*The following is a management's discussion and analysis ("MD&A") of ESE Entertainment Inc. (formerly Kepler Acquisition Corp.) (the "Company"), prepared as of June 16, 2022. This MD&A should be read together with the unaudited condensed interim consolidated financial statements for the three and six months ended April 30, 2022 and related notes, which are prepared in accordance with International Financial Reporting Standards ("IFRS"). All financial amounts are stated in Canadian dollars unless otherwise indicated.*

*Certain information included in this MD&A may constitute forward-looking statements. Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements.*

*Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company may differ materially from those reflected in forward-looking statements due to a variety of risks, uncertainties and other factors. The Company's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and the Company does not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change except as required by law. For the reasons set forth above, investors should not place undue reliance on forward-looking statements. Important factors that could cause actual results to differ materially from the Company's expectations include uncertainties involved in disputes and litigation, the assumption that the Company will become fully compliant with regulatory filing and continued listing requirements, uncertainty as to timely availability of permits and other government approvals and other risks and uncertainties disclosed in other information released by the Company from time to time and filed with the appropriate regulatory agencies.*

*It is the Company's policies that all forward-looking statements are based on the Company's beliefs and assumptions which are based on information available at the time these assumptions are made. The forward-looking statements contained herein are as of the date of the MD&A and are subject to change after this date, and the Company assumes no obligation to publicly update or revise the statements to reflect new events or circumstances, except as may be required pursuant to applicable laws. Although management believes that the expectations represented by such forward-looking information or statements are reasonable, there is significant risk that the forward-looking information or statements may not be achieved, and the underlying assumptions thereto will not prove to be accurate.*

*Actual results or events could differ materially from the plans, intentions and expectations expressed or implied in any forward-looking information or statements, including the underlying assumptions thereto, as a result of numerous risks, uncertainties and other factors such as those described above and in "Risks and Uncertainties" below. The Company has no policy for updating forward looking information beyond the procedures required under applicable securities laws.*

*Additional information related to this Company is available for view on SEDAR at [www.sedar.com](http://www.sedar.com).*

## The Company's Business

ESE Entertainment Inc. (the "Company") (formerly Kepler Acquisition Corp. ("Kepler")) is the parent company of ESE Entertainment Holdings Inc. ("ESE"). The Company's principal business activity is focusing on esports, and particularly, on media rights relating to esports, physical and digital content creation and distribution of esports related content. The Company's registered office is at 6th Floor, 905 West Pender Street, Vancouver, British Columbia, V6C 1L6 and its head office is located at 1000-409 Granville Street, Vancouver, British Columbia, V6C 1T2.

On August 12, 2020, the Company completed the business combination with ESE by way of a plan of arrangement under the Business Corporations Act (British Columbia) (the "Arrangement"). Pursuant to the Arrangement, ESE was acquired by and became a wholly-owned subsidiary of Kepler for legal purposes.

Upon closing of the transaction, the shareholders of ESE had control of the Company, and as a result, the transaction is considered a reverse acquisition of Kepler by ESE. For accounting purposes, ESE is considered the acquirer and Kepler, the acquiree. Accordingly, the consolidated financial statements are a continuation of the financial statements of ESE.

On April 12, 2021, the Company acquired 51% of the business of World Phoning Group Inc, Encore Telecom Inc., and their two European operating subsidiaries, WPG Racing Solutions and Foresight Resolution (collectively, "WPGI"). Certain assets and liabilities of WPGI were rolled into a newly incorporated Canadian company, World Performance Group Ltd. ("WPG"), and, pursuant to a share purchase agreement dated February 15, 2021, the Company acquired 51% of the issued and outstanding shares of WPG.

On September 15, 2021, the Company acquired 100% of the issued and outstanding shares of Auto Simulation Limited trading as Digital Motorsports ("Digital Motorsports").

On November 12, 2021, the Company acquired 100% of the issued and outstanding shares of Frenzy sp. Z.o.o ("Frenzy").

On February 1, 2022, the Company acquired 100% of the issued and outstanding shares of 9327-7358 Quebec Inc. DBA GameAddik ("GameAddik).

On June 6, 2022, the Company began trading on the OTCQX Best Market under the ticket symbol of "ENTEF".

*Description of the Business*

ESE is an entertainment and technology company focused on gaming, particularly on esports. ESE consists of multiple assets and world-class operators in the gaming and esports industries. Capabilities include physical infrastructure, broadcasting, global distribution for gaming and esports-related content, advertising, a simulation racing business unit, and a growing esports team franchise, K1CK Esports. The Company intends to consolidate the fragmented gaming industry by bridging Europe and the rest of the world. The Company operates across the gaming and media production value chain, cultivating, producing and facilitating in the process of media content creation. The Company's revenue streams include media rights, sponsorships and advertising, events and merchandise, and competition earnings.

In addition to these four original sources of revenue, through the Company's acquisition of WPG, Digital Motorsports, Frenzy and GameAddik, the Company has expanded into the following business lines: fan engagement, telecom infrastructure and advanced simulation racing infrastructure, technology, and support.

WPG is a Canadian and European based infrastructure business for management of fan engagement for OTT & esports. WPG works with its customers to build new and improved business-to-consumer & business-to business processes that align with the customer's brand, boost retention, enhance off-site fan interaction, and improve ROI. WPG provides bespoke, omni-channel solutions, that encompass traditional channels (voice, chat, email), social media channels (Twitter, Facebook) and embrace new community channels (Discord, Reddit, etc.), used by millennials and many younger fans.

Digital Motorsports is one of the leading simulation racing solutions providers in Europe, specializing in building bespoke simulators and offering turnkey simulator packages. Digital Motorsports has key vendor distribution rights and partnerships in the industry.

Frenzy is an European-based media and product infrastructure company focused on the video game industry, which creates and executes esports and gaming events, broadcasts, and media content.

GameAddik is a Canadian-based technology company focused on gaming and esports, bringing a new revenue channel of video-game advertising to the Company's service offerings.

The Company is building extensive partnerships to add value and streamline growth in multiple areas. Current partners include Riot Games, one of the largest video game developers in the world, Nuvei, one of the largest payment processing companies in the world, Corsair Gaming Inc., a top video game hardware and peripherals company, and more.

*Esports Professional Teams*

ESE operates professional esports teams under the wholly-owned esports brand K1CK. It operates in multiple high profile games including League of Legends, Apex Legends, and FIFA 20. The Company currently has three active teams consisting of professional esports players supported by experienced coaches to compete on the world stage with other international teams alongside Vodafone Giants, FC Schalke 04 Esports, Movistar Riders Esports, Fnatic, and more, for competition prize winnings.

The Company collaborates with Kinguin, a global digital alternative marketplace for games, to provide a state-of-the-art training facility that includes rooms and sleeping quarters for players, teams and coaches, and facilities including a weight room and several gaming and broadcasting rooms.

*Simulation racing and Digital Motorsport Solutions*

ESE operates a business unit for simulation racing and digital motorsports. Key services include 3D laser scanning of the facility and the adjacent area, aerial photography, preparation of documentation with architectural standards, creation of multimedia animations (virtual tour), development of 3D models for the game Assetto Corsa or Factor 2, creating promotional video clips, and creating a model for virtual reality presentations.

