

Real Luck Group Ltd.
(formerly Elephant Hill Capital Inc.)

Consolidated and Combined Financial Statements

For the years ended December 31, 2020 and 2019

(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. (formerly, Elephant Hill Capital Inc.):

Opinion

We have audited the consolidated financial statements of Real Luck Group Ltd. (formerly, Elephant Hill Capital Inc.) and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at December 31, 2020 and the consolidated statement of loss and comprehensive loss, consolidated statement of changes in equity (deficiency) and consolidated statement of cash flows for the year 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 Group as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit 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 Group in accordance with the ethical requirements that are relevant to our audit 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 is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Restated Comparative Information

We draw attention to Note 29 to the consolidated and combined financial statements, which explains that certain comparative information for the year ended December 31, 2019 has been restated. Our opinion is not modified in respect of this matter.

Other Matter

The combined financial statements for the year ended December 31, 2019, excluding the adjustments that were applied to restate certain comparative information, were audited by another auditor who expressed an unmodified opinion on those combined financial statements on November 27, 2020.

As part of our audit of the consolidated financial statements for the year ended December 31, 2020, we also audited the adjustments described in Note 29 that were applied to restate certain comparative information presented. In our opinion, such adjustments are appropriate and have been properly applied.

Other than with respect to the adjustments that were applied to restate certain comparative information, we were not engaged to audit, review, or apply any procedures to the combined financial statements for the year ended December 31, 2019. Accordingly, we do not express an opinion or any other form of assurance on those combined financial statements taken as a whole.

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 audit 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 audit 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.

ASSURANCE • TAX • ADVISORY

Baker Tilly WM LLP is a member of Baker Tilly Canada Cooperative, which is a member of the global network of Baker Tilly International Limited. All members of Baker Tilly Canada Cooperative and Baker Tilly International Limited are separate and independent legal entities.

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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group'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 Group'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 Group'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 Group 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 Group 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 30, 2021

REAL LUCK GROUP LTD. (FORMERLY ELEPHANT HILL CAPITAL INC.)
CONSOLIDATED AND COMBINED STATEMENT OF FINANCIAL POSITION
As at December 31,
(Expressed in Canadian Dollars)

	Note	2020	2019 (Restated – Note 29)
ASSETS			
Current assets			
Cash		\$ 3,842,680	\$ 2,020,845
Restricted cash	5	46,917	85,456
Other receivables	6	69,973	170,808
Cryptographic assets	8	370	18,182
Prepaid expenses and deposits		94,948	178,581
		<u>4,054,888</u>	<u>2,473,872</u>
Non-current assets			
Due from a related party	22	36,062	39,719
Right of use assets	9	83,134	152,402
Equipment	7	107,184	155,078
Intangible assets	10	13,552	13,318
Deferred tax assets	25	7,994	5,947
		<u>247,926</u>	<u>366,464</u>
TOTAL ASSETS		\$ 4,302,814	\$ 2,840,336
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	11	\$ 958,732	\$ 609,853
Due to a related party	22	28,695	-
Convertible notes – host debt	14	-	964,286
Convertible notes – conversion feature	14	-	2,250,000
Warrant liabilities	12	-	212,757
Current portion of lease liabilities	13	38,369	43,861
Corporate tax payable		4,796	3,717
		<u>1,030,592</u>	<u>4,084,474</u>
Non-current liabilities			
Lease liabilities	13	48,761	113,002
Total liabilities		<u>1,079,353</u>	<u>4,197,476</u>
Equity			
Share capital	15	24,807,375	272,859
Contributed surplus	19	10,429,460	23,403,401
Reserves	16,17,18	1,893,123	2,703,939
Accumulated other comprehensive loss		(157,974)	(123,823)
Deficit		(33,748,523)	(27,613,516)
Total equity		<u>3,223,461</u>	<u>(1,357,140)</u>
TOTAL LIABILITIES AND EQUITY		\$ 4,302,814	\$ 2,840,336

Subsequent events (note 30)

Approved and authorized for issue by the Board of Directors on April 30, 2021

“Quentin Martin” Director “Drew Green” Director

REAL LUCK GROUP LTD. (FORMERLY ELEPHANT HILL CAPITAL INC.)**CONSOLIDATED AND COMBINED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

For the year ended December 31,

(Expressed in Canadian Dollars)

	Note	2020	2019 (Restated – Note 29)
Revenue		\$ 75,480	\$ 4,024
Cost of sales	23	287,947	81,186
		(212,467)	(77,162)
Expenses			
Advertising, marketing and investor relations		406,207	407,358
Depreciation	7,9	89,962	97,837
Bad debt expenses (recovery)		(62,371)	47,453
Consulting fees		668,119	753,152
Foreign exchange loss		96,614	19,124
Legal and professional fees		907,092	646,685
General and administrative expenses		521,371	578,646
Salaries and director fees	22	1,547,475	1,946,715
Share-based compensation	16,22	887,554	14,765,372
Transfer agent and filing fees		16,503	-
Travel and accommodation		105,243	173,455
		5,183,769	19,435,797
Other expenses (income)			
(Gain) loss on disposal of equipment	7	(2,923)	5,286
Listing expenses	4	587,881	-
Transaction costs on liabilities at FVTPL	12,14	193,580	75,600
Loss on re-measurement of warrant liabilities	12	140,005	-
Gain on re-measurement of conversion options	14	(2,630,811)	-
Accretion expenses on convertible notes	14	1,820,163	964,286
Gain on revaluations of cryptographic assets	8	(916)	(20,445)
Other income		(10,827)	(1,055)
Net loss before income taxes		\$ (5,492,388)	\$ (20,536,631)
Income tax expense	25	3,125	2,278
Net loss		(5,495,513)	(20,538,909)
Other comprehensive loss (income)			
Currency translation adjustment		34,151	123,823
Net loss and comprehensive loss for the year		(5,529,664)	(20,662,732)
Net loss and comprehensive loss attributable to:			
Owners of Real Luck Group Ltd.		(5,269,182)	(20,662,732)
Non-controlling interests		(260,482)	-
		(5,529,664)	(20,662,732)
Loss per share – Basic and diluted		\$ (0.18)	\$ (3.74)
Weighted average number of common shares:		30,011,278	5,524,298

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

REAL LUCK GROUP LTD. (FORMERLY ELEPHANT HILL CAPITAL INC.)
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										
– as previously reported		15,812,872	\$ 272,859	\$ 9,711,364	\$ 55,272	\$ (84,010)	\$ (9,821,686)	\$ 133,799	\$ (218,056)	\$ (84,257)
Correction of errors (net of tax)	29	-	-	13,692,037	2,648,667	(39,814)	(17,791,830)	(1,470,699)	218,056	(1,252,643)
Balance, January 1, 2020										
– as restated		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	19,20	-	-	(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	16	3,218,975	55,272	2,648,667	(2,703,939)	-	-	-	-	-
Shares issued as a result of re-pricing	15	1,831,148	31,163	-	-	-	-	31,163	-	31,163
Shares issued under private placements (net of issuance costs)	12,15	10,847,320	185,673	2,651,171	-	-	-	2,836,844	-	2,836,844
Shares and warrants issued to agents and advisors	14, 15,18	887,383	15,166	367,599	289,915	-	-	672,680	-	672,680
Share issuance on settlement of convertible notes	15	14,285,674	245,033	3,504,967	-	-	-	3,750,000	-	3,750,000
Share-based compensation	16,17	1,816,363	33,298	611,405	242,851	-	-	887,554	-	887,554
Repurchase and cancellation of treasury shares	21	(1,880,020)	(32,023)	32,023	-	-	-	-	-	-
Acquisition of non-controlling interests in RTGH	21	1,801,394	30,683	2,698,135	-	(19,573)	(3,187,783)	(478,538)	478,538	-
Luckbox shares cancelled in RTO	19	(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	12	-	-	-	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 and combined financial statements.

