

## **ESE ENTERTAINMENT INC.**

(formerly Kepler Acquisition Corp.)

Management's discussion and analysis

For the three and nine months ended July 31, 2021

Dated: September 22, 2021

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*The following is a management's discussion and analysis ("MD&A") of ESE Entertainment Inc. (formerly Kepler Acquisition Corp.) (the "Company"), prepared as of September 22, 2021. This MD&A should be read together with the unaudited condensed interim consolidated financial statements for the three and nine months ended July 31, 2021 and related notes, which are prepared in accordance with International Financial Reporting Standards ("IFRS"). All financial amounts are stated in Canadian dollars unless otherwise indicated.*

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

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

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

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

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

### **The Company's Business**

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

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

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

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

### *Description of the Business*

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

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

The Company is building extensive partnerships to add value and streamline growth in multiple areas. Current partners include Nuvei, one of the largest payment processing companies in the world, Action S.A., a top European information technology distribution company, Webtalk, a reputable European media company, and more.

### *Esports Professional Teams*

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

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

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### *Simracing and Digital Motorsport Solutions*

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

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

### *Digital Events*

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

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

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

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

### *Esports Events Broadcasting*

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

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

### *Brand Ambassador*

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

### *Esports and Gaming Infrastructure*

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

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**Acquisition of WPG**

On April 12, 2021, the Company acquired 51% of the issued and outstanding shares of WPG. The purchase price consisted of (i) \$10,000 refundable deposit (paid), (ii) \$128,019 in cash on closing of the transaction (the "Closing") (paid), and (iii) issuance of 585,156 common shares of the Company. The Company is also required to (i) issue 6,664,845 common shares (the "Deferred Compensation Shares"), vesting over three years, and (ii) advance \$750,000 to WPG (the "Working Capital Amount"). The Deferred Compensation Shares are considered a post-compensation expense. Pursuant to the agreement, WPG is not required to repay or reimburse the Company all or any portion of the Working Capital Amount.

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

The fair value of the consideration transferred has been determined on a preliminary basis. The fair value of the 585,156 common shares issued (\$1,345,858) was determined based on the share price of the Company on the date of acquisition. The consideration has been allocated to the assets acquired and liabilities assumed on a preliminary basis based on their estimated fair values at the date of acquisition. Due to the timing of the acquisition, the Company will require additional information to allocate the fair values to the net assets (liabilities) acquired, particularly to any goodwill acquired. The determination of the fair value of the net assets (liabilities) will be revised by the Company as additional information is received. The purchase price was allocated as follows:

Cash	\$	128,019
585,156 common shares of the Company		1,345,858
Fair value of consideration	\$	1,473,877
Cash	\$	69,823
Receivables		501,276
Prepaid expenses		34,593
Equipment		157,889
Accounts payable and accrued liabilities		(437,127)
Lease Liabilities		(104,692)
Income tax payable		(5,059)
Funds from the Company prior to the acquisition		(290,000)
Loans and credit facilities		(509,086)
Deferred revenue		(54,325)
Total net assets		(636,708)
Non-Controlling interest		1,416,078
Unallocated purchase price	\$	3,526,663

The operating results for WPG have been recognized in the consolidated statement of comprehensive loss beginning on April 12, 2021, the effective date of control. During the three and nine months ended July 31, 2021, the Company recorded revenues of \$3,672,219 and \$4,288,417 and net (loss) income of (\$28,228) and \$719,597 related to WPG.

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

**Selected Quarterly Financial Information**

The table below sets out certain selected financial information regarding the operations of the Company for the periods indicated. The selected financial information has been prepared in accordance with IFRS and

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 should be read in conjunction with the Company's consolidated financial statements and related notes.

