets less current liabilities) were used in order to facilitate operating performance comparisons from period to period and to prepare annual operating budgets and forecasts.

## GOING CONCERN

These consolidated financial statements have been prepared on the basis of accounting principles applicable to going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has had recurring net losses and, for the year ended December 31, 2022, had negative cash flow from operations of \$8,221,767 and an accumulated deficit of \$51,496,467. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The continuing operations of the Company are dependent upon its ability to develop a viable business and to attain profitable operations and generate funds there from. The Company will likely require additional capital resources to meet its product development costs, administrative expenses and overhead in the future. While the Company has been successful in raising capital in the past, no assurance can be provided that future capital-raising activities will also be successful. If the Company is unable to continue as a going concern, the net realizable value of its assets may be materially less than the amounts on its statement of financial position.

## OVERVIEW

Real Luck Group Ltd. ("**Real Luck**" or the "**Company**") was incorporated under the Business Corporations Act of Alberta on January 15, 2018. The head office, principal address and registered office of the Company are located at 350 7th Avenue SW, Suite 3400, Calgary, Alberta, T2P 3N9.

On December 11, 2020, the Company completed a reverse takeover (the "**RTO Transaction**") with EH IOM SubCo Limited ("**Elephant Hill Sub Co.**"), the Company's wholly owned subsidiary, and Esports Limited ("**EL**"), a private company limited by share capital, incorporated and domiciled in the Isle of Man. The Company acquired all of the issued and outstanding common shares of EL. The RTO Transaction was completed by way of a three-cornered amalgamation under the laws of Isle of Man and resulted in EL becoming a wholly owned subsidiary of the Corporation.

On December 16, 2020, the Company changed its name from "Elephant Hill Capital Inc." to "Real Luck Group Ltd." and began trading on the TSX Venture Exchange as a Tier 2 Issuer under ticker symbol "LUCK". Effective April 5, 2021, the Company is also quoted on the OTCQB Venture Market under the ticker symbol "LUKEF".

## DESCRIPTION OF BUSINESS

The Company is a fully licensed operator of an award-winning global online betting platform called "Luckbox" ("**the Luckbox platform**" or "**the platform**"), which offers real-money wagering on esports, sports and casino games.

Through its proprietary Luckbox platform, the Company currently offers players the ability to bet on professional competitive video game events and matches across thirteen game titles, and ten sports. The Company added a third revenue stream in the form of casino betting in December 2021, which as of December 31, 2022 allowed players to play more than 800 games. The Company started developing a proprietary B2B platform during 2022 for commercialization in 2023.

Through its Isle of Man license, the Luckbox platform is currently able to accept players from more than 80 countries.

## COMPANY STRATEGY AND OBJECTIVES

The Company works to maintain healthy margins through various methods, including odds creation, lowering costs and intelligent player acquisition and retention - working to decrease cost per acquisition ("**CPA**") and increase player lifetime value ("**LTV**").

During the 2021 fiscal year, the Company focused on continuing to enhance its proprietary Luckbox platform by building a superior business intelligence infrastructure, which enables the Company to offer a unique and modern user experience tailored to the next generation of bettors, while ensuring maximum coverage of esports betting opportunities.

The Company was, through much of 2021 and the beginning of 2022, engaged in an extensive process of improving its proprietary Luckbox platform, in order to optimize player conversion and retention. A key milestone was reached in December 2021 with the launch of the Luckbox casino, which is intended to complement the existing esports and sports betting offerings and to add an expected near-term revenue stream to the business. The Luckbox casino now features more than 800 games thanks to new key partnerships with game providers including Microgaming and Pragmatic Play, which were signed in March 2022.

The Company believes the Luckbox casino is now competitive with the offerings from many casino-dedicated operators (based on metrics such as number of games available, variety of features, user interface and user experience). Player marketing efforts were soft launched in July 2022 with the intent to gradually increase the spend during the rest of the year, into 2023 and beyond. The casino vertical is designed to complement the Company's esports and sports betting offerings with a high margin product that will extend the Company's cash runway.

As highlighted at the Company's Annual General Meeting on August 11, 2022, Real Luck completed its transformation from updating the Luckbox platform to reinitiating the marketing of its esports betting offer in a measured manner. This has enabled the Company to engage in meaningful player marketing efforts for the first time in the Company's history. Robust business intelligence tools enable the Company to closely monitor the effectiveness of player marketing campaigns. Management believes customer acquisitions via player referral sites, or affiliate networks, is particularly important. During fiscal 2022, the Company established partnerships with more than 50 global sites as well as announced deals with Raketech which operates more than 1,700 player referral sites.

In 2022, the Company also worked to strengthen its leadership team, appointing Benn Timbury as Chief Operating Officer and Bo Wänghammar to its Board of Directors. Mr. Timbury's most recent role was with one of Europe's fastest growing igaming start-ups, the Gibraltar-based Lottoland Group, which is active in 15 global markets, has over 350 employees and more than 15 million customers. Mr. Wänghammar was formerly Managing Director of Casino at PokerStars (acquired by Flutter Entertainment for US\$6 billion in October 2019) and the CEO at Mr. Green & Co online casino (acquired by William Hill for £242 million in October 2018). Most recently, the Company appointed Dr. Daniel Sanders as Director of Marketing. Dr. Sanders brings extensive marketing and player acquisition experience gained from similar roles at Tencent Games and Red Bull. With these key hires, the Company's core leadership team is now in place.

The Company has commenced development of innovative software products designed to engage with and convert a new and growing digital audience. Importantly, this effort will not increase the Company's current cash burn from the roughly \$2 million per quarter run-rate which has been maintained since Q1 2021, consistent with management's guidance. Over time, the Company expects that these new products could significantly expand the Company's growth trajectory and accelerate the path to attaining positive monthly EBITDA in H2 2023. The Company is witnessing an unprecedented shift in entertainment where gaming is increasingly dominant, and the Company is working to build products and a brand to target this digital audience in a way that it believes no other operator is.

The Company knows what this audience enjoys, how to reach them and, importantly, how to monetize them, based upon the Company's leadership team's prior responsibilities and accomplishments. Player behaviour of much of the Company's targeted market is already attuned to igaming and the Company is building products and features to enrich viewing and playing experiences. This provides the Company with a unique B2C opportunity and also adds potential for a significant B2B element to the Company's Luckbox platform. A B2B offering can be served to players via other operators as a white label solution which adds an additional revenue stream for the Company, without the accompanying player marketing costs and risks of a B2C offering. These products and tools will be highly social and can be used by influencers, communities and peers, increasing potential virality and adoption. Management expects to announce key partnerships and customer wins in this regard in 2023. Potential revenue from this new offering is not included in management's current plans of attaining positive monthly EBITDA in H1 2023.

The Company also plans to add further in-house capabilities, including the addition of its own odds compilation team which will aid the Company in capturing greater value in addition to providing a more streamlined platform.

Most third-party odds providers in the market provide limited esports event coverage, increasing the complexity of user facing platforms. To get to market quickly and with as broad an offering as possible, the Company has elected to use a best-of-breed third-party supplier for odds.