ESE takes geodetic measurements of race tracks and creates photographic documentation. ESE also creates cars on the basis of real models by taking measurements, collecting detailed technical data, recording sounds and then programming the appropriate driving physics for the selected model. The inventory is made using some of the most accurate 3D laser scanning methods available today.

*Ecommerce*

ESE operates a business unit for ecommerce. This business unit owns and develops ecommerce platforms in order to sell products to customers globally. The platforms are primarily through online ecommerce websites, where customers can purchase goods directly. The primary platforms available include digital-motorsports.com, an online store focused on simulation racing equipment and hardware, and K1CK.com, which sells branded esports and gaming merchandise.

*Digital Events*

ESE has both digital and physical infrastructure to organize events, competitions, tournaments, leagues and more for the gaming industry. For example, Rocketmania is a premier league competition based on the game Rocket League (owned by Psyonix and Epic Games). This event is hosted in Europe by the Company, and invites the best teams covering Poland, Hungary, Czech and Slovakia.

The Company also has the business relationships to host esports events at state-of-the-art arenas in Europe.

Future events will obtain sponsorships which will be recognized as additional revenue streams. Previous sponsors include major brands like Redbull and Corsair Gaming.

The events will generate ticketing sales from customers purchasing to attend either digitally or in person. Ticketing mechanics are powered by business partner eBilet, a leader of online ticket sales in the cultural and entertainment industry in Europe, or other available ticket providers.

*Esports Events Broadcasting*

ESE provides viewers and fans the ability to stream content hosted by the Company and other event organizers on multiple media outlets. To do so, license to broadcast is required to be purchased from the game publisher such as Riot Games, Activision Blizzard, EA, and more. Competitions will be broadcasted on third party media outlets including Twitch and Youtube that allows revenue generated by sponsors and/or the fans and viewers, on a subscription or one-time basis.

The Company will continue to feature events and gaming related content to be broadcasted on television network operated and owned by Polsat Group, the largest television channels offering based in Poland.

*Brand Ambassador*

ESE provides sponsorship to individuals with strong fan bases on social media as part of revenue generation and additional marketing initiatives. The Company has currently engaged individuals with sponsorships and is actively building out its influencer, celebrity, and professional athlete roster.

*Esports and Gaming Infrastructure*

Through its 51% ownership of WPG, the Company is an enhanced solutions provider operating an infrastructure business for management of fan engagement for OTT & esports. WPG works with its customers to build new and improved B2C & B2B processes that align with the customer's brand, boost retention, enhance fan interaction, improve ROI, and increase sales and profit margins. WPG provides bespoke, omni-channel solutions that encompass the traditional esports channels (voice, chat, email) and embrace new contact channels (Discord, Reddit, etc.) and social media used by millennials and many of today's younger fans. WPG also offers robust out-sourced network services, including B2B and B2C services, and operates a global telecom network.

*Infrastructure, technology, and support*

The Company further provides infrastructure, technology, and support in gaming to clients through its subsidiaries. The Company has a portfolio of intellectual property related to racing simulator solutions, components, and is developing cloud-based racing services. Additionally, the Company is developing both products and technology to reduce the complexity and barriers to entry in gaming.

**Acquisition of WPG**

On April 12, 2021, the Company acquired 51% of the issued and outstanding shares of WPG. The acquisition of WPG was an important step to build infrastructure, as customer service is expected to be an important part of gaming and esports moving forward. WPG has the framework that can support esports and gaming events in the future. The purchase price consisted of (i) $10,000 refundable deposit (paid), (ii) $128,019 in cash on closing of the transaction (the "Closing") (paid), and (iii) issuance of 585,156 common shares of the Company. The Company is also required to (i) issue 6,664,845 common shares (the "Deferred Compensation Shares"), vesting over three years, and (ii) advance $750,000 to WPG (the "Working Capital Amount"). The Deferred Compensation Shares are considered a post- combination expense. Pursuant to the agreement, WPG is not required to repay or reimburse the Company all or any portion of the Working Capital Amount.

The transaction was accounted for as a business combination, as the operations of WPG meet the definition of a business. As the transaction was accounted for as a business combination, transaction costs were expensed.

The fair value of the 585,156 common shares issued ($1,345,858) was determined based on the share price of the Company on the date of acquisition. The consideration was allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The purchase price was allocated as follows:

| | | |
|---|---|---|
| Cash | $ | 128,019 |
| 585,156 common shares of the Company | | 1,345,858 |
| Fair value of consideration | | 1,473,877 |
| Allocated to the fair value of net assets acquired (liabilities assumed): | | |
| Cash | | 69,823 |
| Receivables | | 501,275 |
| Prepaid expenses | | 34,593 |
| Equipment and right-of-use asset | | 136,239 |
| Accounts payable and accrued liabilities | | (437,125) |
| Lease Liabilities | | (104,693) |
| Income tax payable | | (5,059) |
| Funds from the Company prior to the acquisition | | (290,000) |
| Loans and credit facilities | | (509,086) |
| Deferred revenue | | (54,325) |
| Total net liabilities assumed | | (658,358) |
| Non-Controlling interest | | (1,416,078) |
| Unallocated purchase price | $ | 3,548,313 |

The Company relied on the work of third-party valuation specialists and the initial assessment did not support the recognition of intangible assets that would meet the recognition criteria under IAS 38. Therefore the unallocated purchase price of $3,548,313 has been recorded as an impairment loss during the year ended October 31, 2021. The Company also issued 434,999 common shares to consultants for a total value of $1,000,498 for providing M&A advisory services in connection with the acquisition of WPG.

The Company has the option to acquire the remaining 49% of the issued and outstanding shares of WPG (the "Minority Interest") at any time within 34 months following the closing by: (i) paying $624,613 in cash; and (ii) issuing 2,500,000 common shares. World Phoning Group Inc. and Encore Telecom Inc. also have the right to sell the Minority Interest to the Company at any time within 34 months following the closing upon the occurrence of a change of control event in exchange for the Company: (i) paying $780,767 in cash; and (ii) issuing 3,125,000 common shares.

The operating results for WPG have been recognized in the consolidated statement of loss and comprehensive loss beginning on April 12, 2021, the effective date of obtaining control. During the three and six months ended April 30, 2022 the Company recorded revenues of $5,761,743 and $11,023,856 and net income of $206,399 and $109,595 related to WPG.

**<u>Acquisition of Digital Motorsports</u>**

On September 15, 2021, the Company acquired 100% of the issued and outstanding shares of Digital Motorsports. The acquisition is intended to build on ESE's position in the sim racing market, and bring it one step closer to becoming a significant gaming and esports company. The purchase price consisted of (i) $1,681,250 in cash on closing of the transaction (the "Closing") (paid), (ii) issuance of 941,500 common shares of the Company, and (iii) up to 8,473,500 contingent earn-out common shares (the "DMS Contingent Shares") to be issued in six equal installments, with the first installment being issued on October 14, 2021, subject to DMS generating revenue (as defined) greater than €2,587,005 for the prior four quarters, assessed every six months between Closing and January 1, 2027. The Company will also advance €250,000 to Digital Motorsports (the "DMS Working Capital Amount"). Pursuant to the agreement, Digital Motorsports is not required to repay or reimburse the Company all or any portion of the DMS Working Capital Amount.