REAL LUCK GROUP LTD. (FORMERLY ELEPHANT HILL CAPITAL INC.)**COMBINED STATEMENT OF CHANGES IN EQUITY (DEFICIENCY)**

For the year ended December 31, 2019

(Expressed in Canadian Dollars)

	Note	Number of Common Shares (Luckbox)	Share Capital*	Contributed surplus*	Reserves*	Accumulated OCI*	Accumulated deficit*	Total Equity*
Balance, January 1, 2019								
– as previously reported		-	-	-	-	-	(7,074,607)	(7,074,607)
Correction of errors (net of tax)	29	-	-	10,429,460			-	10,429,460
Balance, January 1, 2019								
– as restated		-	-	10,429,460	-	-	(7,074,607)	3,354,853
Net loss for the year		-	-	-	-	-	(20,538,909)	(20,538,909)
Share-based compensation	16	14,365,032	247,725	11,818,902	2,703,939	-	-	14,770,566
Shares issued under private placement	12,15	1,398,000	24,278	1,106,055	-	-	-	1,130,333
Issuance of common shares as finders' fees	15	49,840	856	48,984	-	-	-	49,840
Foreign currency translation differences		-	-	-	-	(123,823)	-	(123,823)
Balance, December 31, 2019		15,812,872	272,859	23,403,401	2,703,939	(123,823)	(27,613,516)	(1,357,140)

* Restated on account of correction of errors. See Note 29 for details.

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

REAL LUCK GROUP LTD. (FORMERLY ELEPHANT HILL CAPITAL INC.)**CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS**

(Expressed in Canadian dollars)

For the years ended December 31,

	2020	2019 (Restated – Note 29)
Cash flows from operating activities		
Net loss	\$ (5,495,513)	\$ (20,538,909)
Items not affecting cash:		
Depreciation	89,962	97,837
Share-based payments	887,554	14,765,372
Accretion expenses on convertible notes	1,820,163	964,286
Transaction costs on liabilities at FVTPL	193,580	75,600
Loss on re-measurement of warrant liabilities	140,005	-
Gain on re-measurement of conversion options	(2,630,811)	-
Listing expenses	587,881	-
Gain on revaluation of cryptographic assets	(916)	(20,445)
(Gain) loss on disposal of equipment	(2,923)	5,286
Deferred tax recovery	(2,047)	-
Changes in non-cash working capital		
Restricted cash	38,539	(85,456)
Other receivables	20,844	(178,463)
Prepaid expenses and deposits	83,633	(53,819)
Accounts payable and accrued liabilities	348,879	137,006
Income taxes payable	1,079	(3,420)
Net cash flows used in operating activities	(3,920,091)	(4,835,125)
Cash flows from investing activities		
Purchase of cryptographic assets	(15,541)	(1,153,992)
Proceeds on disposal of cryptographic assets	34,389	1,359,407
Proceeds on disposal of intangible asset	-	36,780
Proceeds on disposal of equipment	5,989	3,165
Purchase of equipment	(3,121)	(156,761)
Acquisition of right-of-use assets	-	(48,548)
Repayment of amounts due from related party	3,657	-
Cash acquired in reverse takeover	14,015	-
Interest received	-	1,055
Net cash flows provided by investing activities	39,388	41,106
Cash flows from financing activities		
Proceeds on issuance of common shares	4,635,865	1,326,000
Interest paid	-	(6,834)
Share and debt issuance costs	(530,571)	-
Proceeds on issuance of convertible notes	1,500,000	2,250,000
Increase in due to related party	28,695	-
Payments on lease liabilities	(37,560)	(40,204)
Repayments on loan	-	(31,086)
Net cash flows provided by financing activities	5,596,429	3,497,876
Change in cash	1,715,726	(1,296,143)
Effects of exchange differences	106,109	(40,267)
Cash – beginning of year	2,020,845	3,357,255
Cash – end of year	\$ 3,842,680	\$ 2,020,845

Supplementary cash flow information (Note 28)

1. NATURE OF OPERATIONS

Real Luck Group Ltd. (formerly “Elephant Hill Capital Corp.”) (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.

On December 11, 2020, the Company completed a reverse takeover (the “Transaction”) with Esports Ltd. (“Esports” or “Luckbox”), a private company limited by share capital incorporated and domiciled in the Isle of Man, and Elephant Hill Sub Co., the Company’s wholly-owned subsidiary, through a three-cornered amalgamation. On December 16, 2020, the Company changed its name to “Real Luck Group Ltd” and began trading on TSX Venture Exchange under the ticker symbol “LUCK”.

The Company has the following wholly-owned subsidiaries, Real Time Games Holding Limited (“RTGH”), Real Times Games Services Limited (“RTGS”), Real Time Games Developments Limited (“RTGD”) and Esports Tech Limited (“ETL”). Together, the Company and its wholly-owned subsidiaries (“the Group”) engage in the provision of e-sports wagering services through a licensed betting platform. The Company has only one operating segment, e-sports betting.

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 and combined financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of preparation

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

The consolidated and combined financial statements have been prepared on a continuity of interest basis that present the comparative results of Esports’ combined financial statements.

The comparative figures presented for the year ended December 31, 2019 combined the results of Esports Limited for the period from incorporation April 25, 2019 to December 31, 2019, and the results of Real Time Games Holdings,

Real Times Games Services Limited and Esports Tech Limited (the ‘Group’) for the year ended December 31, 2019 to present the interests of the ultimate shareholders Michael Jon Steven and Lars-Kristian Engum Lien, through entities under common control, for the period from January 1, 2019 to December 31, 2019, even though they were not yet a legal Group until part-way through the period ended December 31, 2019. Esports acted as the reporting entity for

REAL LUCK GROUP LTD. (FORMERLY ELEPHANT HILL CAPITAL INC.)
NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended December 31, 2020 and December 31, 2019

2. BASIS OF PREPARATION (CONTINUED)

the combined financial statements being the ultimate parent Company, even though it was incorporated part-way through the year ended December 31, 2019.

Following the December 31, 2019 year end, Michael Jon Stevens and Lars-Kristian Engum Lien were not considered to exercise control, given a dilution in the percentage of ordinary shares held by them.