As the Company expands and seeks to scale, there is a business rationale to bring odds creation in-house. A proprietary solution will not only reduce costs and help ensure the highest quality but also enable the Company to control the only part of the esports betting value chain that it does not currently perform in-house.

The Company is also targeting growth opportunities in new market segments and geographical regions by seeking to acquire additional licenses in selected regulated markets.

## **SUMMARY OF SIGNIFICANT EVENTS**

The Company has undergone an intense and necessary phase of recalibrating the Luckbox platform, with “under the hood” improvements designed to provide a frictionless customer acquisition experience as well as improving player retention. This was completed in August 2022 and the next phase of growing player numbers has started.

The Luckbox platform’s technology now allows the Company to not only develop its own in-house solutions to seamlessly plug into the platform and user experience but also partner with relevant third-parties in a modular fashion.

During the 2022 fiscal year, the Company announced the following partnerships, appointments and updates:

### **Re-commencement of affiliate marketing activity**

On February 14, 2022, the Company signed agreements with several key affiliate marketing networks to increase player traffic to the Luckbox platform’s next-generation esports, sports and casino real-money betting products.

### **COO appointed**

On March 1, 2022, the Company appointed Benn Timbury as COO. Mr. Timbury’s most recent role was with one of Europe’s fastest growing start-ups, the Gibraltar-based Lottoland Group, which is active in 15 global markets, has over 350 employees, and more than 15 million customers.

### **Board of Director changes**

On March 9, 2022, the Company appointed Bo Wänghammar to the Board of Directors. Mr. Wänghammar was formerly Managing Director of Casino at PokerStars (acquired by Flutter Entertainment for US\$6 billion in October 2019), and the CEO at Mr. Green & Co online casino (acquired by William Hill for £242 million in October 2018). Mike Stevens, whom Mr. Wänghammar replaced, resigned from his position as a director to focus on his family and charity work.

### **Agreement with leading performance marketing firm Raketech Group**

On March 24, 2022, the Company announced a partnership with leading affiliate and performance marketing company Raketech Group Holding (STO: RAKE). The agreement builds upon prior agreements that the Company has signed with several key affiliate marketing networks to increase player traffic. Raketech, headquartered in Malta, operates more than 1,760 sites, driving active players to igaming brands.

### **Partnership with Microgaming to enhance online casino**

On April 13, 2022, the Company announced a partnership with online casino software supplier Microgaming. This partnership has added more than 100 games to Luckbox’s casino, including 9 Masks of Fire, Book of Oz, Immortal Romance™ and branded titles such as Jurassic World™, Game of Thrones™ and Lara Croft®. The Luckbox platform is built for a new generation of gaming and esports players that the Company plans to monetize for decades to come. This ethos extends to casino, where the Luckbox platform is striving to offer the best possible content and user experience, built upon a strong data analytics driven approach and the Company is already seeing a promising initial uptake from players.

### **Appointment of Director of Marketing**

On July 5, 2022, the Company announced the appointment of Dr. Daniel Sanders as Director of Marketing. Dr. Sanders's previous positions include Senior Global Marketing Lead at Tencent Games and Head of Esports and Gaming Marketing at Red Bull. He was also previously a manager and player with renowned esports organization Dignitas.

### **Virtual AGM matters**

The Company held its "virtual" AGM on August 11, 2022, and all matters put forward before the shareholders for consideration and approval were approved. It was also stated that the Company has commenced player acquisition as of August 2022 and that the balance sheet remains strong. Additionally, management highlighted new business initiatives that included the development of innovative (e)sportsbook products and B2B offerings to drive revenue growth with the anticipation that the Company can achieve profitability in the second half of the 2023 fiscal year, on a monthly EBITDA basis.

### **Continued expansion in Latin America**

On October 19, 2022, the Company announced that it will sponsor Thunder Awaken, one of Peru's premier esports teams. This effort builds on the Company's recent successful player acquisition debut in Brazil. This sponsorship marks an important step in Real Luck's marketing rollout in Latin America as a large number of players discover their betting platforms via teams and influencers. The well-established Thunder Awaken esports team is Peru's largest professional team, bringing a loyal and expanding fan base of over 16 million people across their full network. The partnership provides significant marketing benefits, ensuring effective local reach to a highly engaged community across both esports and sporting occasions. Thunder Awaken also competed in Dota 2 at The International 11, one of the largest esports events across the industry. This event which saw a 37% year over year growth in 2021, peaking at 2.7 million unique viewers. This step ensures Luckbox expands its marketing presence across Latin America and supports the wider strategy of continued growth in the LATAM market.

### **Player and handle growth since Q4 2022**

In October 2022 the Company began its customer acquisition across Latin America. The Company ended Q4 2022 with over CAD\$3.0 million in Global Betting Handle for the year, with the vast majority of the Global Betting Handle generated in Q4 2022.

Since then, the Company has expanded these efforts to other global markets such as Oceania and the Nordic - generating record-breaking handle and growth month-on-month. In March 2023, the Company generated CAD\$5.0 million in Global Betting Handle - 40% more than that of Q4 2022. This milestone superseded the Company's February 2023 record of CAD\$2.8 million, and January 2023 record of CAD\$1.6 million.

In October 2022, after less than one month of player acquisition efforts, the Company reported 24,441 player registrations. As of March 2023, registered players have grown to over 387,000.

### **Renewal of license under the Online Gambling Regulation Act**

Real Time Games Holdings Limited ("RTGH"), one of the Company's subsidiaries, holds a full license under the Online Gambling Regulation Act (OGRA), issued by the Isle of Man Gaming Supervision Commission (the "Commission"). This license is to expire on April 28, 2023, and the application for the renewal of the license has been made with the Commission. On April 11, 2023, the Commission confirmed that RTGH may continue to conduct gambling activity until the Commission determines a renewal decision for RTGH's license. The Commission is expected to determine this decision in early May, 2023.

## SELECTED ANNUAL INFORMATION

### Balance sheet data

	As at December 31, 2022	As at December 31, 2021	As at December 31, 2020
Total assets	\$ 6,911,702	\$ 15,124,150	\$ 4,304,761
Total non-current liabilities	\$ 10,864	\$ 23,617	\$ 48,761

The increase in total assets from \$4,304,761, as at December 31, 2020, to \$15,124,150, as at December 31, 2021, is mostly a result of an increase in cash held by the Company. This increase in cash came mainly from the proceeds of the private placement of special warrants completed on March 9, 2021, and proceeds from the exercise of warrants and options during the year ended December 31, 2021.

The decrease in total assets from \$15,124,150, as at December 31, 2021, to \$6,911,702, as at December 31, 2022 is mostly the result of a decrease in cash held by the Company, derived from the Company's spend on operating activities during the year ended December 31, 2022.

Non-current liabilities as at December 31, 2022, 2021, and 2020, consist only of lease liabilities. The decrease in non-current liabilities from \$48,761 as at December 31, 2020, to \$10,864 as at December 31, 2022, is a result of the Company paying its lease liabilities.

