Real Luck Group Ltd.

Consolidated Financial Statements
For the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

Baker Tilly WM LLP
1500 - 401 Bay Street
Toronto, Ontario
Canada M5H 2Y4
T: +1 416.368.7990
F: +1 416.368.0886

toronto@bakertilly.ca
www.bakertilly.ca

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Real Luck Group Ltd.:

Opinion

We have audited the consolidated financial statements of Real Luck Group Ltd. and its subsidiaries (together the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020 and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity (deficiency) and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion & Analysis filed with the relevant Canadian securities commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits and remain alert for indications that the other information appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
The engagement partner on the audit resulting in this independent auditor's report is John C. Sinclair.

Baker Tilly WM LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
April 27, 2022

REAL LUCK GROUP LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 31,
(Expressed in Canadian Dollars)

	Note		2021		2020
ASSETS					
Current assets					
Cash		$	14,398,356	$	3,842,680
Restricted cash	5		93,102		46,917
Other receivables	6		136,805		71,920
Prepaid expenses and deposits			287,842		95,318
Due from a related party	19		36,481		-
			14,952,586		4,056,835
Non-current assets					
Due from a related party	19		-		36,062
Right of use assets	8		61,005		83,134
Equipment	7		86,801		107,184
Intangible assets	9		13,324		13,552
Deferred tax assets	22		9,699		7,994
			170,829		247,926
TOTAL ASSETS		$	15,123,415	$	4,304,761
LIABILITIES AND EQUITY					
Current liabilities					
Accounts payable and accrued liabilities	10	$	1,000,056	$	960,679
Due to a related party	19		-		28,695
Current portion of lease liabilities	12		40,401		38,369
Corporate tax payable			(735)		4,796
			1,039,722		1,032,539
Non-current liabilities					
Lease liabilities	12		23,617		48,761
Total liabilities			1,063,339		1,081,300
Equity					
Share capital	14		40,917,945		24,807,375
Contributed surplus			10,429,460		10,429,460
Reserves	15,16,17		5,276,697		1,893,123
Accumulated other comprehensive loss			(184,068)		(157,974)
Deficit			(42,379,958)		(33,748,523)
Total equity			14,060,076		3,223,461
TOTAL LIABILITIES AND EQUITY		$	15,123,415	$	4,304,761

Nature of operations (Note 1)
Subsequent events (Note 24)

Approved and authorized for issue by the Board of Directors on April 26, 2022

"Thomas Rosander" Director   *"Drew Green"* Director

The accompanying notes are an integral part of these consolidated financial statements.

REAL LUCK GROUP LTD.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
For the year ended December 31
(Expressed in Canadian Dollars)

	Note		2021		2020
Revenue		$	25,174	$	75,480
Cost of sales	20		290,286		287,947
			(265,112)		(212,467)
Expenses					
Advertising and marketing			943,234		389,701
Depreciation	7,8		79,352		89,962
Bad debt expenses (recovery)			(126)		(62,371)
Consulting fees			1,411,739		668,119
Foreign exchange loss			62,633		96,614
Legal and professional fees			1,254,687		907,092
General and administrative expenses			669,297		521,371
Insurance			137,569		-
Investor relations			70,623		16,506
Salaries and director fees	19		1,735,563		1,547,475
Share-based compensation	15,19		1,889,557		887,554
Transfer agent and filing fees			98,884		16,503
Travel and accommodation			49,583		105,243
			(8,402,595)		(5,183,769)
Other expenses (income)					
Gain on disposal of equipment			-		(2,923)
Listing expenses	4		-		587,881
Transaction costs on liabilities at FVTPL	11,13		-		193,580
Loss on re-measurement of warrant liabilities	11		-		140,005
Gain on re-measurement of conversion options	13		-		(2,630,811)
Accretion expense on convertible notes	13		-		1,820,163
Interest income			(40,799)		-
Other income			(1,535)		(11,743)
Net loss before income taxes		$	(8,625,373)	$	(5,492,388)
Income tax expense	22		6,061		3,125
Net loss			(8,631,434)		(5,495,513)
Other comprehensive loss (income)					
Currency translation adjustment			(26,094)		34,151
Net loss and comprehensive loss for the year			(8,605,340)		(5,529,664)
Net loss and comprehensive loss attributable to:					
Owners of Real Luck Group Ltd.			(8,605,340)		(5,269,182)
Non-controlling interests			-		(260,482)
			(8,605,340)		(5,529,664)
Loss per share – Basic and diluted		$	(0.14)	$	(0.18)
Weighted average number of common shares:			61,457,032		30,011,278

The accompanying notes are an integral part of these consolidated financial statements.

REAL LUCK GROUP LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIENCY)
For the year ended December 31, 2021
(Expressed in Canadian Dollars)

	Note	Number of common shares	Share capital	Contributed surplus	Reserves	Accumulated OCI	Accumulated deficit	Total equity
Balance, January 1, 2021		50,287,777	$ 24,807,375	$ 10,429,460	$ 1,893,123	$ (157,974)	$ (33,748,523)	$ 3,223,461
Net loss for the year		-	-	-	-	-	(8,631,434)	(8,631,434)
Issuance of common shares from exercise of warrants and options	14, 15, 16	2,914,541	2,117,175	-	(463,409)	-	-	1,653,766
Issuance of common shares and warrants under private placement, net of issuance costs	14, 17	15,579,182	13,993,395	-	1,957,425	-	-	15,950,820
Share-based compensation	15	-	-	-	1,889,557	-	-	1,889,557
Foreign currency translation differences		-	-	-	-	(26,094)	-	(26,094)
Balance, December 31, 2021		68,781,500	$ 40,917,945	$ 10,429,460	$ 5,276,696	$ (184,068)	$ (42,379,957)	$ 14,060,076

The accompanying notes are an integral part of these consolidated financial statements.

REAL LUCK GROUP LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIENCY)
For the year ended December 31, 2020
(Expressed in Canadian Dollars)

	Note	Number of common shares	Share capital	Contributed surplus	Reserves	Accumulated OCI	Accumulated deficit	Equity attributable to owners of Real Luck Group Ltd.	Non-controlling interests	Total equity
Balance, January 1, 2020		15,812,872	272,859	23,403,401	2,703,939	(123,823)	(27,613,516)	(1,357,140)	-	(1,357,140)
Adjustments to equity on consolidation		-	-	(2,089,324)	-	19,573	2,287,807	218,056	(218,056)	-
Net loss for the year		-	-	-	-	-	(5,235,031)	(5,235,031)	(260,482)	(5,495,513)
Issuance of previously vested common shares to employees	15	3,218,975	55,272	2,648,667	(2,703,939)	-	-	-	-	-
Shares issued as a result of re-pricing	14	1,831,148	31,163	-	-	-	-	31,163	-	31,163
Shares issued under private placements (net of issuance costs)	11,14	10,847,320	185,673	2,651,171	-	-	-	2,836,844	-	2,836,844
Shares and warrants issued to agents and advisors	13, 14,17	887,383	15,166	367,599	289,915	-	-	672,680	-	672,680
Share issuance on settlement of convertible notes	14	14,285,674	245,033	3,504,967	-	-	-	3,750,000	-	3,750,000
Share-based compensation	15,16	1,816,363	33,298	611,405	242,851	-	-	887,554	-	887,554
Repurchase and cancellation of treasury shares	18	(1,880,020)	(32,023)	32,023	-	-	-	-	-	-
Acquisition of non-controlling interests in RTGH	18	1,801,394	30,683	2,698,135	-	(19,573)	(3,187,783)	(478,538)	478,538	-
Luckbox shares cancelled in RTO		(48,621,109)	(837,124)	(23,398,584)	-	-	-	(24,235,708)	-	(24,235,708)
Company shares issued in RTO		48,621,109	24,235,708	-	-	-	-	24,235,708	-	24,235,708
Reclassification of warrants on RTO	11	-	-	-	1,350,007	-	-	1,350,007	-	1,350,007
Common shares and options deemed to be issued on RTO	4	1,666,668	571,667	-	10,350	-	-	582,017	-	582,017
Foreign currency translation differences		-	-	-	-	(34,151)	-	(34,151)	-	(34,151)
Balance, December 31, 2020		50,287,777	$ 24,807,375	$ 10,429,460	$ 1,893,123	$ (157,974)	$ (33,748,523)	$ 3,223,461	$ -	$ 3,223,461