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 2019 statements	Balance in audited 2019 combined statements	Presented in December 31, 2020 as comparative figures
Accounts receivables	\$ 178,581	Prepaid expenses and deposits
Accounts receivables	39,719	Due from related party
Other liabilities	479,485	Accounts payable and accrued liabilities
Administrative expenses -employment costs	1,946,715	Salaries and director fees
Finance charges – bank charges	62,880	General and administrative expenses

Functional and presentation currency

The consolidated and combined financial statements are presented in the Canadian dollars, which is the Company's functional currency. The functional currency of its Isle of Man subsidiaries is the Pound Sterling ("GBP") and the functional currency of its Bulgarian subsidiary is the Bulgarian Lev ("BGN").

Basis of Consolidation

These consolidated and combined 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:

Entity	Country of incorporation	Percentage owned	
		December 31, 2020	December 31, 2019
Esports Limited	Isle of Man	100%	-
Real Time Games Holdings Limited (RTGH)	Isle of Man	100%	80%
Real Times Games Services Limited (RTGS)	Isle of Man	100%	80%
Real Time Games Developments Limited (RTGD)	Bulgaria	100%	80%
Esports Tech Limited (ETL)	Isle of Man	100%	100%

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 and combined financial statements of the Company, the results of foreign operations with a functional currency other than Canadian dollars are retranslated 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 the foreign currency translation reserve within equity.

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, warrant liabilities, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cryptographic assets

Cryptographic assets consist of crypto currencies denominated assets such as Bitcoin and Ethereum and have been classified under Intangible assets as per IAS38. All Crypto currencies held have active markets available and can be revalued to market price. These assets are initially measured at cost and subsequently remeasured at fair value, being the original cost of the crypto currency and any revaluation adjustment. A revaluation increase is recognized in profit and loss to the extent of previous decrease of the same asset recognized in profit and loss. Otherwise, a revaluation increase is recognized in other comprehensive income and accumulated in equity as revaluation surplus. A revaluation decrease is recognized in other comprehensive income to the extent of reversal of the revaluation surplus accumulated in equity. Any decrease in excess of such balance is recognized in profit and loss.

Crypto currencies held by the Company are valued at their fair value using the closing price listed on tradingview.com quoted in USD and are translated to GBP using applicable effective exchange rates on re-measurement dates.

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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Critical accounting estimates and significant management judgments

The preparation of the Company's consolidated and combined 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 and combined 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.

Determination of lease terms

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2020:

Amendments to IAS 1 "Presentation of financial statements" and IAS 8 "Accounting policies, changes in accounting estimates and errors": Definition of Material (in force for annual periods beginning on or after January 1, 2020).

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (in force for annual periods beginning on or after January 1, 2020).

Amendments to IFRS 3 "Business Combinations" (in force for annual periods beginning on or after January 1, 2020).

Impact of COVID-19

The recent outbreak of the coronavirus, also known as "COVID-19", is having adverse impacts on the global economy. The conditions surrounding COVID-19 continue to rapidly 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.

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. 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 is 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.

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*.

REAL LUCK GROUP LTD. (FORMERLY ELEPHANT HILL CAPITAL INC.)
NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended December 31, 2020 and December 31, 2019

6. OTHER RECEIVABLES

	December 31, 2020	December 31, 2019
VAT receivable	\$ -	\$ 90,817
Money deposited on the payment platform (a)	69,174	-
Others	799	79,991
	<u>\$ 69,973</u>	<u>\$ 170,808</u>

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

7. EQUIPMENT

	Office Equipment	Computer Servers	Total
Cost			
Balance at January 1, 2019	\$ 73,810	\$ -	\$ 73,810
Additions	8,172	148,589	156,761
Disposals	(14,520)	-	(14,520)
Currency translation adjustment	(2,973)	1,336	(1,637)
Balance at December 31, 2019	<u>\$ 64,489</u>	<u>\$ 149,925</u>	<u>\$ 214,414</u>
Additions	3,121	-	3,121
Disposals	(15,172)	-	(15,172)
Currency translation adjustment	3,395	2,634	6,029
Balance at December 31, 2020	<u>\$ 55,833</u>	<u>\$ 152,559</u>	<u>\$ 208,392</u>
Accumulated depreciation			
Balance at January 1, 2019	\$ (11,628)	\$ -	\$ (11,628)
Depreciation	(38,022)	(17,335)	(55,357)
Disposals	6,069	-	6,069
Currency translation adjustment	1,730	(150)	1,580
Balance at December 31, 2019	<u>\$ (41,851)</u>	<u>\$ (17,485)</u>	<u>\$ (59,336)</u>
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	<u>\$ (50,418)</u>	<u>\$ (50,790)</u>	<u>\$ (101,208)</u>
Carrying amounts			
December 31, 2019	\$ 22,638	\$ 132,440	\$ 155,078
December 31, 2020	<u>\$ 5,415</u>	<u>\$ 101,769</u>	<u>\$ 107,184</u>

REAL LUCK GROUP LTD. (FORMERLY ELEPHANT HILL CAPITAL INC.)
NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended December 31, 2020 and December 31, 2019

8. CRYPTOGRAPHIC ASSETS

	Total
Cost	
Balance at January 1, 2019	\$ 205,644
Additions	1,153,992
Disposals	(1,359,407)
Revaluations	20,445
Currency translation adjustment	(2,492)
Balance at December 31, 2019	\$ 18,182
Additions	15,541
Disposals	(34,389)
Revaluations	916
Currency translation adjustment	120
Balance at December 31, 2020	\$ 370

9. RIGHT OF USE ASSETS

	Office lease #1	Office lease #2	Office lease #3	Total
Cost				
Balance at January 1, 2019	\$ 89,892	\$ 94,624	\$ -	\$ 184,516
Additions	-	-	48,548	48,548
Currency translation adjustment	(5,117)	(5,387)	(955)	(11,459)
Balance at December 31, 2019	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
Accumulated depreciation				
Balance at January 1, 2019	\$ (16,559)	\$ (12,616)	\$ -	\$ (29,175)
Depreciation	(17,447)	(18,206)	(6,827)	(42,480)
Currency translation adjustment	1,242	1,076	134	2,452
Balance at December 31, 2019	(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, 2019	\$ (52,799)	\$ (51,118)	\$ -	\$ (103,917)
Net book value				
December 31, 2019	\$ 52,011	\$ 59,491	\$ 40,900	\$ 152,402
December 31, 2020	\$ 38,406	\$ 44,728	\$ -	\$ 83,134

REAL LUCK GROUP LTD. (FORMERLY ELEPHANT HILL CAPITAL INC.)
NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended December 31, 2020 and December 31, 2019

10. INTANGIBLE ASSETS

		Domain	Internally developed software	Total
Cost				
Balance at January 1, 2019	\$	13,371	37,261	\$ 50,632
Additions		-	-	-
Disposals		-	(36,780)	(36,780)
Currency translation adjustment		(53)	(481)	(534)
Balance at December 31, 2019	\$	13,318	-	13,318
Currency translation adjustment		234	-	234
Balance at December 31, 2020	\$	13,552	-	13,552
Net book value				
December 31, 2019	\$	13,318	-	\$ 13,318
December 31, 2020	\$	13,552	-	\$ 13,552

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2020	December 31, 2019
Trade accounts payable	\$ 400,956	\$ 58,486
Payroll liabilities	223,002	150,605
Accrued liabilities	295,026	311,228
Sales tax payable	5,932	-
Player liabilities	30,828	7,824
Due to Luckbox Limited	2,988	25,664
Other payables	-	56,046
	\$ 958,732	\$ 609,853

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

12. 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. Refer to note 15 for discussion of the issuance of subscription units. On initial recognition, these warrants were classified as financial liability at fair value through profit and loss, as the exercise price of the warrants was in CAD and was different from the functional currency of Luckbox (GBP), the issuer of the equity instruments. On initial recognition, the fair value of the warrant liabilities were determined to be \$212,757 using the Black-Scholes option pricing model.