### Income statement data

	For the year ended December 31, 2022	For the year ended December 31, 2021	For the year ended December 31, 2020
Total revenue	\$ 159,992	\$ 25,174	\$ 75,480
Net loss	\$ (9,116,510)	\$ (8,631,434)	\$ (5,495,513)
Net loss per share	\$ (0.13)	\$ (0.14)	\$ (0.18)
Comprehensive loss	\$ (9,159,870)	\$ (8,657,528)	\$ (5,529,664)
Comprehensive loss per share	\$ (0.13)	\$ (0.14)	\$ (0.18)

The Company generated minimal revenue during the years ended December 31, 2021 and 2020, as the Company was focused on developing and making improvements to its Luckbox betting platform and offerings for the overwhelming majority of those periods. An increase in revenue to \$159,992, for the year ended December 31, 2022, is mainly due to a full year of revenues generated from casino games, which were added in December 2021, as well as a more favourable conversion of revenue from bets placed by players vs. winning bets returned to players than in prior years. As of Q3, 2022, the Company had finished the improvements to the Luckbox platform and has started revenue-scaling activities by acquiring players through meaningful marketing efforts, which supports the Company's future revenue growth.

Net loss and comprehensive loss increased from \$5,529,664, for the year ended December 31, 2020, to \$8,657,528 for the year ended December 31, 2021. This increase is largely due to the following:

- Higher advertising costs incurred during the year ended December 31, 2021, is a result of a larger marketing budget during 2021 to engage third-party consultants on esports and gaming ads, and media campaign projects to enhance brand recognition.
- Higher consulting fees incurred during the year ended December 31, 2021, is a result of the Company having entered new contracts with corporate and capital market consultants near the end of the 2020 fiscal year, resulting in higher consultancy costs going into and throughout fiscal 2021.

- Higher legal and professional fees incurred during the year ended December 31, 2021, mainly derived from costs incurred in 2021 in connection to the application for trading on the OTCQB Venture Market, and other legal and general corporate matters.
- Higher share-based payment expenses incurred during the year ended December 31, 2021, due to the timing of the vesting periods of options issued during 2021 and 2020.

Comprehensive loss increased from \$8,657,528, for the year ended December 31, 2021, to \$9,159,870 for the year ended December 31, 2022. See below for an analysis on this increase.

#### DISCUSSION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2022

	For the year ended December 31, 2022	For the year ended December 31, 2021	\$ Change	% Change
Revenue	\$ 159,992	\$ 25,174	\$ 134,818	536%
Cost of sales	671,635	290,286	381,349	131%
	(511,643)	(265,112)	(246,531)	93%
<b>Operating expenses</b>				
Advertising and marketing	1,800,959	943,234	857,725	91%
Depreciation	81,493	79,352	2,141	3%
Bad debt recovery	(1,767)	(126)	(1,641)	1,302%
Consulting fees	1,597,351	1,293,939	303,412	23%
Legal and professional fees	825,313	1,254,687	(429,374)	(34%)
General and administrative	782,100	669,297	112,803	17%
Insurance	161,452	137,569	23,883	17%
Investor relations	172,711	188,423	(15,712)	(8%)
Salaries and director fees	2,036,675	1,735,563	301,112	17%
Share-based payments	916,074	1,889,557	(973,483)	(52%)
Transfer agent and filing fees	91,634	98,884	(7,250)	(7%)
Travel and accommodation	143,379	49,583	93,796	189%
	(8,607,374)	(8,339,962)	(267,412)	3%
<b>Other items</b>	9,510	(20,299)	29,809	(147%)
<b>Net loss before income taxes</b>	(9,109,507)	(8,625,373)	(484,134)	6%
Income tax expense	(7,003)	(6,061)	(942)	16%
<b>Net loss</b>	(9,116,510)	(8,631,434)	(485,076)	6%
<b>Other comprehensive loss</b>	(43,360)	(26,094)	(17,266)	66%
<b>Comprehensive loss</b>	\$ (9,159,870)	\$ (8,657,528)	\$ (502,342)	6%



## **Revenue**

Throughout fiscal 2021 and the first half of fiscal 2022, the Company was engaged in an extensive process of improving its proprietary Luckbox platform in order to optimize player conversion and retention. Minimal revenue was expected and generated during this period of development. An increase in revenue of \$134,818 is mainly due to a full year of revenues generated from casino games, which were added in December 2021, as well as a more favourable conversion of revenue from bets placed by players versus winning bets returned to players. As of Q3, 2022, the Company had finished the improvements to the Luckbox platform and has begun scaling revenue by acquiring players through meaningful marketing efforts.

## **Cost of sales**

An increase in cost of sales of \$381,349 was primarily due to higher platform royalty costs incurred for the Company's use of BtoBet's platform services. During fiscal 2022, the Company fully transitioned from Omega Systems to BtoBet's Casino and Sportsbook solution in order to improve the Luckbox product and betting offer. This extended the range of esports events offered and added traditional sports and casino games to Luckbox. Also contributing to the increase in cost of sales are higher free bets granted during the year ended December 31, 2022, to attract players to the Luckbox platform.

## **Operating expenses**

The Company incurred operating expenses of \$8,607,374 during the year ended December 31, 2022, compared to \$8,339,962 for year ended December 31, 2021.

The variance in operating expenses is attributable to the following factors:

- An increase in advertising and marketing of \$857,725 is a result of the Company commencing meaningful player acquisition through marketing affiliates and online media buying to bring players to the Luckbox platform in Q4 2022, following the completion of the improvements to the platform during Q3 2022.
- An increase in consulting fees of \$303,412 is a result of the Company having engaged more consultants in the current fiscal year in support of the Company's focus of developing operations, improving the Luckbox platform and betting products, and acquiring players.
- A decrease in legal and professional fees of \$429,374 is mainly derived from higher costs incurred in the comparative period in connection with the application for trading on the OTCQB Venture Market, and other legal and general corporate matters.
- An increase in general and administrative expenses of \$112,803 is mostly a result of higher costs associated with customer onboarding, increased costs to manage customer relations, higher payment services provider charges, and higher payment gateway costs. These increases are driven by the increase in players using the Company's products during the year ended December 31, 2022.
- An increase in salaries and director fees of \$301,112 is mostly due to having a higher headcount during the year ended December 31, 2022 than the year ended December 31, 2021, as well as increasing compensation to retain staff.
- A decrease in share-based payments of \$973,483 is mostly attributed to the timing of the vesting periods of outstanding options.
- Travel and accommodation increased by \$93,816 as there were more business trips and travel related to trade shows and conferences during the year ended December 31, 2022, in comparison to the year ended December 31, 2021. Lower travel during the year ended December 31, 2021 was a result of COVID-19 factors.