The transaction was accounted for as a business combination, as the operations of Digital Motorsports meet the definition of a business. As the transaction was accounted for as a business combination, transaction costs were expensed. The goodwill resulting from the allocation of the purchase price to the total fair value of net assets will represent the sales and growth potential of Digital Motorsports.

The fair value of the consideration transferred was determined on a preliminary basis. The fair value of the 941,500 common shares issued ($950,915) was determined based on the share price of the Company on the date of acquisition. For the DMS Contingent Shares, the Company is evaluating several valuation models which will best incorporate the probability of whether, and when, the revenue threshold would be met, amongst other variability in the outcomes. Due to the timing of the transaction and the complexity of the contingent arrangement, the estimated fair value of the 8,473,500 DMS Contingent Shares ($6,182,127) was determined on a preliminary basis based on the share price of the Company on the date of acquisition adjusted using the average strike put-option model to account for the timing of the future share issuances. The fair value of the consideration will be revised by the Company once it has finalized the appropriate valuation model for the contingent consideration.

The consideration was allocated to the assets acquired and liabilities assumed on a preliminary basis based on their estimated fair values at the date of acquisition. Due to the timing of the acquisition, the Company will require additional information to determine the final fair value of consideration and to allocate the fair values to the net assets (liabilities) acquired, particularly to any intangibles and goodwill acquired. The determination of the fair value of the net assets (liabilities) will be revised by the Company as additional information is received. The purchase price was allocated as follows:

| | | |
|---|---|---|
| Cash | $ | 1,681,250 |
| 941,500 common shares of the Company | | 950,915 |
| 8,473,500 contingent earn-out common shares of the Company to be issued | | 6,182,127 |
| Fair value of consideration | | 8,814,292 |
| Allocated to the fair value of net assets acquired | | |
| Cash | | 138,761 |
| Receivables | | 79,812 |
| Prepaid expenses | | 325,315 |
| Inventory | | 235,736 |
| Equipment and right-of-use asset | | 235,303 |
| Accounts payable and accrued liabilities | | (607,336) |
| Shareholder loans | | (112,088) |
| Deferred revenue | | (98,555) |
| Lease Liabilities | | (119,724) |
| Income tax payable | | (24,694) |
| Total net assets acquired | | 52,530 |
| Unallocated purchase price | $ | 8,761,762 |

The Company also issued 470,750 common shares to consultants for a total value of $475,458 and paid cash of $84,062 for providing M&A advisory services in connection with the acquisition of Digital Motorsports. The Company also paid $109,905 in stamp taxes on Closing.

The operating results for Digital Motorsports have been recognized in the consolidated statement of loss and comprehensive loss beginning on September 15, 2021, the effective date of obtaining control. During the three and six months ended April 30, 2022, the Company recorded revenues of $1,275,275 and $2,959,237 and net (loss) income of $10,148 and ($44,943) related to Digital Motorsports.

**Acquisition of Frenzy**

On November 12, 2021, the Company completed the acquisition of 100% of the issued and outstanding shares of Frenzy, a European esports media and technology company. The acquisition of Frenzy is a key addition to ESE's ability to produce, host, and execute esports and gaming events and content. The acquisition included key equipment, operators, and distribution channels that allow ESE to expand its service offerings and capacity for new media business.

The purchase price consisted of (i) $1,484,665 in cash paid on the closing of the transaction which includes a working capital adjustment; (ii) $1,183,123 in cash payable six months following closing; (iii) 656,606 common shares of the Company issued on closing; and (iv) up to 1,363,720 common shares (the "Frenzy Earn Out Shares") to be issued in four equal installments, subject to Frenzy generating revenue (as defined) greater than PLN7,460,950 for the prior four quarters, assessed every six months following closing. The Company has also agreed to discharge a loan owed by Frenzy in the amount of $118,754 concurrently with closing.

The transaction was accounted for as a business combination, as the operations of Frenzy meet the definition of a business. As the transaction was accounted for as a business combination, transaction costs were expensed. The goodwill resulting from the allocation of the purchase price to the total fair value of net liabilities will represent the sales and growth potential of Frenzy.

The fair value of the consideration transferred was determined on a preliminary basis. The fair value of the 656,606 common shares issued ($866,720) was determined based on the share price of the Company on the date of acquisition. For the Frenzy Earn Out Shares, the Company is evaluating several valuation models which will best incorporate the probability of whether, and when, the revenue threshold would be met, amongst other variability in the outcomes. Due to the timing of the transaction and the complexity of the contingent arrangement, the estimated fair value of the 1,363,720 Frenzy Earn Out Shares ($1,314,136) was determined on a preliminary basis based on the share price of the Company on the date of acquisition adjusted using the average strike put-option model to account for the timing of the future share issuances. The fair value of the consideration will be revised by the Company once it has finalized the appropriate valuation model for the contingent consideration.

The consideration was allocated to the assets acquired and liabilities assumed on a preliminary basis based on their estimated fair values at the date of acquisition. Due to the timing of the acquisition, the Company will require additional information to determine the final fair value of consideration and to allocate the fair values to the net assets (liabilities) acquired, particularly to any intangibles and goodwill acquired. The determination of the fair value of the net assets (liabilities) will be revised by the Company as additional information is received. The purchase price was allocated as follows:

| | | |
|---|---|---|
| Cash | $ | 1,603,419 |
| Deferred cash payment | | 1,183,123 |
| 656,606 common shares of the Company | | 866,720 |
| 1,363,720 Frenzy Earn Out Shares of the Company to be issued | | 1,314,136 |
| Fair value of consideration | | 4,967,398 |
| Allocated to the fair value of net assets acquired (liabilities assumed): | | |
| Cash | | 109,054 |
| Receivables | | 718,480 |
| Equipment | | 256,433 |
| Intangibles | | 1,033 |
| Investment | | 373 |
| Other non-current assets | | 932 |
| Accounts payable and accrued liabilities | | (444,408) |
| Loans and borrowings | | (583,718) |
| Income tax payable | | (107,018) |
| Total net liabilities assumed | | (48,839) |
| Unallocated purchase price | $ | 5,016,237 |

The Company also issued 101,016 common shares to consultants for a total value of $133,341 and paid cash of $124,250 for providing advisory services in connection with the acquisition of Frenzy. These amounts have been recorded as finder's fees in the interim consolidated statement of loss.

The operating results for Frenzy have been recognized in the condensed interim consolidated statement of loss and comprehensive loss beginning on November 12, 2021, the effective date of obtaining control. For the three months ended April 30, 2022 and from the acquisition date of November 12, 2021 to April 30, 2022, the Company recorded revenues of $668,255 and $1,305,079 and net loss of $161,942 and $313,331 related to Frenzy. Had Frenzy been acquired as at November 1, 2021, the revenue of the Company would have been $23,173,297, and the net loss of the combined entity would have been $3,648,594.