12. WARRANT LIABILITIES (CONTINUED)

As discussed in Note 15, 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.

In June 2020, Luckbox issued 5,423,660 warrants as part of the subscription units under private placements (Note 15) 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.

A reconciliation of the changes in warrant liabilities during the years ended December 31, 2020 and 2019 is as follows:

	2020	2019
Opening balance, January 1	\$ 212,757	\$ -
Recognition upon issuance	997,245	212,757
Loss on re-measurement	140,005	-
Derecognition of warrant liabilities and re-classification within Reserves	(1,350,007)	-
Ending balance, December 31	\$ -	\$ 281,112

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

Weighted average fair value of warrant	\$ 0.207	\$ 0.424
Exercise price	0.63	1.50
Risk-free interest rate	0.25%	1.60%
Estimated life	2 years	2 years
Expected volatility	114%	98.8%
Expected dividend yield	0.00%	0.00%

REAL LUCK GROUP LTD. (FORMERLY ELEPHANT HILL CAPITAL INC.)
NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended December 31, 2020 and December 31, 2019

13. 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	Total
Balance at January 1, 2019	\$ 74,910	\$ 82,796	\$ -	\$ 157,706
Additions	-	-	48,548	48,548
Interest expenses	2,276	3,034	1,517	6,827
Lease payments	(18,964)	(19,723)	(8,344)	(47,031)
Currency translation adjustment	(3,983)	(4,385)	(819)	(9,187)
Balance at December 31, 2019	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

As at December 31, 2020, the Company is committed to minimum lease payments as follows:

Maturity analysis	December 31, 2020
Less than one year	\$ 41,214
One year to three years	49,976
Total undiscounted lease liabilities	91,190
Less: imputed interest at 4%	(4,060)
Total	\$ 87,130
Less: Current portion	(38,369)
Long-term portion	48,761

14. CONVERTIBLE NOTES

On September 8, 2019, Luckbox issued a non-interest bearing convertible note that had a face value of \$2,250,000 ("Avatar Note"). The note would convert at \$0.21 per share for a total of 10,714,246 Luckbox shares prior to the completion of the Transaction. In conjunction with the issuance of the Avatar Note, Luckbox issued 90,000 Luckbox shares, valued at \$75,600, as finder's fees, whereby the fair value of each share amounting to \$0.84 per share, was estimated with reference to recent placements closed by Luckbox. On issuance date, the conversion option associated with the Avatar note was 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 \$2,250,000 and the residual value of \$nil was allocated to the host debt.

Transaction costs are required to be allocated between the host debt and derivative conversion liability components of the notes based on ratio of relative fair values at initial recognition. Accordingly, based on the estimated fair values discussed above, the entirety of the transactions costs were immediately recognized in profit or loss.

14. CONVERTIBLE NOTES (CONTINUED)

The host debt was subsequently measured at amortized cost and the derivative conversion liability at fair value through profit and loss. Between September 8, 2019 and December 31, 2019 Luckbox recognized accretion expenses on the host debt amounting to \$964,286 based on an effective interest rate of 137%. Accordingly at December 31, 2019 the host debt had a carrying value of \$964,286. No changes in fair value of the derivative conversion liability were recognized between the period September 8, 2019 to December 31, 2019.

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. 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 15 for disclosures related to settlement of the notes.

REAL LUCK GROUP LTD. (FORMERLY ELEPHANT HILL CAPITAL INC.)
NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended December 31, 2020 and December 31, 2019

14. CONVERTIBLE NOTES (CONTINUED)

A continuity of the host debt liabilities for the year ended December 31, 2020 and 2019 is as follows:

	Face value	Carrying value
Balance, January 1, 2019	\$ -	\$ -
Issued during the year	2,250,000	-
Accretion expenses	-	964,286
Balance, December 31, 2019	\$ 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	\$ -	\$ -

A continuity of the embedded conversion feature for the year ended December 31, 2020 and 2019 is as follows:

	Carrying value
Balance, January 1, 2019	\$ -
Recorded on issuance of Avatar note	2,250,000
Gain on re-measurement	-
Balance, December 31, 2019	2,250,000
Recorded on issuance of ExpoWorld notes	323,333
Gain on re-measurement	(2,573,333)
Balance, December 31, 2020	\$ -

15. SHARE CAPITAL

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

On September 2, 2019, Luckbox split its common shares from par value £1 to par value £0.01. Each single share in issue became 100 shares.

Prior to the Transaction, common shares had par value of £0.01. On closing of the Transaction, all outstanding common shares with par value were cancelled and re-issued in the capital of the Company without par value. Carrying value of contributed surplus was reclassified to share capital on re-issuance of common shares at no par value.

Private placements

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.

15. SHARE CAPITAL (CONTINUED)

Private placements (continued)

Refer to Note 12 for discussion of accounting impact related to the amended exercise price of unit warrants.

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 12 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 12, 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.

Year ended December 31, 2019:

On November 29, 2019, Luckbox completed a private placement for gross proceeds of \$1,246,000 and issued 1,246,000 units at a price of \$1.00 per unit. Each unit comprised of one common share and one unit warrant. Two warrants can be exercised to purchase one common share at a price of \$1.50 per share for a period of two years from date of issuance. In connection with the private placement, Luckbox issued 49,840 shares to the agent as finders' fees for a total cost of \$49,840.

On December 21, 2019, Luckbox completed another financing round for gross proceeds of \$80,000 and issued 80,000 at a price of \$1.00 per unit. Each unit comprised of one common share and one share purchase warrant. Two warrants can be exercised to purchase one common share at a price of \$1.50 per share for a period of two years from date of issuance.

15. SHARE CAPITAL (CONTINUED)

Private placements (continued)

Refer to Note 12 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 the \$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.

16. 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 issued under the employee share pool established by Luckbox on May 1, 2019. 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 17 for detailed discussion of granted stock options to directors, officers and employees.

Year ended December 31, 2019:

On September 2, 2019, Luckbox issued 2,000,000 common shares to each of the two existing shareholders, Michael Jon Stevens and Lars-Kristian Engum Lien, for a total of 4,000,000 shares, as remuneration for services. The fair value per share on grant date was determined to be \$0.84 based on the most recent private placement in 2019, and a share-based compensation expense of \$3,360,000 was recorded in profit and loss.