A summary of results for the eight quarters since incorporation follows:

	July 31, 2021 Qtr 3	April 30, 2021 Qtr 2	January 31, 2021 Qtr 1	October 31, 2020 Qtr 4
Revenue	\$ 4,234,984	\$ 716,293	\$ 192,506	\$ 200,152
Net loss	\$ (1,255,843)	\$ (3,814,622)	\$ (1,160,094)	\$ (2,754,294)
Comprehensive loss	\$ (1,258,610)	\$ (3,816,979)	\$ (1,170,646)	\$ (2,721,659)
Loss per share	\$ (0.03)	\$ (0.10)	\$ (0.03)	\$ (0.07)

	July 31, 2020 Qtr 3	April 30, 2020 Qtr 2	January 31, 2020 Qtr 1	October 31, 2019 Qtr 4
Revenue	\$ 138,035	\$ 42,174	\$ 9,810	\$ 337
Net loss	\$ (516,928)	\$ (392,121)	\$ (213,990)	\$ (183,701)
Comprehensive loss	\$ (547,102)	\$ (388,437)	\$ (213,356)	\$ (184,497)
Loss per share	\$ (0.02)	\$ (0.02)	\$ (0.01)	\$ (0.01)

The Company was incorporated on June 18, 2019 and July 31, 2019 was the Company's first fiscal quarter of operations. There were no activities during the quarter ended July 31, 2019. During the three months ended October 31, 2019, the Company recorded a net loss of \$183,701 which includes the operations of ESE Europe and the cost associated with the acquisition. During the quarter ended January 31, 2020, the Company recorded a net loss of \$213,990 which is comparable to the \$183,701 net loss from the previous quarter. During the quarter ended April 30, 2020, the Company recorded a net loss of \$392,121 as compared to the previous quarter of \$213,990, an increase of approximately \$178,000. The increase can be attributed to the legal fees incurred in connection with the preparation of the filing statement which was ongoing as at April 30, 2020. During the quarter ended July 31, 2020, the Company recorded a net loss of \$516,928 as compared to the previous quarter of \$317,121, an increase of approximately \$200,000. The increase can be attributed to the Company engaging numerous consultants for business developments. During the quarter ended October 31, 2020, the Company recorded a net loss of \$2,754,294 as compared to the previous quarter of \$516,928, an increase of approximately \$2,237,000 which can be mainly attributed to the recording of \$1,600,287 in listing costs and share-based payments of \$150,651. During the quarter ended January 31, 2021, the Company recorded a net loss of \$1,160,094 as compared to the previous quarter of \$2,754,294, a decrease of approximately \$1,600,000, mainly attributed a reduction in listing costs from \$1,600,287 to \$nil, a reduction in consulting fees from \$725,166 to \$493,668, offset by the recording of the impairment of K1CK assets of \$207,500 in the period. During the quarter ended April 30, 2021, the Company recorded a net loss of \$3,814,622 as compared to the previous quarter of \$1,160,094. The increase of \$2,654,528 is primarily attributable to an increase in share-based payments and the WPG acquisition finders shares. During the quarter ended July 31, 2021, the Company recorded a net loss of \$1,255,843 as compared to the previous quarter of \$3,814,622. The decrease of \$2,558,779 is primarily attributable to a decrease in share-based payments and the WPG acquisition finders shares.

**Results of Operations***During the three months ended July 31, 2021:*

During the three months ended July 31, 2021, the Company recorded a net loss of \$1,255,843 as compared to \$516,928 for the previous period ended July 31, 2020. Included in the current net loss was share based payments of \$514,679, consulting fees of \$462,460, and advertising of \$143,575.

Total expenses including cost of sales for July 31, 2021 amounted to \$5,476,595 as compared to \$679,639 for the previous period, an increase of approximately \$4,797,000. The July 2020 quarter did not have much expenditures as the Company was still private.

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The increase in expenses can be attributed to the following:

Cost of sales have increased from \$nil to \$3,786,479 in the current period due to the acquisition of WPG.

Advertising and event planning have increased from \$75,099 to \$143,575 in the current quarter due to an increase in the operations of the Company and the number of events the Company participated.

Consulting fees have increased from \$401,687 to \$462,460 in the current quarter which can be attributed to the Company engaging numerous third parties for business developments, capital markets advisory services and administrative services. Also included in consulting fees were compensations to its officers and directors of the Company (see related parties for details).

Professional fees have increased from \$88,603 to \$286,095 in the current quarter which can be attributed to the cost associated with running a public company, including payments made for legal and accounting overhead.