### Reconciliation of use of proceeds from financing activities

On March 9, 2021, the Company completed a private placement of 14,837,317 special warrants of the Company for net proceeds of \$16,108,181. The following tables display a comparison of how the Company intended to use the net proceeds from the private placement (as described in the associated Short Form Prospectus dated June 3, 2021) and the Company's actual use of the proceeds:

Use of Net Proceeds	Estimated Expenditure	As of December 31, 2022
User acquisition	\$5,361,958	\$2,604,643
M&A activity	\$7,000,000	\$Nil
General and administrative expenses	\$2,872,469	\$8,447,319
General working capital	\$873,754	\$4,868,143
Negative gross profit	\$Nil	\$188,076
<b>Total</b>	<b>\$16,108,181</b>	<b>\$16,108,181</b>

Included in general and administrative expenses were the following milestones:

Milestone	Estimated Cost	Cost Incurred
Upgrade the backend of the Company's platform	\$458,454	\$829,537
Adding casino games to the Company's platform	\$229,227	\$75,169
<b>Total</b>	<b>\$687,681</b>	<b>\$904,706</b>

Half of the approximately \$5,400,000 net proceeds that was initially allocated to user acquisition was spent when marketing campaigns commenced in earnest in the second half of 2022 (approximately \$2,600,000). The amount of the user acquisition expenditures as of December 31, 2022 is lower than initially projected as the platform rebuild and casino development was not completed until August 2022 (originally estimated to be completed in Q3/Q4 2021). This excludes an allocation of internal costs such as the Director of Marketing who was recruited in July 2022.

None of the \$7,000,000 proposed spend on M&A was incurred. Various targets were identified and in November 2022, the Company signed an LOI to acquire an Asian-Focused iGaming platform. After conducting the appropriate due diligence, the Company decided not to proceed with the proposed acquisition. Legal fees were immaterial and excludes an allocation of internal costs.

G&A spend of approximately \$8,450,000 exceeded the original estimate of approximately \$2,900,000 because the platform rebuild and casino development was not completed until August 2022. This marked the transition from product development to player acquisition.

General working capital as at December 31, 2022 includes funds raised from the financing that had not been used as of December 31, 2022.

## RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2022

	For the three months ended December 31, 2022	For the three months ended December 31, 2021	\$ Change	% Change
Revenue	\$ 89,508	\$ 9,934	\$ 79,574	801%
Cost of sales	529,779	77,631	452,148	582%
	(440,271)	(67,697)	(372,574)	550%
<b>Operating expenses</b>				
Advertising and marketing	1,268,904	218,299	1,050,605	481%
Depreciation	21,079	21,306	(227)	(1%)
Bad debt expense recovery	(880)	-	(880)	(100%)
Consulting fees	318,878	248,896	69,982	28%
Legal and professional fees	351,146	272,714	78,432	29%
General and administrative	(42,609)	188,104	(230,713)	(123%)
Insurance	39,911	34,652	5,259	15%
Investor relations	157,719	129,221	28,498	22%
Salaries and director fees	572,919	394,507	178,412	45%
Share-based payments	202,277	436,593	(234,316)	(54%)
Transfer agent and filing fees	14,941	5,128	9,813	191%
Travel and accommodation	29,896	15,832	14,064	89%
	(2,934,181)	(1,965,252)	(968,929)	49%
<b>Other items</b>	257,503	4,543	252,960	5568%
<b>Net loss before income taxes</b>	(3,116,949)	(2,028,406)	(1,088,543)	54%
Income tax expense	(2,119)	(2,242)	123	(5%)
<b>Net loss</b>	(3,119,068)	(2,030,648)	(1,088,420)	54%
<b>Other comprehensive loss</b>	(253,795)	(14,912)	(238,883)	1602%
<b>Comprehensive loss</b>	\$ (3,372,863)	\$ (2,045,560)	\$ (1,327,303)	65%

### Revenue

Minimal revenue was generated during the three month period ending December 31, 2021 as the Company was engaged in an extensive process of improving its proprietary Luckbox platform in order to optimize player conversion and retention. An increase in revenue of \$79,574 for the three month period ending December 31, 2022 over the comparable three month period ending December 31, 2021 is mostly due to revenue generated from casino betting, which launched in December 2021, as well as a more favourable conversion of revenue from bets placed versus winning bets returned to players in the period ending December 31, 2022. As of Q3 2022, the Company had finished the improvements to the Luckbox platform and the Company has started to scale revenue through meaningful marketing efforts in order to support future revenue growth.

**Cost of sales**

The higher balance in cost of service for the three months ended December 31, 2022, is entirely the result of an accounting reclass, performed during the period, of royalty costs associated with the use of BtoBet's betting platform for the fiscal year 2022 from G&A.

**Operating expenses**

The Company incurred operating expenses of \$2,934,181 during the three months ended December 31, 2022, compared to \$1,965,252 for the three months ended December 31, 2021.

The variance in operating expenses is attributable to the following factors:

- An increase in advertising and marketing of \$1,050,605 is a result of the Company commencing meaningful player acquisition during the three months ended December 31, 2022, through marketing affiliates and online media buying, to bring players to the Luckbox platform following the completion of the improvements to the platform in Q3 2022.
- An increase in consulting fees of \$69,982 is a result of the Company engaging more consultants during the three months ended December 31, 2022 in comparison to the three months ended December 31, 2021, relating to developing operations, improving the Luckbox betting platform and betting products, and acquiring players.
- A foreign exchange gain of \$254,968 during the three months ended December 31, 2022 stems from an accounting adjustment performed to actualize the foreign exchange impact derived from an intercompany loan between Real Luck Group Ltd. (the parent) and Esports Limited.
- An increase in legal and professional fees of \$78,432 is primarily a result of fees for legal counsel in regard to an activist shareholder that were incurred during the three months ended December 31, 2022.
- A decrease in general and administrative expenses of \$230,713 is mostly a result of an accounting reclass performed during the three months ended December 31, 2022, of BtoBet platform fees for the fiscal year 2022 of \$450,986.
- An increase in salaries and director fees of \$178,412 is mostly due to the Company having a higher headcount and paying higher compensation to retain staff during the three months ended December 31, 2022 in comparison to the three months ended December 31, 2021.
- A decrease in share-based payments of \$234,316 is mostly attributed to the timing of the vesting periods of outstanding options as well as the timing of forfeitures of options.

**Other items and other comprehensive loss**

- The increases in income from other items and other comprehensive loss during the three months ended December 31, 2022 are mostly the result of an accounting adjustment performed to actualize the foreign exchange impact derived from an intercompany loan between Real Luck Group Ltd. (the parent) and Esports Limited.

## SUMMARY OF QUARTERLY RESULTS

Three months ended,	March 31, 2022	June 30, 2022	September 30, 2022	December 31, 2022
Total revenue	\$ 18,613	\$ 13,855	\$ 38,016	\$ 89,508
Net loss	\$ (2,069,860)	\$ (1,960,771)	\$ (1,966,811)	\$ (3,119,068)
Total comprehensive loss	\$ (2,014,649)	\$ (1,855,206)	\$ (1,917,152)	\$ (3,372,863)
Basic and diluted net loss per share	\$ (0.03)	\$ (0.03)	\$ (0.03)	\$ (0.05)
Three months ended,	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021
Total revenue	\$ -	\$ 8,002	\$ 7,238	\$ 9,934
Net loss	\$ (2,399,916)	\$ (2,280,266)	\$ (1,920,603)	\$ (2,030,648)
Total comprehensive loss	\$ (2,400,680)	\$ (2,327,865)	\$ (1,883,422)	\$ (2,045,560)
Basic and diluted net loss per share	\$ (0.05)	\$ (0.04)	\$ (0.03)	\$ (0.03)

### Quarter to quarter fluctuations in net loss are typically due to the following factors:

- Additional costs incurred as a result of the Company entering into new agreements and contracts with consultants in support of the Company continuing and developing its operations, improving its Luckbox betting platform and betting products, and acquiring players.
- The timing of grants, vesting periods, and forfeitures of options with variations in the associated fair values and the number of options vesting contribute to variations in quarterly amounts of share-based payments.
- Variations in general and administrative expenses associated with changes to suppliers for existing services and the addition of new suppliers for new services, among other things, in support of the Company's growth and development.
- Timing of recognition of non-recurring expenses such as, for example, legal and professional fees incurred in connection with the application for trading on the OTCQB Venture Market, fees incurred to address an activist shareholder, and other legal matters.
- Variable spend on advertising and marketing on initiatives to enhance brand recognition and to attract players to the Luckbox platform and betting products.
- Fluctuations in exchange rates between the Euro, Pound Sterling, Bulgarian Lev, and Canadian Dollar resulting in foreign exchange and losses.