On October 31, 2019, Luckbox issued a further 4,000,000 common share to each of Michael Jon Stevens and Lars-Kristian Engum Lien, for a total of 8,000,000 shares, as remuneration for services. The fair value per share on grant date was determined to be \$0.84 and a share-based compensation expense of \$6,720,000 was recognized in profit and loss.

16. SHARE-BASED COMPENSATION (CONTINUED)

On December 30, 2019, Luckbox issued an additional 72,000 shares to Lars Kristian Engum Lien and 144,000 shares to Michael Jon Stevens, for a total of 216,000 shares, as remuneration for services. The fair value per share on grant date was determined to be \$0.788 and a share-based compensation expense of \$181,440 was recognized in profit and loss,

On May 1, 2019 Luckbox established an employee share pool to provide incentives for employees and consultants. The total numbers of shares made available to the pool was 10,000,000. Shares are issued according to the contract of the employees, and can also be issued at the discretion of management from this pool.

As at December 31, 2019, Luckbox had issued 2,149,032 common shares to employees as remuneration for services under the employee share pool. The fair value per share on grant date was determined to be \$0.84 based on the estimated share price from the private placement completed in December 2019 and a share-based compensation expense of \$1,799,993 was recognized in profit and loss.

As at December 31, 2019, a further 3,218,975 shares awarded to employees and consultants based on their contract terms or discretionary bonus awards, under the employee share pool had vested but had not been issued. The fair value of the vested share was determined to be \$0.84 on grant date based on the estimated share price from the private placement and a total expense of \$2,703,939 was recognized in profit and loss with a corresponding increase in equity reserves.

17. STOCK OPTIONS

Upon the completion of the Transaction, 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, 2020, the aggregate number of securities made available for issuance under the Plan was set at 10,057,495.

On December 11, 2020, the Company granted a total of 6,082,500 options under this 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 vest six months from grant date, and 20% will vest each six month 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 a total expenses of \$242,851 in connection with the vested options as at December 31, 2020 based on the valuation in the table below.

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.

REAL LUCK GROUP LTD. (FORMERLY ELEPHANT HILL CAPITAL INC.)
NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended December 31, 2020 and December 31, 2019

17. STOCK OPTIONS (CONTINUED)

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

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2019	-	-
Granted	6,249,166	\$ 0.45
Outstanding at December 31, 2020	6,249,166	\$ 0.45
Exercisable at December 31, 2020	1,005,661	\$ 0.45

Stock options at December 31, 2020 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	5,799,166	4.70	943,056	4.03
0.84	450,000	2.98	62,605	2.98
	6,249,166	4.58	1,005,661	3.97

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

Weighted average fair value of options	\$ 0.27	\$ 0.70
Exercise price	0.42	0.84
Risk-free interest rate	0.42%	0.28%
Estimated life	4.76 years	3 years
Expected volatility	115%	123%
Expected dividend yield	0.00%	0.00%

18. WARRANTS

	Number of Warrants	Weighted Average Exercise Price
Outstanding at January 1, 2019	-	-
Issued - unit warrants	1,648,434	0.63
Issued - advisory warrants	182,905	0.42
Outstanding at December 31, 2019	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

18. WARRANTS (CONTINUED)

During the year ended December 31, 2020 and December 31, 2019, 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 \$289,915 for advisory warrants issued during the current year.

Warrants outstanding at December 31, 2020 were as follows:

Exercise Price	Expiration Date	Number of Warrants Outstanding
\$0.42	December 11, 2022	1,374,449
\$0.63	December 11, 2022	9,229,987
		10,604,436

The weighted average remaining contractual life of warrants outstanding as of December 31, 2020 was 1.95 years (December 31, 2019 – 2.95 years).

19. CONTRIBUTED SURPLUS

Luckbox Limited was an entity under common control with Luckbox and RTGH, and was the non-controlling interest who held 20% interest in RTGH for the period from May 13, 2019 to May 15, 2020. Prior to Luckbox's acquisition of 80% interest in RTGH as disclosed in Note 20 below, Luckbox Limited provided a loan denominated in GBP to RTGH of CAD \$10,463,813 (£6,098,646). In May 2019, Luckbox Limited agreed to convert the outstanding balance of its loan in exchange for 20% interest in RTGH. The loan forgiveness was considered as a transaction between two subsidiaries under common control of Lars Lien and Michael Stevens and was reflected within equity. The difference between the carrying value of the loan on derecognition and the carrying value of 20% interest of RTGH, issued to Luckbox Limited as consideration, was recognized as a contributed surplus. The total value of the loan converted to contributed surplus was \$10,429,460 (£6,041,535). 80% of the contributed surplus, being \$8,343,568, less the carrying value of share consideration paid to Luckbox Limited of \$3,432, for a net amount of \$8,340,908, was attributable to Luckbox; the remaining 20% with the value of \$2,085,892 was attributable to non-controlling interest and was reflected as an adjustment to equity on consolidation on January 1, 2020.

Included in the total contributed surplus was the additional paid-in capital over par value of Luckbox common shares. On the Transaction date, Luckbox shares were cancelled and re-issued as resulting issuer shares; the outstanding additional paid-in capital of \$23,398,584 pertaining to the cancelled Luckbox shares were recognized as part of share capital on issuance of Real Luck shares, which are issued at no par value.

20. BUSINESS ACQUISITION UNDER COMMON CONTROL

In May 2019, Luckbox acquired 80% of interest in RTGH from Luckbox Limited, a company under common control with Luckbox and RTGH, for cash consideration of \$13,726 and acquired 100% of ETL for cash consideration of \$1.70. These transactions are considered as business acquisitions under common control as the combining entities, being Luckbox, RTGH and ETL, are under control by Lars Lien and Michael Stevens both prior and subsequent to the acquisitions. Luckbox has elected to apply the book-value method to account for these transactions. Under this method, the assets and liabilities transferred on the date of acquisition are measured at the carrying values of the assets and liabilities of the transferred companies, being RTGH and ETL, the difference between the cash consideration paid and the carrying value of assets and liabilities received was reflected in equity of Luckbox. The carrying value of assets acquired and liabilities assumed by the owners of controlling interest on acquisition was \$1,059,360 and the cash consideration paid to Luckbox Limited was \$13,726.

However, given that the combined financial statements for the year ended December 31, 2019 combined the results of the group entities under common control to illustrate the financial position of the ultimate owners for the period from January 1, 2019 to December 31, 2019 as disclosed in Note 2, such impacts of these transactions were not reflected on the combined financial statement. For the year ended December 31, 2020, the consolidated financial statements are prepared and the impacts of these business acquisitions are reflected as adjustments to the equity attributable to the owners of Luckbox and non-controlling interest on January 1, 2020.

The impacts of the transactions are allocated to non-controlling interest on January 1, 2020 as follows:

	Attributable to non-controlling interest
Net assets acquired and liabilities assumed on acquisition	\$ 264,839
Loss incurred from acquisition to December 31, 2019	(463,322)
Other comprehensive loss incurred from acquisition to December 31, 2019	(19,573)
Carrying value of non-controlling interest on January 1, 2020	\$ (218,056)

21. 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.