**Acquisition of GameAddik**

On February 2, 2022, the Company completed the acquisition of 100% of the issued and outstanding shares of GameAddik, a Canadian technology company focused on gaming and esports. The acquisition of GameAddik allows ESE to bring a new revenue channel of video game advertising to expand its service offerings.

The purchase price consisted of: (i) $2,061,000 in cash to be paid on closing or within 5 days of closing (paid); (ii) $2,751,000 in cash to be paid 6 months from closing, subject to adjustment based on the working capital of GameAddik on closing; and (iii) 7,377,143 common shares of ESE (the "Consideration Shares") (issued). The Company will have the right to repurchase 5,848,163 of the Consideration Shares for nominal consideration if revenues of GameAddik do not reach $5,000,000 for 2022 and $6,500,000 for the 2023 and 2024 fiscal years.

The transaction was accounted for as a business combination, as the operations of GameAddik meet the definition of a business. As the transaction was accounted for as a business combination, transaction costs were expensed. The goodwill resulting from the allocation of the purchase price to the total fair value of net liabilities will represent the sales and growth potential of GameAddik.

The fair value of the consideration transferred was determined on a preliminary basis. The fair value of the 7,377,143 common shares issued ($10,180,457) was determined based on the share price of the Company on the date of acquisition. For the right to repurchase Consideration Shares, the Company is evaluating several valuation models which will best incorporate the probability of whether, and when, the revenue threshold would be met, amongst other variability in the outcomes. The fair value of the consideration will be revised by the Company once it has finalized the appropriate valuation model for the Consideration Shares.

The consideration was allocated to the assets acquired and liabilities assumed on a preliminary basis based on their estimated fair values at the date of acquisition. Due to the timing of the acquisition, the Company will require additional information to determine the final fair value of consideration and to allocate the fair values to the net assets (liabilities) acquired, particularly to any intangibles and goodwill acquired. The determination of the fair value of the net assets (liabilities) will be revised by the Company as additional information is received. The purchase price was allocated as follows:

| | | |
|---|---|---|
| Cash | $ | 2,061,000 |
| Deferred cash payment | | 2,751,000 |
| 7,377,143 common shares of the Company | | 10,180,457 |
| Fair value of consideration | | 14,992,457 |
| Allocated to the fair value of net assets acquired (liabilities assumed): | | |
| Cash | | 123,895 |
| Receivables | | 3,644,932 |
| Prepaid expenses and deposits | | 24,649 |
| Equipment | | 583,240 |
| Investment | | 428,467 |
| Other non-current assets | | 49,996 |
| Accounts payable and accrued liabilities | | (1,074,174) |
| Total net assets acquired | | 3,781,005 |
| Unallocated purchase price | $ | 11,211,452 |

The Company also issued 368,858 common shares to consultants for a total value of $509,024 and paid cash of $240,600 for providing advisory services in connection with the acquisition of GameAddik. These amounts have been recorded as finder's fees in the interim consolidated statement of loss.

The operating results for GameAddik have been recognized in the condensed interim consolidated statement of loss and comprehensive loss beginning on February 1, 2022, the effective date of obtaining control. From the acquisition date of February 1, 2022 to April 30, 2022, the Company recorded revenues of $7,162,049 and net income of $1,367,554 related to GameAddik.

## Selected Quarterly Financial Information

The table below sets out certain selected financial information regarding the operations of the Company for the periods indicated. The selected financial information has been prepared in accordance with IFRS and should be read in conjunction with the Company's consolidated financial statements and related notes.

A summary of results for the last eight quarters ending with the most recently completed quarter, being April 30, 2022.

| | April 30, 2022 Qtr 2 | January 31, 2022 Qtr 1 | October 31, 2021 Qtr 4 | July 31, 2021 Qtr 3 |
|---|---|---|---|---|
| | | | | |
| Revenue | $ 15,002,676 | $ 8,025,694 | $ 6,240,948 | $ 4,234,984 |
| Net loss | $ (2,014,133) | $ (1,706,057) | $ (12,433,353) | $ (1,255,843) |
| Comprehensive loss | $ (2,117,228) | $ (1,507,597) | $ (12,530,789) | $ (1,258,610) |
| Loss per share | $ (0.03) | $ (0.03) | $ (0.24) | $ (0.03) |

| | April 30, 2021 Qtr 2 | January 31, 2021 Qtr 1 | October 31, 2020 Qtr 4 | July 31, 2020 Qtr 3 |
|---|---|---|---|---|
| | | | | |
| Revenue | $ 716,293 | $ 192,506 | $ 200,152 | $ 138,035 |
| Net loss | $ (3,814,622) | $ (1,160,094) | $ (2,754,294) | $ (516,928) |
| Comprehensive loss | $ (3,816,979) | $ (1,170,646) | $ (2,721,659) | $ (547,102) |
| Loss per share | $ (0.10) | $ (0.03) | $ (0.07) | $ (0.02) |

During the quarter ended July 31, 2020, the Company recorded a net loss of $516,928 as compared to the previous quarter of $392,121, an increase of approximately $200,000. The increase can be attributed to the Company engaging numerous consultants for business developments. During the quarter ended October 31, 2020, the Company recorded a net loss of $2,754,294 as compared to the previous quarter of $516,928, an increase of approximately $2,237,000 which can be mainly attributed to the recording of $1,600,287 in listing costs and share-based payments of $150,651. During the quarter ended January 31, 2021, the Company recorded a net loss of $1,160,094 as compared to the previous quarter of $2,754,294, a decrease of approximately $1,600,000, mainly attributed a reduction in listing costs from $1,600,287 to $nil, a reduction in consulting fees from $725,166 to $493,668, offset by the recording of the impairment of K1CK assets of $207,500 in the period. During the quarter ended April 30, 2021, the Company recorded a net loss of $3,814,622 as compared to the previous quarter of $1,160,094. The increase of $2,654,528 is primarily attributable to an increase in share-based payments and the finders shares issued for the WPG acquisition. During the quarter ended July 31, 2021, the Company recorded a net loss of $1,255,843 as compared to the previous quarter of $3,814,622. The decrease of $2,558,779 is primarily attributable to a decrease in share-based payments and the WPG acquisition finders shares. During the quarter ended October 31, 2021, the Company recorded a net loss of $12,433,353 as compared to the previous quarter of $1,255,843. The increase of $11,177,510 is primarily attributable to the impairment of the WPG assets, an increase in share-based payments and finders shares issued for the acquisition of Digital Motorsports. During the quarter ended January 31, 2022, the Company recorded a net loss of $1,706,057 as compared to the previous quarter of $12,433,343. The decrease of $10,727,286 is attributable to no impairment loss being recorded, and a decrease in share-based payments. During the quarter ended April 30, 2022, the Company recorded a net loss of $2,014,133 as compared to the previous quarter of $1,706,057. The increase of $308,076 is attributable to an increase in share-based payments and finder's fees paid for the acquisition of GameAddik offset by an increase in gross profit attributable to the operating results of GameAddik.