The accompanying notes are an integral part of these consolidated financial statements.

REAL LUCK GROUP LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)
For the years ended December 31

		2021		2020
Cash flows from operating activities				
Net loss	$	(8,631,435)	$	(5,495,513)
Items not affecting cash:				
Depreciation		79,033		89,962
Accretion		3,803		-
Share-based payments		1,889,557		887,554
Accretion expenses on convertible notes		-		1,820,163
Transaction costs on liabilities at FVTPL		-		193,580
Loss on re-measurement of warrant liabilities		-		140,005
Gain on re-measurement of conversion options		-		(2,630,811)
Listing expenses		-		587,881
(Gain) loss on disposal of equipment		-		(2,923)
Deferred tax recovery		(1,705)		(2,047)
Changes in non-cash working capital				
Restricted cash		(46,185)		38,539
Other receivables		(67,052)		20,844
Prepaid expenses and deposits		(192,304)		101,565
Accounts payable and accrued liabilities		41,324		348,879
Income taxes payable		(5,531)		1,079
Net cash flows used in operating activities		(6,930,495)		(3,901,243)
Cash flows from investing activities				
Proceeds on disposal of equipment		-		5,989
Purchase of equipment		(21,417)		(3,121)
Repayment of amounts due from related party		(29,114)		3,657
Cash acquired in reverse takeover		-		14,015
Net cash flows provided by investing activities		(50,531)		20,540
Cash flows from financing activities				
Proceeds from exercises of warrants and options		1,653,767		-
Proceeds from Special Warrant financing (net of issuance costs)		15,950,820		-
Proceeds on issuance of common shares		-		4,635,865
Share and debt issuance costs		-		(530,571)
Proceeds on issuance of convertible notes		-		1,500,000
Increase in due to related party		-		28,695
Payments on lease liabilities		(42,237)		(37,560)
Net cash flows provided by financing activities		17,562,350		5,596,429
Change in cash		10,581,324		1,715,726
Effects of exchange differences		(25,648)		106,109
Cash – beginning of year		3,842,680		2,020,845
Cash – end of year	$	14,398,356	$	3,842,680

The accompanying notes are an integral part of these consolidated financial statements.

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS

Real Luck Group Ltd. (the "Company" or "Real Luck") 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 1250, 639-5 Avenue SW, Calgary, Alberta T2P 0M9.

The Company has the following wholly-owned subsidiaries: Real Time Games Holding Limited ("RTGH"), Real Time Games Services Limited ("RTGS"), Real Time Games Developments Limited ("RTGD"), Esports Limited ("EL"), Esports Tech Limited ("ETL"), and Real Luck Group Holdings Limited ("RLGHL"). RLGHL was incorporated on November 18, 2021, and did not carry out any activities for the year ended December 31, 2021. Together, the Company and its wholly-owned subsidiaries engage in the provision of e-sports wagering services through a licensed betting platform.

2. BASIS OF PREPARATION

Statement of compliance

The Company's consolidated financial statements have been prepared in accordance with and using accounting policies in compliance with International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") as issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee ("IFRIC").

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements have been prepared using the historical cost convention, except for certain items, which are recorded at fair value.

The consolidated financial statements have been prepared on a continuity of interest basis that present the comparative results of Esports Limited's (note 4) consolidated financial statements.

Comparative figures

Certain comparative figures have been reclassified to conform with the changes in presentation for the current year. The details of the reclassification is summarized below:

Presented in audited 2020 statements	Balance in audited 2020 consolidated statements	Presented in December 31, 2021 as comparative figures
Advertising, marketing and investor relations	$ 16,506	Investor relations
Accounts payable and accrued liabilities	1,947	Other receivables

(Expressed in Canadian dollars)

2. BASIS OF PREPARATION (CONTINUED)

Functional and presentation currency

The consolidated financial statements are presented in the Canadian dollars, which is the Company's functional currency. The functional currencies are listed below.

Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its controlled entities. Subsidiaries are entities over which the Company has the power to govern financial and operating policies. Details of controlled entities are as follows:

			Percentage owned	
Entity	**Functional currency**	**Country of incorporation**	**December 31, 2021**	**December 31, 2020**
Esports Limited (EL)	Pound Sterling	Isle of Man	100%	100%
Real Time Games Holdings Limited (RTGH)	Pound Sterling	Isle of Man	100%	100%
Real Time Games Services Limited (RTGS)	Pound Sterling	Isle of Man	100%	100%
Real Time Games Developments Limited (RTGD)	Bulgarian Lev	Bulgaria	100%	100%
Esports Tech Limited (ETL)	Pound Sterling	Isle of Man	100%	100%
Real Luck Group Holdings Limited (RLGHL)	Canadian Dollar	Canada	100%	N/A

All inter-company balances and transactions are eliminated on consolidation. Changes in the Company's interest in a subsidiary that do not result in a change of control are accounted for as equity transactions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

Foreign currency translation

The functional currency of each entity is determined using the currency of the primary economic environment in which that entity operates.

In preparation of the consolidated financial statements of the Company, the results of foreign operations with a functional currency other than Canadian dollars are translated to Canadian dollars. Each entity's assets and liabilities are translated to Canadian dollars at the prevailing exchange rate at reporting date. The revenue and expenses of these foreign operations are translated to Canadian dollars using average exchange rates prevailing for each reporting period. Foreign exchange differences arising on translation are recognized directly in the consolidated statement of other comprehensive income and presented in accumulated other comprehensive loss within equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

At the entity level, transactions in currencies other than the entity's functional currency are recorded at the exchange rates prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are translated at the prevailing exchange rates on the date of the statement of financial position. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the prevailing exchange rates on the date when the fair value was determined. Non-monetary items measured at historical costs in foreign currency are not re-translated. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period.

Financial instruments

Classification and measurement

The Company classifies its financial assets and liabilities at fair value through profit or loss, or as loans and receivables and other financial liabilities measured at amortized cost depending on the purpose for which the financial assets and liabilities were acquired or incurred. Management determines the classification of its financial instruments at initial recognition.