### Quarter to quarter fluctuations in other comprehensive income (loss):

Quarter to quarter fluctuations in other comprehensive loss are due to fluctuations in the foreign exchange rates among the presentation currency (Canadian dollar), and the functional currencies of the subsidiaries (Pound Sterling and Bulgarian Lev), that result in exchange differences recognized in other comprehensive income on translation.

## OFF-BALANCE SHEET ARRANGEMENTS

As at the date of this MD&A, the Company has not entered into any off-balance sheet arrangements.

## PROPOSED TRANSACTIONS

In the normal course of business, the Company evaluates transactions and, in some cases, makes or is presented with proposals. These proposals, which are usually subject to Board, regulatory and sometimes shareholder approvals, may involve future payments, share issuances, or other commitments. These future obligations are usually contingent in nature. As of the date of this report, the Company has possible transactions that it is examining. Management is uncertain whether any of these proposals will ultimately be completed.

## LIQUIDITY AND CAPITAL RESOURCES

The accompanying consolidated financial statements have been prepared on a basis that contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company anticipates that it will raise additional equity capital in the future to meet its working capital requirements for at least the next 12 months. This assessment is based on management's assumption that the Company will continue to consume approximately \$2 million in cash per quarter on average.

During the year ended December 31, 2022, working capital decreased to \$5,720,736 from \$13,912,864 as at December 31, 2021. The \$8,192,128 decrease in working capital is mostly attributable to a decrease in cash of \$8,328,385.

### Cash flows

The following table summarizes the Company's cash flows for the years ended December 31, 2022 and 2021:

	December 31, 2022	December 31, 2021
Cash used in operating activities, net	\$ (8,221,767)	\$ (6,934,297)
Cash used in investing activities	(24,319)	(50,531)
Cash generated by (used in) financing activities	(39,092)	17,566,152
Increase (decrease in cash)	(8,285,178)	10,581,324
Effects of exchange difference	(43,208)	(25,648)
Cash, beginning of period	14,398,356	3,842,680
Cash, end of period	\$ 6,069,971	\$ 14,398,356

At December 31, 2022, the Company held cash of \$6,069,971 (December 31, 2021 – \$14,398,356). The decrease in cash and cash equivalents from December 31, 2021 to December 31, 2022 was primarily due to the payment of operational costs to support operating activities.

Cash used in operating activities for the year ended December 31, 2022, was \$8,221,767 (2021 - \$6,934,297). The decrease in cash used in operating activities for the year ended December 31, 2022, is mostly a result of:

- The Company increasing the spend on advertising and marketing in support of commencing meaningful player acquisition to bring players to the Luckbox platform in Q4 2022.
- The Company paying higher consulting fees as a result of the Company having engaged more consultants during the year ended December 31, 2022 in support of developing operations, improving its Luckbox betting platform and betting products, and acquiring players.
- The Company paying higher general and administrative costs, mostly resulting from incurring higher costs associated with a higher volume of players using the Company's products during the year ended December 31, 2022, compared to the year ended December 31, 2021.
- The Company paying higher salaries as a result of having a higher headcount during the year ended December 31, 2022, and as well as increasing compensation in order to retain staff.

Cash used in investing activities for the year ended December 31, 2022, was \$24,319 (2021 - \$50,531). A higher amount of cash used in investing activities during the year ended December 31, 2021 was a result of repaying an amount owing to a related party as well as having a higher spend on the purchase of equipment.

Cash used in financing activities for the year ended December 31, 2022, was \$39,092 (2021 – cash from financing activities of \$17,566,152). For the year ended December 31, 2021, cash from financing activities mainly came from the proceeds of a private placement of special warrant units completed on March 9, 2021, and proceeds from the exercise of warrants and options during the period.

### **Other factors affecting liquidity**

The Company has not yet generated notable cashflows from revenue. As a result, the Company has relied on its ability to raise financing through the issuance of equity securities to obtain sufficient cash flows. Although the Company anticipates it will have positive cash flows from operating activities in future periods, if needed, the Company may raise additional equity or debt capital or enter into arrangements to secure necessary financing to fund the completion of development projects, to meet obligations or for the general corporate purposes of the Company. Such arrangements may take the form of loans or other agreements. The sale of additional equity could result in additional dilution to the Company's existing stockholders. There is also the possibility that financing arrangements may not be available to the Company or may not be available in sufficient amounts or on acceptable terms.

### **RELATED PARTY DISCLOSURES**

The Company's related parties are its key management personnel and the companies controlled by its key management personnel. Key management personnel include those persons having authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and certain corporate officers. The key management personnel of the Company are:

- Thomas Rosander, CEO and a director of Real Luck (appointed on May 7, 2021)
- Drew Green, a director of Real Luck (appointed on December 11, 2020)
- Maruf Raza, a director of Real Luck (appointed on December 11, 2020)
- Lloyd Melnick, a director of Real Luck (appointed on December 11, 2020)
- Bo Wänghammar, a director of Real Luck (appointed on March 8, 2022)
- Lee Hills, a Director of RTGS, a subsidiary of Esports Limited (appointed August 13, 2018)
- William Moore, CFO of Real Luck (appointed on December 17, 2021)
- Benn Timbury, COO of Real Luck (appointed on March 1, 2022)
- Richard Macnee, a director of RTGS and RTGH, subsidiaries of Esports Limited (appointed December 16, 2022)

#### **Former directors and officers**

- Michael Stevens, a former director of Real Luck (resigned on March 8, 2022)
- Ran Kaspi, the former CFO of Real Luck (resigned on December 17, 2021)
- Quentin Martin, the former CEO and a former director of Real Luck (resigned on May 7, 2021)

## Key management compensation

During the years ended December 31, 2022 and 2021, the Company incurred charges with related parties which were recorded as follows:

<b>Cash fees and salaries</b>	<b>2022</b>	<b>2021</b>
Consulting fees		
Rost Malta Limited, a company controlled by Thomas Rosander	\$ 285,057	\$ 160,995
Red 27 I Limited, a company controlled by Benn Timbury	147,330	-
Grayson Services Limited, a company controlled by William Moore	144,651	6,406
Michael Stevens	-	94,147
CFO Plan, a company controlled by Ran Kaspi	32,386	217,020
SolutionsHub, a company controlled by Lee Hills	-	8,827
Legal and professional fees		
ILS World, a company at which Richard Macnee is a key member of management	1,923	-
General and administration		
SolutionsHub, a company controlled by Lee Hills	38,574	13,378
Salaries and director fees		
Bawik Consulting AB, a company controlled by Bo Wänghammar	51,627	-
Drew Green	64,500	61,500
Maruf Raza	64,500	58,196
Lloyd Melnick	57,000	32,500
SolutionsHub, a company controlled by Lee Hills	38,574	56,051
Quentin Martin	-	91,946
	<b>\$ 926,122</b>	<b>\$ 800,966</b>

<b>Share-based payments</b>	<b>2022</b>	<b>2021</b>
Bo Wänghammar	\$ 24,790	\$ -
Thomas Rosander	461,137	537,694
Drew Green	91,666	164,691
Maruf Raza	53,994	69,438
Lloyd Melnick	41,790	53,563
Benn Timbury	62,811	-
William Moore	48,132	-
Michael Stevens	5,443	63,502
Ran Kaspi	-	132,164
Quentin Martin	-	158,756
	<b>\$ 789,763</b>	<b>\$ 1,179,808</b>

The share-based payments, including options granted to related parties, were fair valued on the dates that they were granted. During the year ended December 31, 2022, the Company granted 750,000 options to Benn Timbury and 300,000 options to Bo Wänghammar. The options have an exercise price of \$0.21. 10% of these options vested immediately on the grant date, 10% will vest six months from the grant date, and 20% will vest each six months thereafter.

Each stock option permits the holder to purchase one common share of the Company at the stated exercise price.

## Related party balances

As at December 31, 2022, included in prepaid expenses and deposits is \$33,000 in director fees prepaid to Drew Green (2021 - \$nil) and \$17,066 in director and secretarial fees prepaid to ILS World, a company at which Richard Macnee is a key member of management.



As at December 31, 2022, included in accounts payable and accrued liabilities is \$nil (December 31, 2021 - \$2,500) in salary owed to Maruf Raza. This amount was unsecured, non-interest bearing and due upon demand.

As at December 31, 2022, included in accounts payable and accrued liabilities is \$7,501 owed to ILS World, a company at which Richard Macnee is a key member of management, for corporate secretarial services.

As at December 31, 2022, included in accounts payable and accrued liabilities is \$5,131 (December 31, 2021 - \$14,805) due to Luckbox Limited. This amount is unsecured, non-interest bearing and repayable upon demand. As at December 31, 2021, Michael Stevens was on the Board of Directors for both Real Luck and Luckbox Limited. On March 8, 2022, Michael Stevens resigned from Real Luck's Board of Directors. As a result of his resignation, Luckbox Limited is no longer considered a related party of Real Luck at December 31, 2022.

## **OUTSTANDING SHARE DATA**

The Company is authorized to issue an unlimited number of common shares. As at December 31, 2022, the Company had a total of 68,900,548 issued and outstanding common shares, total unit warrants outstanding of 7,789,591, total agent warrants outstanding of 1,186,985, total issued and outstanding stock options of 12,120,000, and total exercisable stock options of 6,138,000. As at the date of this MD&A, the number of issued and outstanding common shares, unit warrants outstanding, and agent warrants outstanding remain unchanged since December 31, 2022. As at the date of this MD&A, the Company has issued and outstanding stock options of 12,120,000, of which 6,604,000 are exercisable.

## **SUBSEQUENT EVENT**

The Company has commenced a non-brokered private placement offering up to approximately \$2,400,000. The issue price is \$0.12 per unit and each unit shall consist of one common share of the Company and one common share purchase warrant. Each warrant shall be exercisable into one Common Share of the Company for a period of 36 months from closing at an exercise price of \$0.24 per common share. The closing date is expected to be on or about May 5, 2023.

## **SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS**

The significant accounting policies, estimates and judgements followed by the Company are set out in Note 3 to the audited consolidated financial statements for the years ended December 31, 2022 and 2021. There have been no changes to the accounting policies as at the date of this MD&A.

## **RISKS ARISING FROM FINANCIAL INSTRUMENTS**

### **Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit arises principally from cash and cash equivalents, restricted cash, other receivables and the promissory note receivable.

The Company limits its exposure to credit losses on cash, restricted cash, and cash equivalents by placing its cash and cash equivalents with reputable financial institutions. The Company places the majority of its cash at a brokerage firm in Canada that maintains private insurance for up to \$10 million for all self-directed and managed accounts and is a member of both the Investment Industry Regulatory Organization of Canada ("**IIROC**") and the Canadian Investor Protection Fund ("**CIPF**") which provides an additional \$1 million in coverage in the event the brokerage goes out of business. The Company believes the credit risk associated with cash is mitigated by the brokerage's insurance coverage.

The exposure to credit loss on other receivables is limited as other receivables are comprised of money deposited on a reputable and secured payment platform and refundable goods and services tax. The exposure to credit loss on the balance of the promissory note receivable is mitigated as it is secured by shares of the Company. Customers are required to make deposits in advance of the Company rendering its betting and online casino gaming services. The Company does not grant credit to customers.

The maximum exposure to credit risk is reflected in the carrying amounts for cash and cash equivalents, restricted cash, other receivables and the promissory note receivable.

### Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Management controls and monitors the Company's cash flow on a regular basis, including forecasting future cash flows and maintaining sufficient cash balances to enable settlement of transactions on the due date.

To date, the Company's primary source of funding has been the issuance of equity securities of the Company for cash, primarily through private placements. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future.

The following is an analysis of the contractual maturities of the Company's financial liabilities and lease liabilities as at December 31, 2022:

	Within one year	Between one and five years	Total
Accounts payable and accrued liabilities	\$ 1,069,178	\$ -	\$ 1,069,178
Lease obligations	12,410	10,864	23,274
Income tax payable	2,969	-	2,969
	\$ 1,084,557	\$ 10,864	\$ 1,095,421

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at December 31, 2022, the Company is not exposed to significant interest rate risk.

### Foreign exchange risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to foreign exchange risk as it holds financial instruments which are denominated in currencies that are different from their functional currencies. The Company does not hedge its exposure to fluctuations in foreign exchange rates.

As outlined in Note 2, the Company's controlled entities Real Time Games Holdings Limited (RTGH) and Real Time Games Services Limited (RTGS) conduct business using the Pound Sterling (GBP) as their functional currency. A portion of the financial assets and liabilities held by these two entities are denominated in United States Dollars (USD) and Euros (EUR). The following table displays the Canadian dollar value of these assets and liabilities which are denominated in currencies other than the applicable functional currency:

	Canadian dollar value of assets and liabilities denominated in:	
	USD	EUR
Cash and cash equivalents	\$ -	\$ 104,145
Other receivables	46,335	16,337
Accounts payable and accrued liabilities	5,915	409,213
	\$ 52,250	\$ 529,695

## **CAPITAL RESOURCES AND MANAGEMENT**

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide future returns for shareholders and maintain an optimal capital structure. In order to maintain or adjust the capital structure, the Company may issue new shares or sell assets to reduce debt.

## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

As defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, disclosure controls and procedures ("DC&P") require that controls and other procedures be designed to provide reasonable assurance that material information required to be disclosed is duly gathered and reported to senior management in order to permit timely decisions and timely and accurate public disclosure.

Management is responsible for the establishment and maintenance of a system of internal control over financial reporting ("ICFR"). This system has been designed to provide reasonable assurance that assets are safeguarded and that the financial reporting is accurate and reliable. The consolidated financial statements for the years ended December 31, 2022 and 2021 have been prepared by management in accordance with IFRS and in accordance with accounting policies set out therein.

Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. There are inherent limitations in all control systems and no disclosure controls and procedures can provide complete assurance that no future errors or fraud will occur. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

As a Venture Issuer, the Company is not required to certify the design and evaluation of the issuer's DC&P and ICFR and has not completed such an evaluation; and there are inherent limitations on the ability of Management to design and implement on a cost effective basis DC&P and ICFR for the Company which may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports required under securities legislation.

## **RISKS AND UNCERTAINTIES**

### *Company has a Limited Operating History*

The Company began carrying on business in its current capacity on April 25, 2019 and has not yet reached profitability. The Company is, therefore, subject to many of the risks common to early-stage enterprises, including undercapitalization, cash shortages, limitations with respect to personnel, financial and other resources and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment, and the likelihood of success must be considered in light of the early stage of operations. The Company's lack of operating history may also make it difficult for investors to evaluate the Company's prospects for success and there is no guarantee that the Company's business model will continue to achieve its strategic objectives.

### *Global Economic Risk*

Ongoing economic slowdown and downturn of global capital markets generally makes raising capital by equity or debt financing more difficult. Access to financing can also be negatively impacted by ongoing global economic risks. If uncertain market conditions persist, the Company's ability to raise capital could be jeopardized, which could have an adverse impact on the Company's business and operations.

### *COVID-19 Risk*

The outbreak of COVID-19 in 2020 has had a negative impact on global financial conditions. The Company cannot accurately predict the impact COVID-19 will have on the Company's ability to remain open for business in response to government public health efforts to contain COVID-19 and to obtain financing or third-parties' ability to meet their obligations with the Company, including due to uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak and the length of travel and quarantine restrictions imposed by governments of affected countries, and future demand of the Company's products and services.

In the event that the prevalence of the coronavirus continues to increase (or fears in respect of the coronavirus continue to increase), governments may increase regulations and restrictions regarding the flow of labour or products, and travel bans, and the Company's operations, suppliers, customers and distribution channels, and ability to advance its projects, could be adversely affected. Should any employees or consultants of the Company become infected with COVID-19 or similar pathogens, it could have a material negative impact on the Company's operations and prospects.

### *Changing Economic Conditions*

The demand for entertainment and leisure activities, including esports betting and gaming, more generally, can be highly sensitive to changes in consumers' disposable income, and thus can be affected by changes in the economy and consumer tastes, both of which are difficult to predict and beyond the Company's control. Unfavourable changes in general economic conditions, including recessions, economic slowdowns, sustained high levels of unemployment, and increasing fuel or transportation costs or the perception by customers of weak or weakening economic conditions, may reduce customers' disposable income or result in fewer individuals engaging in entertainment and leisure activities, such as esports betting or online gaming. As a result, the Company cannot ensure that demand for its product and service offerings will remain constant. Adverse developments affecting economies throughout the world, including a general tightening of availability of credit, decreased liquidity in certain financial markets, increased interest rates, foreign exchange fluctuations, increased energy costs, acts of war or terrorism, transportation disruptions, natural disasters, declining consumer confidence, sustained high levels of unemployment or significant declines in stock markets, as well as concerns regarding epidemics and the spread of contagious diseases, could lead to a further reduction in discretionary spending on leisure activities, such as esports betting and gaming. Any significant or prolonged decrease in consumer spending on entertainment or leisure activities could adversely affect the demand for the Company's product offerings, reducing its cash flows and revenues. If the Company experiences a significant unexpected decrease in demand for its product offerings, its business may be harmed.

### *Competition in Esports Betting and Online Casino Industries*

The industry within which the Company operates is rapidly evolving and intensely competitive and is subject to changing technology, shifting customer needs and frequent introductions of new offerings. The Company's potential competitors include large and established companies as well as other start-up companies. Such competitors may spend more money and time on developing and testing products and services, undertake more extensive marketing campaigns, adopt more aggressive pricing or promotional policies or otherwise develop more commercially successful products or services than the Company, which could negatively impact its business. Furthermore, new competitors, whether licensed or not, may enter the Company's key product and/or geographic markets. There is no assurance that the Company will be able to maintain or grow its position in the marketplace.

As a result of the foregoing, among other factors, the Company will have to continually introduce and successfully market new and innovative technologies, product and service offerings and product and service enhancements to remain competitive and effectively stimulate customer demand, acceptance and engagement. The process of developing new product and service offerings and systems is inherently complex and uncertain, and new product and service offerings may not be well received by customers, even if well-reviewed and of high quality. Furthermore, the Company may not recover the often substantial up-front costs of developing and marketing new technologies and product and service offerings or recover the opportunity cost of diverting management and financial resources away from other technologies and product or service offerings. Additionally, if the Company cannot efficiently adapt its processes and infrastructure to meet the needs of its product and service offering innovations, its business could be negatively impacted.

#### *Reliance on Management*

The success of the Company will be dependent upon the ability, expertise, judgment, discretion and good faith of its key executives, including the directors and officers of the Company and a small number of highly skilled and experienced executives and personnel. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results, or financial condition. The competition for highly skilled technical, management and other employees in the Company's industry is high and there can be no assurance that the Company will be able to engage or retain the services of such qualified personnel in the future.

#### *Esports Betting Industry Is Heavily Regulated*

The Company and its officers, directors, major shareholders, key employees and business partners are subject to the laws and regulations relating to online gaming of the jurisdictions in which the Company conducts business, as well as the general laws and regulations that apply to all e-commerce businesses, such as those related to privacy and personal information, tax and consumer protection. These laws and regulations vary from one jurisdiction to another and future legislative and regulatory action, court decisions or other governmental action. There can be no assurance that legally enforceable prohibiting legislation will not be proposed and passed in jurisdictions relevant or potentially relevant to the Company's business to prohibit, legislate or regulate various aspects of the Internet, e-commerce, payment processing, or the online gaming industries. Compliance with any such legislation may have a material adverse effect on the Company's business, financial condition and results of operations.

Any gaming licence that the Company currently holds may be revoked, suspended or conditioned at any time, and the industry has recently experienced significantly more enforcement actions, particularly in the United Kingdom, where the Gambling Commission has issued fines against numerous operators for regulatory failings. The loss of a gaming licence in one jurisdiction could trigger the loss of a gaming licence or affect the Company's eligibility for such a licence in another jurisdiction, and any of such losses or potential for such loss, could cause the Company to cease offering some or all of its product offerings, increasing its customer base and/or generating revenues in the impacted jurisdictions.