## Results of Operations

*During the three months ended April 30, 2022:*

During the three months ended April 30, 2022, the Company recorded a net loss of $2,014,133 as compared to $3,814,622 for the three months ended April 30, 2021. Included in the current net loss was share based payments of $1,629,218, wages and benefits of $1,025,802, finders' fees of $749,624 and office and miscellaneous expenditures of $708,155.

During the three months ended April 30, 2022, the Company recorded revenues of $15,002,676 as compared to $716,293 during the three months ended April 30, 2021. The increase can be attributed to the sponsorship agreements and contract revenue earned in the period and the acquisitions of WPG, Digital Motorsports, Frenzy and GameAddik.

Total expenses for the three months ended April 30, 2022 amounted to $5,474,132 as compared to $3,974,693 for the three months ended April 30, 2021, an increase of approximately $1,500,000. The three months ended April 30, 2021 did not have much expenditures as the Company did not acquire WPG and Digital Motorsports until later in fiscal year 2021.

The increase in expenses can be attributed to the following:

Cost of sales have increased from $582,012 to $11,177,780 in the current period due to the acquisitions of WPG, Digital Motorsports, Frenzy and GameAddik.

Advertising and event planning have increased from $160,524 to $291,682 in the current period due to an increase in the operations of the Company and the number of events the Company participated in.

Office and miscellaneous have increased from $27,802 to $705,155 in the current period due to an increase in the operations of the Company.

Finders fees have decreased from $1,000,498 to $749,624 in the current period due to the acquisition of WPG during the three months ended April 30, 2021 and GameAddik during the three months ended April 30, 2022.

Professional fees have increased from $179,752 to $504,062 in the current period which can be attributed to the costs associated with running a public company, including payments made for legal and accounting overhead.

Share-based payments have decreased from $1,981,730 to $1,629,218 in the current period. During the period, the Company recognized share-based payments due to the vesting of stock options granted in prior periods. Share-based payments is a non-cash transaction.

Wages and benefits have increased from $46,508 to $1,025,802 in the current period. The increase in wages and benefits is due to the increase in operations of the Company due to the acquisitions of WPG, Digital Motorsports, Frenzy and GameAddik.

*During the six months ended April 30, 2022:*

During the six months ended April 30, 2022, the Company recorded a net loss of $3,720,190 as compared to $4,974,716 for the previous period ended April 30, 2021. Included in the current net loss was share based payments of $2,155,419, finder's fees of $1,007,215, wages and benefits of $1,187,538 and office and miscellaneous expenditures of $1,141,593.

Total expenses for April 30, 2022 amounted to $8,555,582 as compared to $5,131,274 for the previous period, an increase of approximately $3,400,000. The six months ended April 30, 2021 did not have much expenditures as the Company did not acquire WPG and Digital Motorsports until later in fiscal year 2021.

The increase in expenses can be attributed to the following:

Cost of sales have increased from $582,012 to $17,791,750 in the current period due to the acquisitions of WPG, Digital Motorsports, Frenzy and GameAddik.

Advertising and event planning have increased from $307,053 to $1,017,633 in the current period due to an increase in the operations of the Company and the number of events the Company participated.

Professional fees have increased from $260,836 to $674,717 in the current period which can be attributed to the cost associated with running a public company, including payments made for legal and accounting overhead.

Wages and benefits have increased from $125,053 to $1,187,538 in the current period. The increase in wages and benefits is due to the increase in operations of the Company due to the acquisitions of WPG, Digital Motorsports, Frenzy and GameAddik.

During the period the Company recorded revenues of $23,028,370 as compared to $908,799 during the period ended April 2021. The increase can be attributed to the sponsorship agreements and contract revenue earned in the period and the acquisitions of WPG, Digital Motorsports, Frenzy and GameAddik.

**Liquidity and Capital Resources**

The Company's cash position as at April 30, 2022 was $2,498,993 (October 31, 2021 - $4,825,072) with a working capital of $2,684,313 (October 31, 2021 - $5,271,636). Total assets as at April 30, 2022 were $38,056,983 (October 31, 2021 - $15,944,361).

The Company believes that the current capital resources are sufficient to pay overhead expenses for the next twelve months. However, the Company is planning for future opportunities and the need for more capital. The Company will continue to monitor the current economic and financial market conditions and evaluate their impact on the Company's liquidity and future prospects.

Since the Company may not be able to generate enough cash from its operations in the foreseeable future, the Company may have to rely on loans from external or related parties and the issuance of shares, to fund ongoing operations and investment. The ability of the Company to raise capital will depend on market conditions and it may not be possible for the Company to issue shares on acceptable terms or at all.

On October 7, 2019, the Company obtained a credit facility of $50,000 which bears interest at prime rate plus 3% which is secured by the CEO of the Company. As at January 31, 2022, the Company has not utilized any of the credit facility.

During the year ended October 31, 2021, WPG obtained a revolving demand credit facility of $400,000 which bears interest at Royal Bank Prime plus 2% for loans made in Canadian currency, and at Royal Bank US Base Rate plus 2% for loans made in US Currency. The facility is secured by a general security agreement in all personal property of WPG, a first ranking security interest in all accounts receivable of WPG, and a guarantee and postponement of claim in the amount of $300,000 signed by the Company. As at April 30, 2022, the amount drawn from the credit facility is $Nil.

On December 24, 2020, the Company completed a non-brokered private placement of 3,315,482 units at a price of $1.10 per unit for total proceeds of $3,647,030. Each unit consisted of one common share and one-half of one common share purchase warrant, each whole warrant is exercisable into one common share of the Company at a price of $1.50 per share expiring two years from closing. In connection with the private placement, the Company paid cash finders' fees of $204,983 and issued 180,346 finders' warrants. Each finders' warrants is exercisable at $1.10 per share expiring two years from closing.

On July 19, 2021, the company completed a bought deal public offering of 6,164,000 units a price of $1.40 per unit for total proceeds of $8,629,600. Each unit consisted of one common share and one common share purchase warrant. Each common share purchase warrant is exercisable to acquire one common share at a price of $1.95 at any time before July 19, 2023. All of the proceeds were allocated to share capital. In connection with the bought deal public offering, the Company paid cash financing fees of $758,645 and issued 431,480 Agents' warrants units. Each Agents' warrant unit is exercisable at $1.40 per unit expiring two years from closing. Each Agents' warrant unit consists of one common share and one Agents' warrant, with each Agents' warrant being exercisable to acquire one common share at a price of $1.95 at any time before July 19, 2023. Additionally, the company issued 154,100 units to the lead underwriter as a corporate finance fee. The Company recognized additions to share capital and recorded share issuance costs of $215,740.