All financial assets and liabilities designated as fair value through profit or loss are measured at their fair values and gains and losses are recorded in the statement of comprehensive income. All financial assets classified as amortized cost are initially measured at their fair values and subsequently at their amortized cost using the effective interest rate method.

Financial instruments consist of cash, restricted cash, other receivables, due from a related party, due to a related party, and accounts payable and accrued liabilities. All financial instruments are classified as fair value through profit or loss except for other receivables, due from a related party, due to a related party and accounts payables and accrued liabilities which are classified at amortized cost.

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. Impairment gain or loss represents the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities
The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are recognized in profit or loss.

Equipment

Equipment is stated at cost less accumulated depreciation. The cost of repairs and maintenance is expensed as incurred. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Upon sale or other disposition of a depreciable asset, cost and accumulated depreciation are removed from equipment and any gain or loss is reflected as a gain or loss from operations.

The estimated useful lives are:

Office equipment	2 years
Computer servers	5 years

Intangible asset

The intangible asset is comprised of a domain name, which is determined to have an indefinite useful life. An intangible asset is determined to have an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. The domain name is stated at cost less impairment losses and is not amortized.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The difference between the carrying amount and recoverable amount is charged to profit or loss.

An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amounts. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

A reversal of the impairment loss in a subsequent period will be charged against profit or loss if there is a significant reversal of the circumstances that caused the original impairment. The impairment will be reversed up to the amount of depreciated carrying value that would have otherwise occurred if the impairment loss had not occurred.

Cash

Cash comprises of cash on hand and deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted cash

Restricted cash includes cash and cash equivalents that are contractually restricted, primarily related to player protection funds.

Income taxes

Current income tax:

Current income tax expense or recovery for the current period are the amounts expected to be recovered or payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Company measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For all identified lease contracts that do not meet the exemption criteria of being a short-term lease or having low-value underlying assets, the Company recognizes a right-of use asset and a lease liability at the lease commencement date. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or restore the underlying asset or the site on which it was located, less any lease incentives received. Right-of-use assets are subsequently depreciated over the remaining term of the lease and are carried at cost less accumulated depreciation and impairment and adjusted for any remeasurements of the lease liability.

Payments in relation to short-term leases and leases of low value assets, as well as variable lease payments, which are not included in the lease liability, are directly expensed in profit or loss on a straight-line basis over the period of the lease.

Revenue recognition

The Company generates revenue from one stream, which is the provision of online betting services. Revenue is recognized when the esports wagering services are rendered, at an amount that reflects the net of consideration received from bets placed, less the amounts of winning bets returned to the customers.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share purchase options are recognized as a deduction from equity, net of any tax effects. When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from total equity.

Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated to the extent that it is not antidilutive by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

Share-based payments

The Company operates a stock option plan and an employee share pool. Share-based payments to employees are measured at the fair value of the instruments issued and the related expenses are amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is recorded to equity reserve. The fair value of options is determined using the Black–Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Any consideration paid by plan participants on the exercise of stock options is credited to share capital.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Segmented reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Company operates in one operating segment being that of online sports betting with online casino added on December 20, 2021.

Critical accounting estimates and significant management judgments

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingencies at the date of the Company's financial statements, and revenue and expenses during the reporting period. Estimates and assumptions are subject to uncertainty and actual results could significantly differ from those estimated. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Significant estimates in the Company's consolidated financial statements include the following:

Share-based payments

The cost of share-based payment transactions with employees are measured by reference to the fair value of the equity instruments. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, risk-free interest rate, expected forfeiture rate and dividend yield of the stock option.

Useful lives of equipment and intangible assets

Estimates of the useful lives of equipment and intangible assets are based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed annually and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence, and legal or other limits on the use of the relevant assets.

Other significant judgments

The most significant judgments in applying the Company's financial statements include:

- the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty. The judgment is dependent on management's expectations of revenue, cash flow forecasts, financial obligations due and availability of financing over the next 12 months;
- the fair value and classification of financial instruments;
- the determination of the functional currency of the Company and its subsidiaries; and
- whether there are indicators of impairment of the Company's non-current assets.

(Expressed in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impact of COVID-19

The coronavirus, also known as "COVID-19", has had adverse impacts on the global economy. The conditions surrounding COVID-19 continue to evolve and various government authorities have taken measures to mitigate the spread of the virus. As the Company operates in the e-gaming sector where all activity takes places remotely and online, COVID-19 has to date, not negatively affected the Company. However, in the event of a prolonged economic recession, the extent to which COVID-19 may impact the Company's business activities is highly uncertain. As such, the Company cannot determine the financial impact at this time.

Accounting standards issued but not yet effective

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any new standards and determined that there are no standards that are relevant to the Company.

4. REVERSE TAKEOVER TRANSACTION

On December 11, 2020, pursuant to the Business Acquisition Agreement dated November 2, 2020 entered into among the Company, Esports Limited ("Luckbox") and Elephant Hill Sub Co., the Company acquired all of the issued and outstanding shares of Luckbox, in exchange for 48,621,109 shares and 166,666 options of the resulting issuer (the "Transaction"). Upon the completion of the Transaction, the shareholders of Luckbox acquired control of the resulting issuer, thereby constituting a reverse acquisition of the Company.

At the time of the Transaction, the Company did not meet the definition of a business as defined under IFRS 3 "Business Combinations". Hence, the Transaction was accounted for as an asset acquisition in accordance with IFRS 2, "Share-Based Payment". Luckbox was identified as the accounting acquirer that issued shares and share purchase options to acquire all of the net assets of the Company, the accounting acquiree, and its listing status. The consolidated financial statements are considered to be a continuation of the consolidated financial statements of Luckbox, the accounting acquirer, and present the value of its assets and liabilities at historical cost, up to the date of the Transaction. The fair value of the consideration issued to acquire the net assets of the Company was as follows:

Considerations:		
Fair value of Real Luck shares (1,666,666 post-consolidation common shares)	$	571,667
Fair value of options outstanding		10,350
Total consideration	$	582,017
Fair value of net liabilities assumed		
Cash	$	14,015
Sales tax receivable		586
Liabilities		(20,465)
Total net liabilities	$	(5,864)
Listing expenses	$	587,881

In addition to the consideration above, the Company incurred $246,487 in legal and other direct costs associated with the completion of the Transaction, which were recorded to profit or loss during the year ended December 31, 2020 in legal and professional fees.

(Expressed in Canadian dollars)

4. REVERSE TAKEOVER TRANSACTION (CONTINUED)

Prior to the Transaction, Real Luck, as the accounting acquiree, effected a consolidation of its outstanding shares on the basis of one post-consolidation common share for every 4.2 pre-consolidated common shares. The exercise or conversion price of, and the number of common shares issuable under any securities of the Company has been proportionally adjusted upon the completion of the share consolidation.

5. RESTRICTED CASH

Restricted cash represents player protection funds that are held as reserves to ensure sufficient coverage over player liabilities payable on winning bets in accordance with the *Online Gambling Regulation Act 2001*.

6. OTHER RECEIVABLES

	December 31, 2021	December 31, 2020
GST receivable	$ 42,315	$ 1,947
Money deposited on the payment platform (a)	93,541	69,174
Other	949	799
	$ 136,805	$ 71,920

(a) Represents cash collected from players for betting activities, held by payment service provider.