22. 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, 2020 and 2019 was as follows:

	December 31, 2020	December 31, 2019
Salaries and director fees	\$ 413,778	\$ 90,606
Share-based compensation	558,115	10,261,440
	\$ 971,893	\$ 10,352,046

Refer to Note 15 and Note 16 for discussion of the share-based payments issued to related parties.

Due from a related party

As at December 31, 2020, due from a related party balance of \$36,062 (December 31, 2019 - \$39,719) represents amounts due from a director. Included in the total balance is a loan amount denominated in GBP of \$34,419 (£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. As at December 31, 2020, the accrued interest on the loan is \$1,248 (2019 - \$241) and has been recognized as interest income in profit and loss.

The remaining balance of \$nil (2019 - \$5,300) also due from the same director and is unsecured, non-interest bearing and repayable upon demand. This balance was paid in full during the year ended December 31, 2020.

Due to a related party

As at December 31, 2020, \$28,695 (December 31, 2019 - \$nil) was due to a member of key management. The amount is unsecured, non-interest bearing and is repayable upon demand.

Included in accounts payable and accrued liabilities is \$26,178 (December 31, 2019 - \$nil) owed to a key management personnel member of the Company. The amount is unsecured, non-interest bearing and is repayable upon demand.

Included in accounts payable and accrued liabilities is an amount of \$2,988 (2019 - \$25,664) due to Luckbox Limited, a related party under common control.

REAL LUCK GROUP LTD. (FORMERLY ELEPHANT HILL CAPITAL INC.)
NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended December 31, 2020 and December 31, 2019

23. COST OF SALES

	December 31, 2020	December 31, 2019
Third-party fees for platform and service provider	\$ 223,948	\$ 65,122
Free bets	63,999	16,064
	<u>\$ 287,947</u>	<u>\$ 81,186</u>

24. GEOGRAPHICAL SEGMENT INFORMATION

The Company operates under one operating segment being that of an online esports betting company. The Company's revenue and non-current assets are located as follows:

	December 31, 2020			December 31, 2019		
	Isle of Man	Bulgaria	Total	Isle of Man	Bulgaria	Total
Revenue	\$ 75,480	\$ -	\$ 75,480	\$ -	\$ 4,024	\$ 4,024
Non-current assets	154,514	85,418	239,932	191,016	175,448	366,464

25. INCOME TAXES

The statutory tax rate used below is 24% for the year ended December 31, 2020 (2019 – 0%), which is the combined Canadian federal and Alberta provincial tax rate for 2020. In 2019, the statutory income tax rate used was 0% being that for the Isle of Man. The statutory income tax rate used has changed due to the reverse takeover transaction in the year ended December 31, 2020. The subsidiaries in Isle of Man are subject to a statutory income tax rate of 0% (2019 – 0%). The Bulgarian subsidiary is subject to a statutory income tax rate of 10% (2019 – 10%).

During the year ended December 31, 2020, the Province of Alberta reduced its general corporate income tax rate to 8% (from 10%), effective July 1, 2020. Previously, the general corporate income tax rate was not scheduled to decrease to 8% until January 1, 2022. As a result, the combined Canadian federal and Alberta provincial income tax rate will be reduced to 23% effective January 1, 2021.

The reconciliation of the expected income tax recovery at statutory income tax rates to the provision for income taxes is as follows:

REAL LUCK GROUP LTD. (FORMERLY ELEPHANT HILL CAPITAL INC.)
NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended December 31, 2020 and December 31, 2019

25. INCOME TAXES (CONTINUED)

	December 31, 2020	December 31, 2019
Net loss before income taxes	\$ (5,492,388)	\$ (20,536,631)
Canadian statutory income tax rate	24%	0%
Expected income tax recovery	(1,318,173)	-
Impact of differences in foreign tax rates and foreign exchange	1,168,752	2,157
Change in unrecognized deductible temporary differences	92,992	1,384
Non-deductible expenses and other	50,646	(1,263)
Impact of future income tax rates versus current income tax rates	8,908	
Income tax expenses	\$ 3,125	\$ 2,278

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

	December 31, 2020	December 31, 2019
Current tax expense	\$ 5,172	\$ 2,278
Deferred tax recovery	(2,047)	-
Income tax expense	\$ 3,125	\$ 2,278

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, 2020	December 31, 2019
Deferred tax assets (liabilities)		
Employee benefits	\$ 8,793	\$ 5,491
Right of use assets	(9,587)	(16,456)
Lease liabilities	8,788	16,912
Net deferred tax asset	\$ 7,994	\$ 5,947

At December 31, 2020, the Company recognized \$7,994 (December 31, 2019 - \$5,497) 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, 2020 and December 31, 2019 were comprised of the following:

	December 31, 2020	December 31, 2019
Share issuance costs	\$ 44,940	\$ -
Canadian non-capital losses	589,882	-
	\$ 634,822	\$ -

25. INCOME TAXES (CONTINUED)

The Canadian non-capital losses expire between 2037 to 2040. 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.

26. 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 related a party is limited as the amount is secured by the Company's 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, 2020:

	Within one year	Between one and five years
Accounts payable	\$ 958,732	\$ -
Due to related parties	28,695	-
Corporate tax payable	4,796	-
Lease obligations	38,369	48,761
	\$ 1,030,592	\$ 48,761

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, 2020, the Company's significant foreign exchange currency exposure on its financial instruments, expressed in Canadian dollars was as follows:

26. FINANCIAL INSTRUMENT RISK MANAGEMENT (CONTINUED)

Foreign exchange risk

	BGN	GBP	EUR	USD
Cash	\$ 10,392	\$ 32,265	\$ 175,900	\$ 5,630
Restricted cash	-	46,917	-	-
Other receivables	799	8,715	75,233	(14,773)
Accounts payable	(190,133)	(507,138)	(38,445)	(15,163)
Lease liabilities	(87,131)	-	-	-
	\$ (266,073)	\$ (419,241)	\$ 212,688	\$ (24,306)

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, 2020 on items denominated in BGN, GBP, EUR and USD:

	10% Strengthening	10% Weakening
GBP:CAD exchange rate	\$ (72,906)	\$ 72,906
GBP:USD exchange rate	(3,097)	3,097
GBP:EUR exchange rate	33,233	(33,233)
GBP:BGN exchange rate	(21,257)	21,257
	\$ (64,027)	64,027

Capital Management

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

27. 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, 2020 and 2019 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.

REAL LUCK GROUP LTD. (FORMERLY ELEPHANT HILL CAPITAL INC.)
NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended December 31, 2020 and December 31, 2019

27. BASIS OF FAIR VALUE (CONTINUED)

The financial assets held and considered to represent a level 1 fair value measurement is cryptographic assets. As at December 31, 2020, the fair value of cryptographic assets is \$370 (December 31, 2019 - \$18,182).

The derivative warrant liabilities are considered to represent a level 2 fair value measurement. As at December 31, 2020, the fair value of derivative warrant liabilities is \$nil (December 31, 2019 - \$212,757).