On February 16, 2022, the Company raised gross proceeds of $1,575,000 through the issuance of 1,575 convertible note units at a price of $1,000 per unit. Each unit consists of $1,000 in principal amount of an unsecured convertible note and 250 common share purchase warrants of the Company. The convertible note will mature on February 16, 2024 and bears interest at a simple rate of 10% per annum. Interest is payable quarterly on the last business day of each quarter, commencing on March 31, 2022. The entire principal amount of the convertible note may be converted at the election of the holder into common shares of the Company at a conversion price of $1.60 per common share at any time prior to the maturity date. The accrued but unpaid interest may also be converted into common shares at a conversion price equal to the greater of (i) $1.60 and (ii) the market price of the Company's common shares on the conversion date. Each warrant is exercisable into one common share of the Company at a price of $1.60 per share expiring two years from closing. The Company paid cash finders' fees of $37,560 and issued 23,100 Agents' warrants. Each Agents' warrant is exercisable at $1.60 per share expiring two years from closing.

On April 8, 2022, April 14, 2022 and April 21, 2022, the Company raised gross proceeds of $1,680,000 through the issuance of 1,680 convertible note units at a price of $1,000 per unit. Each unit consists of $1,000 in principal amount of an unsecured convertible note and 313 common share purchase warrants of the Company. The convertible note will mature on April 7, 2024, April 13, 2022 and April 20, 2022, respectively, and bears interest at a simple rate of 10% per annum. Interest is payable quarterly on the last business day of each quarter, commencing on June 30, 2022. The entire principal amount of the convertible note may be converted at the election of the holder into common shares of the Company at a conversion price of $1.60 per common share at any time prior to the maturity date. The accrued but unpaid interest may also be converted into common shares at a conversion price equal to the greater of (i) $1.60 and (ii) the market price of the Company's common shares on the conversion date. The Company paid cash finders' fees of $117,530 and issued 73,457 Agents' warrants. Each Agents' warrant is exercisable at $1.60 per share expiring two years from closing.

During the six months ended April 30, 2022, 382,500 stock options were exercised for total proceeds of $153,750.

During the six months ended April 30, 2022, 2,038 agent's warrants were exercised for total proceeds of $2,242.

**Other share issuances not disclosed above**

On February 1, 2021, the Company issued 350,000 common shares at a deemed price of $0.25 per share to the owner of K1CK Esports Club in exchange for certain assets.

On April 12, 2021, the Company acquired 51% of WPG by issuing 585,156 common shares to WPGI for a total fair value of $1,345,858.

On April 12, 2021 the Company issued the Deferred Compensation Shares to WPGI with a fair value of $2.30, determined based on the share price on the issuance date. The Deferred Compensation Shares are subject to a Reverse Vesting Agreement under which the Company has the right, following the occurrence of the triggering event to repurchase at a nominal price all Deferred Compensation Shares that have not been released from the Repurchase Right at the time of the occurrence of the triggering event. The Deferred Compensation Shares will be released from the Repurchase Right in 35 equal tranches of 185,134 common shares followed by a final release of 185,155 common shares. The first tranche was released from the Repurchase Right on May 12, 2021, and each subsequent tranche will be released from the Repurchase Right at the end of each month thereafter with the final release occurring on April 12, 2024. The following events are considered a triggering event under the Reverse Vesting Agreement if they occur prior to April 12, 2024: i) if Wayne Silver voluntarily resigns as an officer and employee of WPG, ii) if Wayne Silver otherwise voluntarily ceases providing services to WPG for reasons other than death, illness or disability or iii) if Wayne Silver is terminated for reasons of wilful misconduct or fraud, pursuant to the terms of the share purchase agreement dated February 15, 2021. During the year ended October 31, 2021 the fair value of the shares is $7,222,025. The fair value was determined based on the share price of the Company on the date of issuance adjusted for the reverse vesting terms.

On September 14, 2021, the 200,000 common shares that represent the commitment to issue shares recorded as at October 31, 2020 were issued.

On September 15, 2021, the Company acquired 100% of Digital Motorsports by issuing 941,500 common shares for a fair value of $950,915 and by committing to issue up to 8,473,500 common shares (the "DMS Contingent Shares") to former shareholders of Digital Motorsports for a fair value of $6,182,127.

1,412,250 DMS Contingent Shares were issued in October 2021.

On November 12, 2021, the Company acquired 100% of Frenzy by issuing 656,606 common shares for a fair value of $866,720 and by committing to issue up to 1,363,720 Frenzy Earn Out Shares for a fair value of $1,314,136. The Company also issued 101,016 common shares to consultants for a total value of $133,341 and paid cash of $124,250 for providing advisory services in connection with the acquisition of Frenzy.

On February 1, 2022, the Company acquired 100% of GameAddik by issuing 7,377,143 common shares for a fair value of $10,180,457. The Company also issued 368,858 common shares to consultants for a total value of $509,024 and paid cash of $240,600 for providing advisory services in connection with the acquisition of GameAddik.

1,412,250 DMS Contingent Shares were issued in February 2022.

The Company manages its capital structure in order to ensure sufficient resources are available to meet operational requirements and safeguard its ability to continue as a going concern. There are no externally imposed capital requirements on the Company. Management considers the items included in shareholders' equity and working capital as capital. The Company manages the capital structure and makes adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets. The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund the operation of the Company. To secure the additional capital necessary to pursue these plans, the Company intends to raise additional funds through equity or debt financing.

## Going Concern

The condensed interim consolidated financial statements for three months ended January 31, 2022 have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company was not expected to continue operations for the foreseeable future. At April 30, 2022, the Company has not achieved profitable operations, has accumulated losses of $24,976,159 (October 31, 2021 - $21,202,268) since inception and expects to incur further losses in the development of its business. The above material uncertainties cast significant doubt about the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent upon successful results from its operations, its ability to attain profitable operations to generate funds, and/or its ability to raise equity capital or borrowings sufficient to meet its current and future obligations. Although the Company has been successful in the past in raising funds to continue operations, there is no assurance it will be able to do so in the future.

In March 2020, there was a global pandemic outbreak of COVID-19. The actual and threatened spread of the virus globally has had a material adverse effect on the global economy and, specifically, the regional economies in which the Company operates. The Company's business financial condition and results of operations may be further negatively affected by economic and other consequences from Russia's military action against Ukraine and the sanctions imposed in response to that action in late February 2022. While the Company expects any direct impacts of the pandemic and the conflict in the Ukraine to the business to be limited, the indirect impacts on the economy could negatively affect the business and may make it more difficult for it to raise equity or debt financing. There can be no assurance that the Company will not be impacted by adverse consequences that may be brought about on its business, results of operations, financial position and cash flows in the future.

## Off Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

## Financial Instruments

The Company's risk exposures and the impact on the Company's consolidated financial statements are summarized below.

*Credit risk*

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and trade accounts receivable. The Company limits its exposure to credit loss by placing its cash with major financial institutions. Receivable balances are monitored on an ongoing basis. The Company applied the simplified model and determined the lifetime expected credit losses as at April 30, 2022 was $Nil (October 31, 2021 – $Nil). While the Company is exposed to credit losses due to the non-performance of its counterparties, there are no significant concentrations of credit risk, and as such Management does not consider this to be a material risk.

*Interest rate risk*

The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to floating rate of interest. The Company pays interest on its convertible notes at a fixed rate of 10% per annum. The Company does not have any material variable interest rates and is not exposed to any material interest rate risk on its cash and debt instruments.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in the note.