(Expressed in Canadian dollars)

7. EQUIPMENT

	Office Equipment	Computer Servers	Total
Cost			
Balance at January 1, 2020	$ 64,489	$ 149,925	$ 214,414
Additions	3,121	-	3,121
Disposals	(15,172)	-	(15,172)
Currency translation adjustment	3,395	2,634	6,029
Balance at December 31, 2020	$ 55,833	$ 152,559	$ 208,392
Additions	19,883	1,534	21,417
Disposals	(8,483)	-	(8,483)
Currency translation adjustment	(2,606)	(2,572)	(5,178)
Balance at December 31, 2021	$ 64,627	$ 151,521	$ 216,148
Accumulated depreciation			
Balance at January 1, 2020	$ (41,851)	$ (17,485)	$ (59,336)
Depreciation	(18,195)	(32,640)	(50,835)
Disposals	12,106	-	12,106
Currency translation adjustment	(2,478)	(665)	(3,143)
Balance at December 31, 2020	$ (50,418)	$ (50,790)	$ (101,208)
Depreciation	(6,583)	(33,183)	(39,766)
Disposals	8,483	-	8,483
Currency translation adjustment	1,554	952	2,506
Balance at December 31, 2021	$ (46,964)	$ (82,383)	$ (129,347)
Carrying amounts			
December 31, 2020	$ 5,415	$ 101,769	$ 107,184
December 31, 2021	$ 17,663	$ 69,138	$ 86,801

(Expressed in Canadian dollars)

8. RIGHT OF USE ASSETS

	Office lease #1	Office lease #2	Office lease #3	Office lease #4	Total
Cost					
Balance at January 1, 2020	$ 84,775	$ 89,237	$ 47,593	$ -	$ 221,605
Additions	-	-	-	-	-
Terminations	-	-	(50,082)	-	(50,082)
Currency translation adjustment	6,430	6,609	2,489	-	15,528
Balance at December 31, 2020	$ 91,205	$ 95,846	$ -	$ -	$ 187,051
Additions	-	-	-	22,544	22,544
Currency translation adjustment	(7,618)	(7,487)	-	(610)	(15,715)
Balance at December 31, 2021	$ 83,587	$ 88,359	$ -	$ 21,934	$ 193,880
Accumulated depreciation					
Balance at January 31, 2020	$ (32,764)	$ (29,746)	$ (6,693)	$ -	$ (69,203)
Depreciation	(17,998)	(18,781)	(2,348)	-	(39,127)
Terminations	-	-	9,390	-	9,390
Currency translation adjustment	(2,037)	(2,591)	(349)	-	(4,977)
Balance at December 31, 2020	$ (52,799)	$ (51,118)	$ -	$ -	$ (103,917)
Depreciation	(17,926)	(18,703)	-	(2,957)	(39,586)
Currency translation adjustment	4,591	6,004	-	33	10,628
Balance at December 31, 2021	$ (66,134)	$ (63,817)	$ -	$ (2,924)	$ (132,875)
Net book value					
December 31, 2020	$ 38,406	$ 44,728	$ -	$ -	$ 83,134
December 31, 2021	$ 17,453	$ 24,542	$ -	$ 19,010	$ 61,005

9. INTANGIBLE ASSETS

	Domain
Cost	
Balance at January 1, 2020	$ 13,318
Currency translation adjustment	234
Balance at December 31, 2020	$ 13,552
Currency translation adjustment	(228)
Balance at December 31, 2021	$ 13,324
Net book value	
December 31, 2020	$ 13,552
December 31, 2021	$ 13,324

(Expressed in Canadian dollars)

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2021	December 31, 2020
Trade accounts payable	$ 395,182	$ 400,956
Payroll liabilities	184,523	223,001
Accrued liabilities	331,811	295,028
Sales tax payable	22,806	7,878
Player liabilities	50,929	30,828
Due to Luckbox Limited	14,805	2,988
	$ 1,000,056	$ 960,679

Due to Luckbox Limited is non-interest bearing, unsecured and repayable on demand if the Company is in good financial standing (note 19).

11. WARRANT LIABILITIES

In November and December 2019, Luckbox issued 1,326,000 warrants as part of the subscription units comprised of one common share and one unit warrant under private placement financing. Two warrants were exercisable together, to purchase one Luckbox share at $1.50 per share, within two years of the date of issuance. As discussed in note 14, the previously issued warrants under the 2019 private placements were amended in June 2020 to reduce the exercise price from $1.50 per share to $0.63 per share resulting in a modification of the warrant liabilities and accordingly, the fair values of the previously issued warrants were re-measured under the new terms and determined to be $187,535. An amount of $25,222 was recognized in profit and loss as a gain on re-measurement of warrant liabilities during the year ended December 31, 2020.

In June 2020, Luckbox issued 5,423,660 warrants as part of the subscription units under private placements (Note 14) and in December 2020, Luckbox issued a total of 1,785,714 warrants as part of subscription units to settle the ExpoWorld Notes. Each whole warrant can be exercised within two years of the Transaction to purchase one Luckbox share at $0.63 per share. These warrants were classified as financial liability at fair value through profit and loss as the exercise prices for the warrants were in CAD and were different from the functional currency of Luckbox, the issuer of the equity instruments. On initial recognition, the combined fair value of respective warrant liabilities was determined to be $997,246.

In addition, in connection with the transaction costs incurred for private placement tranches in June 2020, an amount of $136,102 was allocated to warrant liabilities and was recognized in profit and loss.

Upon closing of the Transaction, Luckbox warrants were exchanged for the Company's (CAD functional currency) warrants, which resulted in a derecognition of the warrant liabilities from Luckbox and an equity classification for the same amount within the Company's Reserves. Immediately prior to derecognition, the warrant liabilities were re-measured and a loss of $165,227 on re-measurement was recognized in profit and loss in 2020.

A reconciliation of the changes in warrant liabilities during the years ended December 31, 2021 and 2020 is as follows:

	2021	2020
Opening balance, January 1	$ -	$ 212,757
Recognition upon issuance	-	997,245
Loss on re-measurement	-	140,005
Derecognition of warrant liabilities and re-classification within Reserves	-	(1,350,007)
Ending balance, December 31	$ -	$ -

(Expressed in Canadian dollars)

11. WARRANT LIABILITIES (CONTINUED)

The following weighted average assumptions were used to estimate the fair value of the warrant liabilities in 2020:

Weighted average fair value of warrant	$	0.207
Exercise price		0.63
Risk-free interest rate		0.25%
Estimated life		2 years
Expected volatility		114%
Expected dividend yield		0.00%

12. LEASE LIABILITIES

The Company's lease liabilities consists of office leases. The present value of future lease payments were measured using an incremental borrowing rate of 4% per annum on initial recognition.