28. SUPPLEMENTARY CASH FLOW INFORMATION

Non-cash activities	2020	2019
Shares and options issued on reverse takeover (Note 4)	\$ 540,027	\$ -
Settlement of convertible notes with shares (Note 14)	3,750,000	-

29. RESTATEMENTS

The 2019 comparatives have been restated for adjustments reflecting the correction of errors as summarized below:

- a. As disclosed in Note 16, an aggregate of 14,365,032 common shares were granted to directors and employees as remuneration for services for the year end December 31, 2019. The fair value of each share was previously determined to be at par value of £0.01. As part of the restatement, the fair value estimate was corrected to \$0.84 per share, with reference to the estimated share price under the private placement tranches completed in November and December 2019. This resulted in a correction to share-based compensation expenses from \$297,803 to \$14,765,372.
- b. As disclosed in Note 12 and 15, during 2019, Luckbox completed two tranches of private placements and issued subscription unit warrants which were classified as derivative liabilities measured at fair value through profit and loss. The fair value of these unit warrants were previously determined to be \$nil on initial recognition and as at reporting date December 31, 2019. As part of the restatement, the warrant liabilities were correctly valued using the Black-Scholes option pricing model, which resulted in a correction to the fair value of the warrant liabilities by \$212,757 as at December 31, 2019.
- c. As disclosed in Note 14, during 2019, Luckbox issued the Avatar Note with a conversion feature, where the conversion feature was classified as an embedded derivative liability measured at fair value through profit and loss. The fair value of the conversion feature was determined to be \$nil on initial recognition and as at reporting date December 31, 2019. As part of the restatement, the conversion feature was valued based on the methodology discussed in Note 14, which resulted in a correction \$2,250,000 being recorded as fair value of the derivative conversion liability as at December 31, 2019.
- d. In connection with the issuance of Avatar Note, Luckbox incurred finder's fee that was not accrued for as at December 31, 2019. This resulted in a correction to accounts payable and accrued liabilities of \$75,600 with the corresponding decrease reflected in the carrying value of host debt liability.

29. RESTATEMENTS (CONTINUED)

- e. As disclosed in Note 20, Luckbox acquired 80% interest in RTGH during the year ended December 31, 2019 with the remaining 20% interest held by Luckbox Limited, another entity under common control with Luckbox, ETL and RTGH. The carrying value of interest in RTGH attributable to non-controlling interest, Luckbox Limited, was reflected in equity of the combined financial statements as at December 31, 2019. However, the purpose of the combined financial statements as at December 31, 2019 was to combine the results of the group entities including RTGH, ETL and Luckbox, that were under common control to illustrate the financial position of the ultimate owners of the group entities as a whole. As such, the carrying value of interest in RTGH held by Luckbox Limited should not be reflected as attributable to non-controlling interest on the combined financial statements as at December 31, 2019. As part of the restatement, the value previously allocated to non-controlling interest was included as part of the equity interest of the combined entity. For the year ended December 31, 2020, a set of consolidated financial statements was prepared and represented the financial position of Luckbox and its subsidiaries. The carrying value of interest attributable to Luckbox Limited was recognized as non-controlling interest on January 1, 2020. Refer to Note 20 for the disclosure of the allocation to non-controlling interest.
- f. As disclosed in Note 19, RTGH received an interest-free and unsecured loan from Luckbox Limited for a total amount of \$10,429,460 prior to January 1, 2019. RTGH was a wholly-owned subsidiary of Luckbox Limited and both entities were under common control by two individuals when the loan was provided to RTGH. The loan was ultimately forgiven by Luckbox Limited on May 13, 2019 and was classified as contributed surplus on the date of the transaction. While the loan was repayable on demand of Luckbox Limited, the purpose of the loan was to provide capital resources to RTGH and such transaction between RTGH and Luckbox Limited did not have a financial impact on the ultimate owners who had control over both entities. Therefore, the substance of the loan was a capital contribution from the owners to RTGH, rather than a financial liability between RTGH and Luckbox Limited. As part of restatement, the classification of loan as equity and the fair value of the loan on initial recognition was reflected as a capital contribution in the opening equity balance on January 1, 2019 of the combined financial statements. A third statement of financial position as at January 1, 2019 was not presented as a result of the restatement, given that Luckbox was not incorporated until April 25, 2019 and only started acting as the reporting entity for the combined financial statements for the period from January 1, 2019 to December 31, 2019, and that the financial statements for the year ended December 31, 2018 was not previously issued.

The impacts of the above corrections on the figures for the year ended December 31, 2019, the opening balances for the year ended December 31, 2020 and the opening balances for the year ended December 31, 2019 are reflected as follows:

REAL LUCK GROUP LTD. (FORMERLY ELEPHANT HILL CAPITAL INC.)
NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended December 31, 2020 and December 31, 2019

29. RESTATEMENTS (CONTINUED)

Combined Statement of Financial Position

	2019 (As previously reported)	Adjustments				2019 (As restated)
As at December 31,		a	b	c&d	e	
LIABILITIES AND EQUITY						
Current liabilities						
Accounts payable and accrued liabilities	\$ 534,253		-	75,600	-	\$ 609,853
Convertible notes – host debt	2,229,760		-	(1,265,474)	-	964,286
Convertible notes – conversion feature	-		-	2,250,000	-	2,250,000
Warrant liabilities	-		212,757	-	-	212,757
Current portion of lease liabilities	43,861		-	-	-	43,861
Corporate tax payable	3,717		-	-	-	3,717
	2,811,591		212,757	1,060,126	-	4,084,474
Non-current liabilities						
Lease liabilities	113,002		-	-	-	113,002
Total liabilities	2,924,593		212,757	1,060,126	-	4,197,476
Equity						
Share capital	272,859		-	-	-	272,859
Contributed surplus	9,711,364	11,818,902	(212,757)	-	2,085,892	23,403,401
Reserves	55,272	2,648,667	-	-	-	2,703,939
Deficit	(9,821,686)	(14,467,569)	-	(1,039,886)	(2,284,375)	(27,613,516)
Accumulated other comprehensive loss	(84,010)	-	-	(20,240)	(19,573)	(123,823)
Equity attributable to owners of Real Luck Group Ltd.	133,799		(212,757)	(1,060,126)	(218,056)	(1,357,140)
Non-controlling interest	(218,056)		-	-	218,056	-
Total equity	(84,257)		(212,757)	(1,060,126)	-	(1,357,140)
TOTAL LIABILITIES AND EQUITY	\$ 2,840,336		-	-	-	\$ 2,840,336

REAL LUCK GROUP LTD. (FORMERLY ELEPHANT HILL CAPITAL INC.)
NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended December 31, 2020 and December 31, 2019