Additionally, the Company's product and service offerings must be approved in most regulated jurisdictions in which they are offered and will likely need to undergo third-party testing by a certified testing lab. Such testing can be costly and time consuming, and this process cannot be assured or guaranteed. Obtaining these approvals is a time-consuming process that can be extremely costly and does not guarantee the Company to obtain such approvals.

Furthermore, some jurisdictions require licence holders to obtain government approval before engaging in some transactions, such as business combinations, reorganizations, stock offerings and repurchases. The Company may not be able to obtain all necessary gaming licences in a timely manner, or at all. Delays in regulatory approvals or failure to obtain such approvals may also serve as a barrier to entry to the market for the Company's product offerings. If the Company is unable to overcome the barriers to entry, it will materially affect its results of operations and future prospects.

### *Complex and Evolving Regulatory Environment for Online Gaming Industry*

In addition to regulations governing online gaming, the Company might be subject to a variety of laws and regulations domestically and abroad that involve the Internet, e-commerce, privacy and protection of data and personal information, rights of publicity, acceptable content, intellectual property, advertising, marketing, distribution, data and information security, electronic contracts and electronic communications, competition, protection of minors, consumer protection, unfair commercial practices, product liability, taxation, economic or other trade prohibitions or sanctions, securities law compliance and online payment and payment processing services. The Company may introduce new products or services, expand its activities in certain jurisdictions, or take other actions that may subject it to additional laws, regulations or other government scrutiny.

These laws, regulations and legislation, along with other applicable laws and regulations are constantly evolving and can be subject to significant change. As a result, the application, interpretation, and enforcement of these laws and regulations, including pre-existing laws regulating communications and commerce in the context of the Internet and e-commerce, are often uncertain, particularly in the new and rapidly evolving industry in which the Company operates, and may be interpreted and applied inconsistently across jurisdictions and inconsistently with its future policies and practices.

Legislators and regulators also look beyond online gaming regulations specifically to implement restrictive measures on online gaming. In certain jurisdictions, this has included restrictions on payment processing, internet blocking, account and identity verification requirements, and similar measures. Such regulations, if not appropriately mitigated, could materially adversely affect the Company's business, results of operations or financial condition. In addition, such restrictive measures may impact the ability or desire of third-party suppliers, including payment processors, to provide services to the Company globally or in certain jurisdictions. This would adversely affect the Company's financial results due to the potential need to determine whether to change suppliers, which may not be on as favorable terms, or comply with the supplier's requested restrictions.

These laws and regulations, as well as any changes to the same and any related inquiries, investigations or any other government actions, may be costly to comply with and may delay or impede new product development, result in negative publicity, increase the Company's operating costs, require significant management time and attention, and subject it to remedies that may harm its business, including fines or demands or orders that modify or cease certain or all existing business practices, such as limiting its use of personal information to add value for customers, or implement costly and burdensome compliance measures. Any such consequences could adversely affect the Company's business, results of operations or financial condition.

### *Social Responsibility Concerns*

Negative public perception and concerns with safer betting and online gaming could lead to new regulatory restrictions on the Company's current and future operations. Such restrictions on the Company's future marketing or product offerings could result in increased compliance costs and have a material adverse effect on its business, results of operations, financial condition and prospects. In addition, public scrutiny related to betting and gaming activities could negatively impact the Company's reputation and the value of its brand. This can result in a decrease in employee engagement and retention, and the willingness of future customers and the Company's partners to do business with it, which could have a materially adverse effect on its business, results of operations and cash flows.

### *Success of Esports Betting Products Not Guaranteed*

The esports betting industry is characterized by elements of chance. Accordingly, the Company employs theoretical win rates to estimate what a certain type of esports bet, on average, will win or lose in the long run. The actual win rates of esports bets may differ from the theoretical win rates that the Company has estimated and could result in the winnings of the Company's customers exceeding those anticipated. The variability of win rates (hold rates) also has the potential to negatively impact the Company's financial condition, results of operations, and cash flows.

### *Failure to Retain or Add Customers*

The Company operates in a dynamic environment characterized by rapidly changing industry and legal standards, and its products will be subject to changing consumer preferences that cannot be predicted with certainty. The Company will need to keep up with trends in the digital sports entertainment and gaming industries to continually introduce new offerings that complement its existing platforms to maintain or increase customer engagement and growth of its business. If the Company is unable to maintain or increase its customer base or engagement, or effectively monetize its customer base's use of its product offerings, its revenue and financial results may be adversely affected.

### *Intellectual Property and Risk of Infringement*

The Company's success depends on its ability to obtain trademark protection for the names or symbols under which it markets its product offerings and to obtain copyright protection of its proprietary technologies, other game innovations and creative assets. There can be no assurance that any trademark or copyright will provide competitive advantages for the Company or that its intellectual property will not be successfully challenged or circumvented by competitors. Moreover, due to the differences in foreign patent, trademark, copyright and other laws concerning proprietary rights, the Company's intellectual property may not receive the same degree of protection in each jurisdiction where it operates. The Company's failure to possess, obtain or maintain adequate protection of its intellectual property rights for any reason in these jurisdictions could allow competitors to mimic its brands, products, services and methods of operations, and have a material adverse effect on its business, results of operations and financial condition.

### *Risk of Failing to Adapt to Changing Technology and to Effectively Scale*

The Company's future success depends on its ability to adapt and enhance its suite of technology and software, such as its platforms, as well as its product offerings to meet customer needs at competitive prices. Such efforts will require adding new functionality and responding to technological advancements or disruptive technologies, which will increase the Company's research and development costs. The Company's ability to grow is also subject to the risk of future disruptive technologies. If new and/or disruptive technologies emerge that are able to deliver online betting and gaming and/or entertainment products and services at lower prices, more efficiently, more conveniently or more securely, such technologies could adversely affect the Company's ability to compete.

In addition, as the customer base and the amount and types of product offerings continue to grow and evolve, the Company needs an increasing amount of technical infrastructure, including network capacity and computing power, to continue to satisfy customers' needs. Such infrastructure expansion may be complex, and unanticipated delays in completing these projects or availability of components may lead to increased project costs, operational inefficiencies, or interruptions in the delivery or degradation of the quality of the Company's offerings. As such, the Company could fail to continue to effectively scale and grow its technical infrastructure to accommodate increased demands.

### *Reliance on technical infrastructure and third-party networks*

The Company relies on information technology and other systems and platforms to deliver its product offerings to customers. The Company has experienced, and may in the future experience, website disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, human or software errors and capacity constraints. Such disruptions have not had a material impact on the Company; however, future disruptions from unauthorized access to, fraudulent manipulation of, or tampering with the Company's computer systems and technological infrastructure, or those of third-parties, could result in a wide range of negative outcomes, each of which could materially adversely affect the Company's business, financial condition, results of operations and prospects.

Furthermore, the delivery of the Company's offerings and a significant portion of the Company's revenues is dependent on the continued use and expansion of third-party owned communication networks, including wireless networks, the Internet and mobile operating systems. No assurance can be given as to the continued use and expansion of these networks as a medium of communications for the Company.