	Office lease #1	Office lease #2	Office lease #3	Office lease #4	Total
Balance at January 1, 2020	$ 54,239	$ 61,722	$ 40,902	$ -	156,863
Terminations	-	-	(42,257)	-	(42,257)
Interest expenses	1,565	2,348	783	-	4,696
Lease payments	(19,563)	(21,128)	(1,565)	-	(42,256)
Currency translation adjustment	3,765	4,182	2,137	-	10,084
Balance at December 31, 2020	$ 40,006	$ 47,124	$ -	$ -	$ 87,130
Additions				22,544	22,544
Interest expenses	1,387	1,469	-	947	3,803
Lease payments	(19,363)	(20,380)	-	(2,494)	(42,237)
Currency translation adjustment	(2,769)	(2,892)	-	(1,561)	(7,222)
Balance at December 31, 2021	$ 19,261	$ 25,321	$ -	$ 19,436	$ 64,018

As at December 31, 2021, the Company is committed to minimum lease payments as follows:

Maturity analysis		**December 31, 2021**
Less than one year	$	42,854
Later than one year, but less than five years		24,188
Total undiscounted lease liabilities		67,042
Less: imputed interest at 4%		(3,024)
Total	$	64,018
Less: Current portion		(40,401)
Long-term portion	$	23,617

(Expressed in Canadian dollars)

13. CONVERTIBLE NOTES

On July 10, 2020, Luckbox issued a non-interest bearing $500,000 convertible note to Expoworld Ltd. On November 20, 2020, Luckbox issued another non-interest bearing $1,000,000 to Expoworld Ltd (together, the "ExpoWorld notes"). The ExpoWorld notes convert automatically into Luckbox units upon closing of the Transaction at $0.42 per unit. Each unit is comprised of one common share and one half warrant. Each full warrant is exercisable to purchase one Luckbox share at $0.63 per share for two years following the closing of the Transaction. On the issuance date, the conversion option associated with the ExpoWorld notes were classified as a derivative liability, as a fixed number of Luckbox shares would be settled for a variable amount of notes as a result of fluctuations in exchange rates between CAD and GBP (the functional currency of Luckbox). The fair value of the derivative conversion liability was estimated using a Black Scholes Option pricing model at $323,333 based on the following assumptions:

- July 2020 note: risk-free rate of 0.23%, expected annual volatility 157%, expected life of 0.5 years
- November 2020 note: risk-free rate of 0.12%, expected annual volatility 121%, expected life of 0.06 years

The residual value of $1,176,667 was allocated to the host debts.

In conjunction with the issuance of the ExpoWorld notes, Luckbox incurred a total of $121,000 in cash fees, and issued 288,095 Advisory Warrants and 184,524 Subscriber Units as finders' fees. Each Advisory Warrant entitles the holder to purchase one Unit comprised of one common share and one half of one warrant. Each whole warrant entitles the holder to purchase one common share for $0.63 per share for a period of 24 months following the Transaction (note 4). The fair value of the issued subscription units of $77,500 was estimated using a value of $0.42 per unit determined with reference to recent equity financing transactions closed by Luckbox. The fair value of the Advisory Warrants was estimated at $0.2433 per warrant, for a total expense of $70,094 at the date of issue using the Black-Scholes option pricing model with the following assumptions: risk-free rate of 0.25%, expected annual volatility 114%, expected life of 2 years and expected dividend yield of $nil.

These transaction costs totalling $268,594 were allocated between the host debt and derivative conversion liability components of the notes based on ratio of relative fair values at initial recognition. Accordingly, $211,116 was allocated to the host debts and reduced from the initially recorded carrying value of the host debts and $57,478 was allocated to the derivative conversion liabilities, being expensed to profit or loss immediately.

The notes matured and were settled in shares, or units during the year ended December 31, 2020. Refer to note 14 for disclosures related to settlement of the notes.

A continuity of the host debt liabilities for the year ended December 31, 2021 and 2020 is as follows:

		Face value		Carrying value
Balance, January 1, 2020	$	2,250,000	$	964,286
Issued during the year		1,500,000		965,551
Accretion expenses		-		1,820,163
Settlement of convertible notes		(3,750,000)		(3,750,000)
Balance, December 31, 2020 and December 31, 2021	$	-	$	-

(Expressed in Canadian dollars)

13. CONVERTIBLE NOTES (CONTINUED)

A continuity of the embedded conversion feature for the year ended December 31, 2021 and 2020:

		Carrying value
Balance, January 1, 2020	$	2,250,000
Recorded on issuance of ExpoWorld notes		323,333
Gain on re-measurement		(2,573,333)
Balance, December 31, 2020 and December 31, 2021	**$**	**-**

14. SHARE CAPITAL

The authorized capital of the Company consists of an unlimited number of common shares.

During the year ended December 31, 2021, a total of 419,666 options were exercised to purchase 419,666 common shares in the capital of the Company at $0.42 per share for gross proceeds of $176,260. The fair value allocated to these options of $78,247 was reclassified from reserves to share capital.

During the year ended December 31, 2021 a total of 2,046,000 warrants were exercised to purchase 2,046,000 common shares in the capital of the Company at $0.63 per share for gross proceeds of $1,288,980. The fair value allocated to these warrants of $290,479 was reclassified from reserves to share capital.

During the year ended December 31, 2021, 448,875 advisory warrants, previously issued as compensation to agents and advisors in connection with the private placement rounds, were exercised to purchase 448,875 units at $0.42 per unit. Each unit is comprised of one common share of the Company and one half of one warrant, for a total of 448,875 shares and 224,438 warrants. Each warrant entitles the holder to purchase one Company at an exercise price of $0.63 for a period of two years. The gross proceeds received from the exercise of the advisory warrants was $188,527 and was fully allocated to share capital. The fair value allocated to these warrants of $94,682 was reclassified from reserves to share capital.

Private Placements

Year ended December 31, 2021:

On March 9, 2021 (the “Closing Date”), the Company completed a private placement of 14,837,317 special warrants of the Company at a price of $1.20 for aggregate gross proceeds of $17,804,780. Each special warrant automatically converts to one unit of the Company without additional consideration on the earlier of four months and a day following the Closing Date of the private placement, or the date that the Alberta Securities Commission receives the Final Prospectus (the “Qualification date”). Each unit consists of one share and one-half common share purchase warrant, exercisable for a period of three years at $1.50 per share, upon conversion.

Out of the total proceeds received, $16,617,795 were allocated to common shares at $1.12 per share, and $1,186,985 were allocated to warrants on initial recognition.

14. SHARE CAPITAL (CONTINUED)

In conjunction with the services rendered by the agents and advisors for the private placement round, the Company paid cash advisory fees of $1,424,382, reimbursed agents' expenses of $272,217, and issued the following securities:

- 1,186,985 agent special warrants with each warrant converts into one non-transferable agent warrant at no additional cost. Each agent warrant entitles the holder to purchase one unit comprised of one common share and one half of one share purchase warrant. Each whole warrant entitles the holder to purchase one common share for $1.50 per share for a period of 36 months following the date of issuance.
- 741,865 Corporate Finance fee ("CF fee") special warrants with each warrant converts into one unit of the company at no additional cost. Each unit has the same terms as described above.

The agent special warrants were determined to have a fair value of $0.807 per unit using the Black-Scholes model for a total expense of $957,897, with a corresponding increase in reserves. The CF fee special warrants were determined to have a fair value of $1.20 per warrant, as the terms of such warrants are the same as those of the special warrants under private placement, for a total expense of $890,238.