29. RESTATEMENTS (CONTINUED)

Combined Statement of Loss and Comprehensive Loss

For the year ended December 31, 2019	2019 (Previously reported)	Adjustments			2019 (As restated)
		a	c	e	
Revenue	\$ 4,024	-	-	-	\$ 4,024
Cost of sales	81,186	-	-	-	81,186
	(77,162)	-	-	-	(77,162)
Expenses		-	-	-	
Advertising, marketing and investor relations	407,358	-	-	-	407,358
Depreciation	97,837	-	-	-	97,837
Bad debt expenses	47,453	-	-	-	47,453
Consulting fees	753,153	-	-	-	753,152
Foreign exchange loss	19,124	-	-	-	19,124
Legal and professional fees	646,685	-	-	-	646,685
General and administrative expenses	578,645	-	-	-	578,646
Salaries and director fees	1,946,715	-	-	-	1,946,715
Share-based compensation	297,803	14,467,569	-	-	14,765,372
Travel and accommodation	173,455	-	-	-	173,455
	4,968,228	14,467,569	-	-	19,435,797
Other expenses (income)					
(Gain) loss on disposal of equipment	5,286	-	-	-	5,286
Transaction costs on liabilities at FVTPL	-	-	75,600	-	75,600
Accretion expenses on convertible notes	-	-	964,286	-	964,286
Gain on revaluations of cryptographic assets	(20,445)	-	-	-	(20,445)
Other income	(1,055)	-	-	-	(1,055)
Net loss before income taxes	(5,029,176)	(14,467,569)	(1,039,886)	-	(20,536,631)
Income tax expenses	2,278	-	-	-	2,278
Net loss	(5,031,454)	(14,467,569)	(1,039,886)	-	(20,538,909)
Other comprehensive loss					
Currency translation adjustment	123,823	-	-	-	123,823
Total loss and comprehensive loss for the year	(5,155,277)	(14,467,569)	(1,039,886)	-	\$(20,662,732)
Total loss and comprehensive loss attributable to:					
Owners of Real Luck Group Ltd.	(4,672,382)	(14,467,569)	(1,039,886)	(482,895)	(20,662,732)
Non-controlling interests	(482,895)	-	-	482,895	-
	(5,155,277)	(14,467,569)	(1,039,886)	-	(20,662,732)
Loss per share – Basic and diluted	(0.93)				(3.74)
Weighted average number of common shares:	5,524,298				5,524,298

REAL LUCK GROUP LTD. (FORMERLY ELEPHANT HILL CAPITAL INC.)
NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended December 31, 2020 and December 31, 2019

29. RESTATEMENTS (CONTINUED)

Combined statement of cash flows

For the year ended December 31, 2019	2019 (As previously reported)	a	c	2019 (As restated)
Cash flows from operating activities				
Net loss	(5,031,454)	(14,467,569)	(1,039,886)	(20,538,909)
Items not affecting cash:				
Depreciation	97,837	-	-	97,837
Share-based payments	297,803	14,467,569		14,765,372
Accretion expenses on convertible notes	-	-	964,286	964,286
Transaction costs on liabilities at FVTPL	-	-	75,600	75,600
Gain on revaluation of cryptographic assets	(20,445)	-	-	(20,445)
(Gain) loss on disposal of equipment	5,286	-	-	5,286
Deferred tax recovery	-	-	-	-
Changes in non-cash working capital	-	-	-	-
Restricted cash	(85,456)	-	-	(85,456)
Other receivables	(178,463)	-	-	(178,463)
Prepaid expenses and deposits	(53,819)	-	-	(53,819)
Accounts payable and accrued liabilities	137,006	-	-	137,006
Income taxes payable	(3,420)	-	-	(3,420)
Net cash flows used in operating activities	(4,835,125)	-	-	(4,835,125)
Cash flows from investing activities				
Purchase of cryptographic assets	(1,153,992)	-	-	(1,153,992)
Proceeds on disposal of cryptographic assets	1,359,407	-	-	1,359,407
Proceeds on disposal of intangible asset	36,780	-	-	36,780
Proceeds on disposal of equipment	3,165	-	-	3,165
Purchase of equipment	(156,761)	-	-	(156,761)
Acquisition of right-of-use assets	(48,548)	-	-	(48,548)
Decrease in due from related party	-	-	-	-
Cash acquired in reverse takeover	-	-	-	-
Interest received	1,055	-	-	1,055
Net cash flows used in investing activities	41,106	-	-	41,106
Cash flows from financing activities				
Proceeds on issuance of common shares	1,326,000	-	-	1,326,000
Interest paid	(6,834)	-	-	(6,834)
Share and debt issuance costs	-	-	-	-
Proceeds on issuance of convertible notes	2,250,000	-	-	2,250,000
Increase in due to related party	-	-	-	-
Payments on lease liabilities	(40,204)	-	-	(40,204)
Repayments on loan	(31,086)	-	-	(31,086)
Net cash flows provided by financing activities	3,497,876	-	-	3,497,876
Change in cash	(1,296,143)	-	-	(1,296,143)
Effects of exchange differences	(40,267)	-	-	(40,267)
Cash – beginning of year	3,357,255	-	-	3,357,255
Cash – end of year	2,020,845	-	-	2,020,845

REAL LUCK GROUP LTD. (FORMERLY ELEPHANT HILL CAPITAL INC.)
NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended December 31, 2020 and December 31, 2019

29. RESTATEMENTS (CONTINUED)

Combined Statement of Changes in Equity

For opening balances on January 1, 2019	Previously reported	Increase/ (decrease)	As restated
Contributed surplus	\$ -	\$ 10,429,460	\$ 10,429,460
Others	(7,074,607)	-	(7,074,607)
Total equity	\$ (7,074,607)	\$ 10,429,460	\$ 3,354,853

30. SUBSEQUENT EVENTS

The following events occurred subsequent to December 31, 2020:

- (a) On February 4, 2021, the Company granted 450,000 stock options to an officer of the Company pursuant the stock option plan. Each option is exercisable for one common share of the Company for a period of three years from grant date, at an exercise price of \$0.97. These options will vest over a three-year period with 10% vest immediately on grant date, 10% vests six months from grant date and 20% every six months thereafter.
- (b) On February 16, 2021, the Company granted 150,000 stock options to employees pursuant to the stock option plan. Each option is exercisable for one common share of the Company for a period of three years from grant date, at an exercise price of \$1.42. These options will vest over a three-year period with 10% vest immediately on grant date, 10% vests six months from grant date and 20% every six months thereafter.
- (c) Subsequent to year-end, a total of 166,666 options have been exercised to purchase 166,666 common shares in the capital of the Company at \$0.42 per share. The gross proceeds from the exercise of the options were \$70,000.
- (d) Subsequent to year-end, 2,052,733 unit warrants were exercised to purchase 2,052,733 common shares in the capital of the Company at \$0.63 per share. In addition, 382,143 broker warrants were exercised to purchase 382,143 units at \$0.42 per unit. Each unit is comprised of one Company common share and one half of one warrant. Each warrant entitles the holder to purchase one Company at an exercise price of \$0.63 for a period of two years. The total proceeds received from the exercise of the unit and broker warrants are \$1,293,221 and \$160,500 respectively.
- (e) On March 9, 2020, the Company completed a brokered private placement of 14,837,317 special warrants of the Company at a price of \$1.20 for an aggregate gross proceeds of \$17,804,780. 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. In conjunction with the transaction, the Company issued 1,650,067 Special Warrants as agent's compensation.