The Company monitors its ability to meet its short-term administrative expenditures by matching investment income received to expenditures to be incurred. All of the Company's accounts payable and accrued liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms.

As at April 30, 2022, the Company had a cash balance of $2,498,993 and receivables of $7,156,762 to settle accounts payable and accrued liabilities of $3,718,751 and Frenzy acquisition payment commitment due in May 2022 of $1,183,123.

The following is a schedule of the Company's future minimum lease payments related to the premise leases obligation:

| | $ |
|---|---|
| 1 year | 171,416 |
| 2 year | 177,407 |
| 3-5 years | 130,915 |
| Total minimum lease payments | 479,738 |
| Add: net exchange difference | 1,253 |
| Less: imputed interest | (53,188) |
| Total present value of minimum lease payments | 427,803 |
| Less: Current portion | (189,068) |
| Non-current portion | 238,735 |

*Foreign currency risk*

The Company may be exposed to foreign currency risk on fluctuations related to cash, trade accounts receivable, accounts payable and accrued liabilities, loans, and lease liabilities that are denominated in a foreign currency.

As at April 30, 2022, the Company held cash denominated in Polish Zloty of PLN1,843,596 (October 31, 2021 – PLN412,886), trade accounts receivable of PLN1,238,532 (October 31, 2021 – PLN252,877) and accounts payable, accrued liabilities of PLN2,136,502 (October 31, 2021 – PLN358,885) and loans of PLN1,280,452 (October 31, 2021 – PLNNil) translated at PLN1 for every CDN$0.29. These factors expose the Company to foreign currency exchange rate risk, which could have a material adverse effect on the profitability of the Company. A 10% change in the exchange rate would change other comprehensive income/loss by approximately $9,600.

As at April 30, 2022, the Company held cash denominated in Romanian New Leu of RON10,796 (October 31, 2021 – RON 5,937), accounts receivable of RON195,406 (October 31, 2021 – RONNil) and accounts payable and accrued liabilities of RON189,895 (October 31, 2021 – RON372,892) translated at RON1 for every CDN$0.27. These factors expose the Company to foreign currency exchange rate risk, which could have a material adverse effect on the profitability of the Company. A 10% change in the exchange rate would change other comprehensive income/loss by approximately $400.

As at April 30, 2022, the Company held cash denominated in Euro of €44,145 (October 31, 2021 – €160,946), trade accounts receivable of €176,266 (October 31, 2021 - €182,046), lease liabilities of €74,058 (October 31, 2021 - €79,411) and accounts payable and accrued liabilities of €285,907 (October 31, 2021 - €176,797) translated at €1 for every CDN$1.35. These factors expose the Company to foreign currency exchange rate risk, which could have a material adverse effect on the profitability of the Company. A 10% change in the exchange rate would change other comprehensive income/loss by approximately $19,000.

As at April 30, 2022, the Company held cash denominated in US dollars of $23,402 (October 31, 2021 – $2,000), trade accounts receivable of $389,787 (October 31, 2021 - $207,152) and accounts payable and accrued liabilities of $284,070 (October 31, 2021 - $163,452) translated at $1 for every CDN$1.28. These factors expose the Company to foreign currency exchange rate risk, which could have a material adverse effect on the profitability of the Company. A 10% change in the exchange rate would change other comprehensive income/loss by approximately $10,500.

The Company currently does not plan to enter into foreign currency future contracts to mitigate this risk.

## Related Party Transactions

Related party transactions are comprised of services rendered by directors and/or officers of the Company or by a company with a director and/or officer in common. Related party transactions are in the ordinary course of business and are measured at the exchange amount.

Key Management Compensation

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and include the Company's executive officers and members of the Board of Directors. Key management compensation consisted of the following:

| | Three months ended April 30, | | Six months ended April 30, | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| Consulting fees | | | | |
| Konrad Wasiela, CEO and Director | $ - | $ - | $ - | $ 19,000 |
| Maarschalk Capital Inc., a company controlled by Ryan Maarschalk, former Director | 12,000 | 12,000 | 24,000 | 24,000 |
| Wasiela Services Ltd., a company controlled by Konrad Wasiela | 45,000 | 45,000 | 90,000 | 71,000 |
| RSJ Consulting Inc., a company controlled by Robert Kang, CFO | 12,000 | 9,000 | 24,000 | 27,000 |
| | 69,000 | 66,000 | 138,000 | 141,000 |
| Share-based payments incurred with directors and officers | 578,477 | 42,108 | 712,690 | 106,957 |
| Legal fees, included in professional fees | | | | |
| Segev LLP, of which Ron Segev, Director is a principal partner | 151,520 | 57,975 | 151,520 | 112,093 |
| | $ 798,997 | $ 166,083 | $ 1,002,210 | $ 360,050 |

Included in prepaid expenses and deposits at April 30, 2022 is $nil (October 31, 2021 - $19,950) in prepaid fees to companies with an officer or director in common. Included in accounts payable and accrued liabilities at April 30, 2022 is $96,302 (October 31, 2021 - $13,955) in unpaid legal fees and other balances owing to an officer of the company and to companies with an officer or director in common. The balance owing is unsecured, non-interest bearing and due in 30 days.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties, unless otherwise noted.

On August 11, 2020, the Company entered into an agreement with Ron Segev to be a director of the Company, and as consideration, the Company agreed to issue 200,000 common shares and granted 300,000 in stock options at a price of $0.25 per share for a period of 5 years. On August 17, 2020, the Company granted the stock options and recorded the 200,000 common shares at the fair market value of $0.25 per share for $50,000. The 200,000 shares were recorded as commitment to issue shares as at October 31, 2020 and issued on September 22, 2021.

Consulting agreements

On November 12, 2019, the Company entered into a management consulting agreement with Konrad Wasiela for the position of CEO for a period of one year at a monthly rate of $9,500 per month which shall automatically be renewed annually unless one party provides written notice at least one month prior to the end of the term.

On November 18, 2019, the Company entered into a management consulting agreement with Wasiela Services Ltd. for management and advisory services for a period of one year at a monthly rate of $5,500 per month which shall automatically be renewed annually unless one party provides written notice at least one month prior to the end of the term.

On August 1, 2020, the Company entered into a management consulting agreement with RSJ Consulting Inc, a company controlled by Robert Kang, for the position of CFO for a period of one year at a monthly rate of $3,000 per month which shall automatically be renewed annually unless one party provides written notice at least one month prior to the end of the term. A new agreement was entered on July 1, 2021, for monthly rate of $4,000 per month, which shall terminate on June 30, 2022 unless one party provides written notice at least one month prior to the end of the term.

## Subsequent Events

a) In May 2022, a payment of $215,700 was made pursuant to the Frenzy deferred cash payment.

b) On June 6, 2022, the Company began trading on the OTCQX Best Market under the ticket symbol of "ENTEF".