In addition, the Company incurred legal fees and filing fees of $157,361 in connection with the private placement.

All securities issued in connection with the special warrant private placement, including the securities issued to agents and advisors, are subject to a statutory hold period of four months and one day from the Closing Date.

On June 7, 2021, all special warrants, agent special warrants, and CF fee special warrants were converted resulting in the issuance of 15,579,182 common shares, 7,789,591 warrants, and 1,186,985 agent warrants. Each warrant entitles the holder to purchase one additional common share of the Company at an exercise price of $1.50 per share, for a period of 3 years from the date of closing. Each agent warrant entitles the holder to purchase one unit of the Company at an exercise price of $1.20 per unit, for a period of 3 years from the date of exercise. Each unit consists of one common share and one half of one share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one additional common share of the Company at an exercise price of $1.50 per share, for a period of 3 years from the date of issue.

Payments to agents and advisors, together with securities issued and filing fees incurred for a total cost of $3,702,095, are considered to be transaction costs and were recognized directly in equity as a reduction of the gross proceeds from the issuance of the special warrants. Of the total transaction costs, $3,455,289 was allocated to share capital and $246,806 was allocated to reserves.

Year ended December 31, 2020:

During the year, as Luckbox raised more than $6,041,000 (£3,500,000) of financing through private placements and note issuances, Luckbox, after discussions with the unit holders from the 2019 private placement tranches, re-priced the previously issued units from $1.00 to $0.42 per unit. The impact of re-pricing was an issuance of an additional 1,831,148 units and an amendment to the previously issued warrants to reduce the exercise price to $0.63 per share from the previous exercise price of $1.50 per share. Also as a result of re-pricing, 68,827 units comprised of one share and one half warrant were issued to agents as finder's fees.

Refer to note 11 for discussion of accounting impact related to the amended exercise price of unit warrants.

14. SHARE CAPITAL (CONTINUED)

Private placements (continued)

In June 2020, Luckbox completed two tranches of brokered financing and two tranches of non-brokered financing for gross proceeds of $4,555,874 consisting of the issuance of 10,847,320 subscription receipts at a price of $0.42 per unit. Each subscription receipt unit was converted into one common share and one half of one warrant. Refer to note 11 for the discussion of classification and measurement of unit warrants issued under private placement. The proceeds received from private placements were allocated to warrant liabilities, with the residual allocated to common shares on initial recognition.

In relation to the services rendered by the agents for the private placement rounds, Luckbox paid cash advisory fees of $360,470, reimbursed agents' expenses of $49,102, and issued the following securities:

- 544,032 common shares;
- 29,018 unit warrants with each whole warrant exercisable into one common share at an exercise price of $0.63 per share for a period of 24 months following the Transaction;
- 765,404 compensation options, which entitle the holders to purchase one unit comprised of one common share and one half of one warrant. Each whole warrant entitles the holder to purchase one common share for $0.63 per share for a period of 24 months following the Transaction;
- 138,096 advisory warrants with the same terms as the compensation options as described above.

The value of common shares and unit warrants issued to the agents were calculated using the residual method, based on the price of one subscription unit of $0.42, for a total cost of $228,493. The advisory warrants and compensation options were determined to have a fair value per unit of $0.2433 using the Black-Scholes model with the same inputs as disclosed in note 11, for total expenses of $33,599 and $186,223, respectively.

Payments to agents and advisors, together with securities issued, are considered to be transaction costs that were allocated to the common share and warrant elements of the subscription receipts based on relative fair values. Of the total share issuance costs amounting to $857,886, $136,102 were allocated to warrant liabilities and immediately recognized in profit and loss and the remaining $721,784 were recognized as a deduction from equity.

Refer to note 11 for the discussion of classification and measurement of unit warrants issued under private placement. The proceeds received from private placements were allocated to warrant liabilities, with the residual allocated to common shares on initial recognition.

Settlement of convertible notes

On September 22, 2020, Luckbox issued a total of 10,714,298 shares to Avatar One E-Sports Capital Corp. to settle a $2,250,000 non-interesting bearing convertible note issued on September 8, 2019.

On December 7, 2020, Luckbox issued 1,190,476 and 2,380,952 subscription units to settle the $500,000 convertible note issued on July 10, 2020 and $1,000,000 convertible note issued on November 20, 2020, respectively. Each unit is comprised of one common share and one half of one unit warrant. Each full warrant is exercisable to purchase one Luckbox share at $0.63 per share for a period of two years from the date of issuance.

As of December 31, 2021, there are no convertible notes outstanding (Note 13).

15. SHARE-BASED COMPENSATION

Year ended December 31, 2020:

During the year, Luckbox issued 4,750,482 shares to employees and consultants as compensation for services. These shares were also issued under the employee share pool. Out of the total shares issued to employees, 3,218,975 were vested as at December 31, 2019. A share-based payment reserve of $2,703,939 related to the vested shares was recorded within Reserves at December 31, 2019.

In April 2020, Luckbox issued 284,556 common shares as compensation for services to two directors of Luckbox.

The fair value of 1,531,807 common shares granted to two directors and employees during the year ended December 31, 2020 was determined to be $0.355 based on the estimated share price under the most recent private placement in 2020. As such, a total compensation expense of $644,703 related to common shares issued to directors and employees were recognized in profit and loss. In addition to the issued common shares, directors, officers and employees were also granted stock options of the Company with a total expense of $242,851. Refer to note 16 for detailed discussion of granted stock options to directors, officers and employees.

16. STOCK OPTIONS

Upon the completion of the Reverse Takeover Transaction in 2020, the Company adopted the Fixed Option Plan (the "Plan") with the purpose of retaining employees, consultants, officers and directors. The Plan allows the Board of Directors to issue up to 20% of the Company's outstanding common shares as stock options. As at December 31, 2021 the aggregate number of securities made available for issuance under the Plan is 13,705,700.

On December 20, 2021, the Company granted a total of 4,850,000 options under the Option Plan; 4,650,000 options were granted to employees and 200,000 options were granted to a third party consultant. Each stock option permits the holder to purchase one common share of the Company at the stated exercise price of $0.21 per common share. Out of the total options granted to its employees, officers and directors, 10% vested immediately on grant date, 10% will vest six months from grant date, and 20% will vest each six month period thereafter. The options granted to the third party consultant will vest over twelve months, with 25% of the options vesting every quarter. The Company recognized total expenses of $99,025 in connection with these options for the year ended December 31, 2021.

On September 21, 2021 the Company granted a total of 150,000 options under the Option Plan to an employee; Each stock option permits the holder to purchase one common share of the Company at the stated exercise price of $0.28 per common share. For these options, 10% vested immediately on grant date, 10% will vest six months from grant date, and 20% will vest each six month period thereafter. The Company recognized total expenses of $7,113 in connection with these options for the year ended December 31, 2021.

In June 2021, the Company granted a total of 1,350,000 options under the Option Plan to employees and a Director; Each stock option permits the holder to purchase one common share of the Company at the stated exercise prices. 150,000 of these options vested immediately on the grant date and 1,000,000 of these options will vest upon the achievement of certain milestones. These options are exercisable at $0.62 per common share. For the remaining 200,000 of these options, 10% vested immediately on grant date, 10% will vested six months from the grant date, and 20% will vest each six month period thereafter. These options are exercisable at $0.63 per common share. The Company recognized total expenses of $152,001 in connection with these options for the year ended December 31, 2021.

(Expressed in Canadian dollars)

16. STOCK OPTIONS (CONTINUED)

In February 2021, the Company granted a total of 1,000,000 options under the Option Plan to three employees; Each stock option permits the holder to purchase one common share of the Company at the stated exercise prices. For these options, 10% vested immediately on grant date, 10% will vested six months from the grant date, and 20% will vest each six month period thereafter. 850,000 of the options are exercisable at $0.97 per common share, and the remaining 150,000 options are exercisable at $1.42 per share. The Company recognized total expenses of $457,639 in connection with these options for the year ended December 31, 2021.

In December 2020, the Company granted a total of 6,082,500 options under the Option Plan; 5,782,500 options were granted to employees, officers and directors and 300,000 options were granted to a third party consultant. Each stock option permits the holder to purchase one common share of the Company at the stated exercise price. Out of the total options granted to its employees, officers and directors, 10% vested immediately on grant date, 10% will vested six months from the grant date, and 20% will vest each six month thereafter. The options granted to the third party consultant vested over twelve months, with 25% of the options vesting every quarter. 5,799,166 of the options are exercisable at $0.42 per common share, and the remaining 450,000 options are exercisable at $0.84 per share. The Company recognized total expenses of $242,851 in connection with the vested options for the year ended December 31, 2020..

On December 11, 2020, the Company also granted 166,666 options to the previous directors and officers of Elephant Hill Capital Inc. as part of the consideration for the Transaction. These options vested immediately on grant date. The valuation of these options is disclosed in note 4.

The following is a summary of the Company's stock option activity:

	Number of Options		Weighted Average Exercise Price
Outstanding at January 1, 2020	-		-
Granted	6,249,166	$	0.45
Outstanding at December 31, 2020	6,249,166	$	0.45
Granted	7,350,000		0.26
Exercised	(419,666)		0.42
Forfeited	(807,000)		0.42
Outstanding at December 31, 2021	12,372,500		
Exercisable at December 31, 2020	1,005,661	$	0.45
Exercisable at December 31, 2021	3,587,647		0.46

(Expressed in Canadian dollars)

16. STOCK OPTIONS (CONTINUED)

Stock options at December 31, 2021 were as follows:

	Outstanding		Exercisable	
Exercise price ($)	Number of Options	Weighted Average Remaining Contractual Life (years)	Number of Options	Weighted Average Remaining Contractual Life (years)
0.42	4,272,500	3.95	1,880,000	3.95
0.42	300,000	1.87	300,000	1.87
0.84	450,000	1.98	180,000	1.98
0.97	850,000	2.10	320,000	2.10
1.42	150,000	2.13	30,000	2.13
0.62	1,150,000	3.23	320,000	3.23
0.63	200,000	2.48	40,000	2.48
0.28	150,000	2.73	15,000	2.73
0.21	4,850,000	2.97	502,647	2.97
	12,372,500	3.19	3,587,647	3.27

During the year ended December 31, 2021, the Company recognized $1,889,557 (2020 - $242,851) in share-based payment expense related to the vesting of options.

Details of the fair value of options granted and the assumptions used in the Black-Scholes option pricing model are as follows:

	December 31, 2021	December 31, 2020
Weighted average fair value of options (1)	$ 0.25	$ 0.29
Weighted average risk-free interest rate	0.47%	0.41%
Weighted average estimated life	3.78 years	4.64 years
Weighted average expected volatility (2)	108%	116%
Weighted average expected dividend yield	0.00%	0.00%

(1) Of the options outstanding, 1,150,000 were granted with certain non-market performance conditions which were factored into the pricing model using estimated milestone completion dates.

(2) Volatility is calculated based on the change in historical stock prices over the expected life of the options.

(Expressed in Canadian dollars)

17. WARRANTS

The following is a continuity of the Company's warrants:

	Number of Warrants		Weighted Average Exercise Price
Outstanding at January 1, 2020	1,831,339	$	0.61
Issued – unit warrants	7,581,553		0.63
Issued – advisory warrants	1,191,544		0.42
Outstanding at December 31, 2020	10,604,436	$	0.60
Exercised – unit warrants	(2,046,000)		0.63
Exercised – advisory warrants	(448,875)		0.42
Issued – unit warrants	224,438		0.63
Issued – special unit warrants	7,789,591		1.50
Issued – agent warrants	1,186,985		1.20
Outstanding at December 31, 2021	17,310,575	$	1.05

During the year ended December 31, 2020, Luckbox issued unit warrants as part of the subscription units under completed private placement financings and advisory warrants, as compensation to agents in connection with the financings. Each unit warrant entitles the holder to purchase one common share at $0.63 per share for two years following the Transaction. Each advisory warrant entitles the holder to purchase one unit comprised of one common share and one half of one warrant at $0.42 per unit for two years following the Transaction. The Company recognized a total warrant reserve of $289,902 for advisory warrants issued in fiscal 2020.

On March 9, 2021, 14,837,317 special warrants and 741,865 corporate finance fee special warrants were exercised and converted under a private placement, resulting in the issuance of common shares and 7,789,591 warrants and 1,186,985 agent warrants (see note 14 for more information regarding this private placement).

Warrants outstanding at December 31, 2021 were as follows:

Exercise Price	Expiration Date	Number of Warrants Outstanding
$0.42	December 11, 2022	925,574
$0.63	December 11, 2022	7,408,425
$1.50	March 9, 2024	7,789,591
$1.20	March 9, 2024	1,186,985
		17,310,575

The weighted average remaining contractual life of warrants outstanding as of December 31, 2021 was 1.8 years (December 31, 2020 – 1.95 years).

Details of the fair value of agent warrants granted and the assumptions used in the Black-Scholes option pricing model are as follows:

		December 31, 2021
Fair value of agent warrants	$	0.807
Risk-free interest rate		0.50%
Estimated life		3 years
Expected volatility		112%
Expected dividend yield		0.00%

18. ACQUISITION OF NON-CONTROLLING INTEREST

On May 15, 2020, Luckbox acquired the remaining 20% interest in RTGH from Luckbox Limited for 1,801,394 Luckbox common shares as consideration. The fair value of Luckbox shares was determined to be $0.33, based on the estimated share price under the most recent private placement, for an aggregate consideration of $639,495. The difference between the consideration paid and the carrying amount of the non-controlling interest on acquisition date was recorded as a charge to equity.

Prior to the acquisition, on May 14, 2020, Luckbox received a total of 1,880,020 Luckbox common shares from two existing shareholders for $nil consideration to be used as consideration for the acquisition of non-controlling interest.

19. RELATED PARTY TRANSACTIONS

Related parties include key management personnel and Luckbox Limited, a company under common control by two directors of the Company.

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 corporate officers. The remuneration of key management personnel during the year ended December 31, 2021 and 2020 was as follows:

	December 31, 2021	December 31, 2020
Salaries and director fees	$ 786,120	$ 413,778
Share-based compensation	1,179,808	558,115
	$ 1,965,928	$ 971,893

Refer to note 14 and note 15 for discussion of the share-based payments issued to related parties.