## Outstanding Share Data

Below is the summary of the Company's share capital as at April 30, 2022 and as of the date of this report:

| | As at | |
|---|---|---|
| Security description | June 16, 2022 | April 30, 2022 |
| Common shares – issued and outstanding | 71,068,860 | 71,068,860 |
| Stock options | 6,578,000 | 6,578,000 |
| Warrant's outstanding | 9,628,556 | 9,628,556 |
| Common shares – fully diluted | 87,275,416 | 87,275,416 |

## Critical Accounting Estimates and Judgements

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Information about critical judgements in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed in note 3 to the consolidated financial statements.

*Functional currency*

The analysis of the functional currency for each entity of the Company is a significant judgement. In concluding that the Canadian dollar ("CDN$") is the functional currency of the parent, ESE, and GameAddik, the US dollar is the functional currency of WPG, the RON is the functional currency of WPG Racing Solutions SRL and Foresight Resolution SRL, the Polish Zloty ("PLN") is the functional currency of ESE Europe and Frenzy, and the Euro is the functional currency of Digital Motorsports, management considered the currency that mainly influences the costs of providing goods and services in each jurisdiction in which the entities operate.

*Acquisition of K1CK assets*

Judgement was applied to determine if the acquisition of K1CK assets represented a business combination or an asset purchase in accordance with IFRS 3, Business Combinations. The transaction was accounted for as an asset acquisition, whereby all of the assets acquired and liabilities assumed would be assigned a carrying amount based on relative fair values. The Company's application of the recognition principle may also result in recognizing some assets (often intangible) and liabilities that the acquiree had not previously recognized as assets and liabilities in its financial statements, which require management judgement.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment are as follows:

*Valuation of inventory*

Management makes estimates of future customer demand for products when establishing appropriate provisions for inventory obsolescence. In making these estimates, management considers the shelf-life of inventory and profitability of recent sales.

*Valuation of receivables*

Management monitors the financial stability of its customers and the environment in which they operate to make estimates regarding the likelihood that the individual trade balances will be paid. Credit risks for outstanding customer receivables are regularly assessed and allowances are recorded for estimated losses, if required.

*Revenue*

Significant management judgements and estimates must be made in connection with determination of the revenue to be recognized in any accounting period. If management made different judgements or utilized different estimates for any period, material differences in the amount and timing of revenue recognized could result. Some contracts include multiple promised services or products, thus management applied judgement to determine whether promised services or products are capable of being distinct and distinct in the context of the contract. Where there are distinct performance obligations, management allocates the total consideration to the performance obligations using its best estimate of their relative fair values. Management also applied judgement to determine if the performance obligation is satisfied over time or at a point in time.

*Purchase price allocation*

The acquisition of WPG on April 12, 2021, the acquisition of Digital Motorsports on September 15, 2021, the acquisition of Frenzy on November 12, 2021 and the acquisition of GameAddik on February 1, 2022 were accounted for as business combinations at fair value in accordance with IFRS 3, Business Combinations. The acquired assets and assumed liabilities will be adjusted to their fair values assigned through completion of a purchase price allocation, as described below. The purchase price allocation process resulting from a business combination requires management to estimate the fair value of the consideration paid, and the fair value of the identifiable assets acquired, including intangible assets, and liabilities assumed. The Company relies on work performed by third-party valuation specialists. These valuations are closely linked to the assumptions used by management on the future performance of the related assets and the discount rates applied. As at April 30, 2022 the valuation related to the Digital Motorsports, Frenzy and GameAddik acquisitions have not yet been finalized.

**Risk and Uncertainty Factors Risks Related to our Business Limited Operating History**

The Company is a development stage company which has a limited operating history and has not generate enough revenues to sustain its operations.

The Company's near-term focus remains in actively developing its products and building sales, marketing and support capabilities. As a result of these and other factors, the Company may not be able to achieve or increase profitability on an ongoing basis.

The Company is subject to many risks common to development stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources, lack of revenues, technology, and market acceptance issues. 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 Company's early stage of operations.

**Business and Industry Risks**

**Speculative Nature of Investment Risk**

An investment in our common shares carries a high degree of risk and should be considered as a speculative investment by purchasers. We have limited history of earnings, limited cash reserves, a limited operating history, have not paid dividends, and are unlikely to pay dividends in the immediate or near future. We are in the development and planning phases of our business and have only very recently offered some of our planned products and services for sale. Operations are not yet sufficiently established such that we can mitigate the risks associated with planned activities.

**Liquidity and Future Financing Risk**

We are in the development stage and have not generated a significant amount of revenue. We will likely operate at a loss until business becomes established and we may require additional financing in order to fund future operations and expansion plans, including developing new products, enhancing existing products, enhancing our operating infrastructure and acquiring complementary businesses and technologies. Our ability to secure any required financing to sustain operations will depend in part upon prevailing capital market conditions, as well as business success. There can be no assurance that we will be successful in our efforts to secure any additional financing or additional financing on terms satisfactory to management. If additional financing is raised by issuing authorized capital, control may change, and shareholders may suffer additional dilution.

Volatility in the price of our common shares could cause investors to lose all or part of their investment because they may not be able to sell their common shares at or above the price they paid. Factors that could cause fluctuations in the market price of our common shares include the following:

- price and volume fluctuations in the overall stock market from time to time;
- sales of common shares by our shareholders;
- changes in the financial projections that we may provide to the public, or our failure to meet those projections;
- announcements by us or our competitors of new products or services;
- the public's reaction to our press releases, other public announcements and filings with the securities commissions;
- rumors and market speculation involving us or other companies in our industry;
- actual or anticipated changes in our operating results or fluctuations in our operating results;
- actual or anticipated developments in our business, our competitors' businesses or the competitive landscape generally;

- litigation involving us, our industry or both, or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property or other proprietary rights;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations or principles;
- any significant change in our management; and
- general economic conditions and slow or negative growth of our markets.

**Competition**

The esports industry is still extremely fragmented and very few teams, companies, organizations and leagues are finding success in monetizing their companies. However, there are several companies that have excelled in certain sectors of the industry, namely: media rights; teams/prize pool; and leagues.

We believe ESE may have a competitive advantage over its competitors which are larger and more established through its potential ability, as a smaller and more agile corporation, to create high-level production at a cheaper cost relative to these larger organizations. ESE also has the advantage of having existing partnerships and business arrangements with some of the largest companies in the European Region, particularly in Poland, as well as a management team with over 20 years combined experience doing business in the region, with a demonstrated ability to bridge language gaps and navigate cultural nuances.

## Disclosure Controls and Procedures

Disclosure controls and procedures are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized, and reported within the time periods specified by securities regulations and that the information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited condensed interim consolidated financial statements for the six months ended April 30, 2022 and this accompanying MD&A (together, the "Interim Filings").

In contrast to the full certificate under NI 52-109, the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information the reader should refer to the Venture Issuer Basic Certificates filed by the Company with the Interim Filings on SEDAR at www.sedar.com.

## Additional Disclosure for Venture Issuers without Significant Revenue

Additional disclosure concerning the Company's general and administrative expenses is provided in the Company's condensed interim consolidated statements of loss and comprehensive loss in its unaudited condensed interim consolidated financial statements for the three and six months ended April 30, 2022 and 2021, which is available on the Company's website or through www.sedar.com.