Due from a related party

As at December 31, 2021, due from a related party balance of $36,481 (December 31, 2020 - $36,062) represents amounts due from a director. The balance solely consists of a loan amount denominated in GBP of £20,000 that was advanced to the director on October 8, 2019, is interest bearing at 3%, is repayable by October 7, 2022 and is secured by 33,000 shares of the Company held by the director. For the year ended December 31, 2021, the accrued interest on the loan is $1,034 (2020 - $1,265) and has been recognized as interest income in profit and loss.

Due to a related party

Included in accounts payable and accrued liabilities as at December 31, 2021 is an amount of $2500 (December 31, 2020 - $26,178) owed to key management personnel members of the Company. The amount is unsecured, non-interest bearing and is repayable upon demand.

Included in accounts payable and accrued liabilities as at December 31, 2021 is an amount of $14,805 (December 31, 2020 - $2,988) due to Luckbox Limited, a related party under common control.

As at December 31, 2020, $28,695 was due to a member of key management. The full balance was repaid during the year ended December 31, 2021.

(Expressed in Canadian dollars)

20. COST OF SALES

	December 31, 2021	December 31, 2020
Third-party fees for platform and service provider	$ 277,994	$ 223,948
Free bets	12,292	63,999
	$ 290,286	$ 287,947

21. GEOGRAPHICAL SEGMENT INFORMATION

The Company operates under one operating segment being that of an online esports betting company with online casino added on December 31, 2021. The Company's revenue and non-current assets are located as follows:

	December 31, 2021			December 31, 2020		
	Isle of Man	Bulgaria	Total	Isle of Man	Bulgaria	Total
Revenue	$ 25,174	$ -	$ 25,174	$ 75,480	$ -	$ 75,480
Non-current assets	$ 102,211	$ 68,618	$ 170,829	$ 154,514	$ 93,412	$ 247,926

22. INCOME TAXES

The Company's effective income tax rate for the fiscal year ended December 31, 2021 differs from the statutory tax rate that would be obtained by applying the combined Canadian basic federal and provincial income tax rate to the net loss before income taxes. These differences result from the following items:

	December 31, 2021	December 31, 2020
Net loss before income taxes	$ (8,625,373)	$ (5,492,388)
Canadian statutory income tax rate	23%	24%
Expected income tax recovery	(1,983,836)	(1,318,173)
Impact of differences in foreign tax rates and foreign exchange	1,175,776	1,168,752
Change in unrecognized deductible temporary differences	380,569	92,992
Non-deductible expenses	435,083	50,646
Impact of tax rate changes and other	(1,531)	8,908
Income tax expenses	$ 6,601	$ 3,125

The Company's provision for income taxes is allocated as follows:

	December 31, 2021	December 31, 2020
Current tax expense	$ 6,061	$ 5,172
Deferred tax recovery	-	(2,047)
Income tax expense	$ 6,061	$ 3,125

(Expressed in Canadian dollars)

22. INCOME TAXES (CONTINUED)

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. Details of deferred tax assets and liabilities are as follows:

	December 31, 2021	December 31, 2020
Deferred tax assets (liabilities)		
Employee benefits	$ 9,699	$ 8,793
Right of use assets	(6,406)	(9,587)
Lease liabilities	6,406	8,788
Net deferred tax asset	$ 9,699	$ 7,994

At December 31, 2021, the Company recognized $9,699 (December 31, 2020 - $7,994) of deferred tax assets in excess of profits arising from its existing taxable temporary differences as the Company expects to utilize these deductible temporary differences against future taxable profits from revenues from its Bulgarian operations.

The unrecognized deductible temporary differences as at December 31, 2021 and December 31, 2020 were comprised of the following:

	December 31, 2021	December 31, 2020
Share issuance costs	$ 2,786,702	$ 44,940
Canadian non-capital losses	2,961,260	589,882
	$ 5,747,962	$ 634,822

The Canadian non-capital losses expire between 2037 to 2041. Canadian non-capital losses arising before the reverse takeover are restricted in their use under Canadian income tax law and may not be available for future use.

23. FINANCIAL INSTRUMENT RISK MANAGEMENT

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from cash, other receivables and due from related party.

The Company limits its exposure to credit loss on cash by placing its cash with reputable financial institutions. The exposure to credit loss on other receivables is limited as other receivables are primarily comprised of money deposited on a reputable and secured payment platform. The exposure to credit loss on due from a related party is limited as the amount is secured by the companies owned by the related party. The maximum exposure to credit risk is reflected in the carrying amounts for cash, other receivables and due from a related party.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Management controls and monitors the Company's cash flow on a regular basis, including forecasting future cash flows.

To date, the Company's primary source of funding has been the issuance of equity securities for cash, primarily through private placements.

The following is an analysis of the contractual maturities of the Company's financial liabilities as at December 31, 2021:

	Within one year	Between one and five years
Accounts payable	$ 1,000,056	$ -
Lease obligations	$ 40,401	$ 23,617
	$ 1,040,457	$ 23,617

Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company and its subsidiaries are exposed to currency risk as it has transactions denominated in currencies that are different from their functional currencies. The Company does not hedge its exposure to fluctuations in foreign exchange rates.

As at December 31, 2021, the Company's significant foreign exchange currency exposure on its financial instruments, expressed in Canadian dollars was as follows:

	BGN	GBP	EUR	USD
Cash	$ 65,103	$ 462,382	$ 294,133	$ 6
Restricted cash	-	93,102	-	-
Other receivables	351	20,047	94,713	(20,031)
Due from a related party	-	36,481	-	-
Accounts payable	(217,920)	(369,925)	(29,452)	(20,669)
Lease liabilities	(64,018)	-	-	-
Net exposure	$ (216,484)	$ 242,087	$ 359,394	$ (40,694)

23. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

The table below details the effect on earnings on earnings before tax of a 10% strengthening or weakening of the CAD exchange rates as at December 31, 2021 on items denominated in BGN, GBP, EUR and USD:

	10% Strengthening	10% Weakening
CAD:GBP exchange rate	$ 41,390	$ (41,390)
CAD:USD exchange rate	(5,167)	5,167
CAD:EUR exchange rate	51,757	(51,757)
CAD:BGN exchange rate	(15,940)	15,940
	$ 72,040	$ (72,040)

Capital Management

The Company's capital includes its working capital and share capital. 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 adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Basis of Fair Value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The carrying value of the Company's financial assets and liabilities as at December 31, 2021 and 2020 approximate their fair value due to their short terms to maturity.

The carrying value of lease liabilities where interest is charged at a fixed rate is not significantly different from the fair value.

24. SUBSEQUENT EVENTS

The following events occurred subsequent to December 31, 2021:

(a) In March 2022, the Company granted 1,050,000 stock options to a director and an officer. These options are exercisable for a period of three years from the date of grant; vesting 10% on the grant date, 10% six months from the date of grant and 20% every six months thereafter. These options have an exercise price of $0.21.

(b) On March 29, 2022, the company granted 80,000 stock options to employees. These options are exercisable for a period of three years from the date of grant; vesting 10% on the grant date, 10% six months from the date of grant and 20% every six months thereafter. These options have an exercise price of $0.21.