Share-based payments have increased from \$nil to \$514,679 in the current quarter. During the quarter the Company granted 1,500,000 stock options to directors, officers and consultants of the of the Company. The Company fair valued these stock options using the black-scholes option valuation model. Share-based payments is a non-cash transaction.

Wages and benefits have increased from \$67,955 to \$108,004 in the current quarter due to the acquisition of WPG.

During the quarter the Company recorded revenues of \$4,234,984 as compared to \$138,035 for the three months ended July 2020. The increase can be attributed to the sponsorship agreements and contract revenue earned in the period and the acquisition of WPG.

*During the nine months ended July 31, 2021:*

During the nine months ended July 31, 2021, the Company recorded a net loss of \$6,230,559 as compared to \$1,123,037 for the previous period ended July 31, 2020. Included in the current net loss was share based payments of \$2,773,154, consulting fees of \$1,447,338, and advertising of \$450,628.

Total expenses for July 31, 2021 amounted to \$11,189,881 as compared to \$1,341,011 for the previous period, an increase of approximately \$9,849,000. The July 2020 period did not have much expenditures as the Company was still private.

The increase in expenses can be attributed to the following:

Cost of sales have increased from \$nil to \$4,368,491 in the current period due to the acquisition of WPG.

Advertising and event planning have increased from \$163,862 to \$450,628 in the current period due to an increase in the operations of the Company and the number of events the Company participated.

Consulting fees have increased from \$669,025 to \$1,447,338 in the current period which can be attributed to the Company engaging numerous third parties for business developments, capital markets advisory services and administrative services. Also included in consulting fees were compensations to its officers and directors of the Company (see related parties for details).

Finders fees have increased from \$nil to \$1,000,498 in the current period due to the acquisition of WPG.

Professional fees have increased from \$215,767 to \$546,931 in the current period which can be attributed to the cost associated with running a public company, including payments made for legal and accounting overhead.

Share-based payments have increased from \$nil to \$2,773,154 in the current period. During the period the Company granted 3,100,000 stock options to directors, officers and consultants of the of the Company. The Company fair valued these stock options using the black-scholes option valuation model. The 6,664,845

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common shares issued to WPGI were also recorded in share-based payments and the fair value was determined based on the share price of the Company on the date of issuance adjusted for the reverse vesting terms. Share-based payments is a non-cash transaction.

Wages and benefits have increased from \$159,056 to \$233,057 in the current period. The increase in wages and benefits is due to the increase in operations in Poland and Romania.

During the period the Company recorded revenues of \$5,143,783 as compared to \$190,020 during the nine months ended July 2020. The increase can be attributed to the sponsorship agreements and contract revenue earned in the period and the acquisition of WPG.

On November 19, 2020, the Company entered into an asset purchase agreement with the owner of K1CK Esports Club ("Vendor"), whereby the Company has agreed to acquire certain assets (the "K1CK assets") from the Vendor. As consideration, the Company paid an aggregate of \$207,500, consisting of the following (1) \$120,000 cash with \$60,000 paid on closing and the balance due on demand after January 20, 2021; (2) \$87,500 in common shares of the Company at a deemed price of \$0.25 per share for a total of 350,000 common shares of the Company. On February 1, 2021, the Company issued 350,000 common shares and as at July 31, 2021, the \$120,000 in cash was paid.

At the date of acquisition, the Company determined that the K1CK assets did not constitute a business as defined under IFRS 3, Business Combinations, and as such, the acquisition was accounted for as an asset acquisition. The Company was unable to identify the intangible assets that met the recognition criteria under IAS 38, therefore, the entire consideration paid of \$207,500 was recorded as an impairment on K1CK assets.

### **Liquidity and Capital Resources**

The Company's cash position as at July 31, 2021 was \$9,168,069 (October 31, 2020 - \$550,011) with a working capital of \$8,942,435 (October 31, 2020 - \$463,628). Total assets as at July 31, 2021 was \$13,960,781 (October 31, 2020 - \$842,093).

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

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

On October 7, 2019, the Company obtained a credit facility of \$50,000 which bears interest at prime rate plus 3% which is secured by the CEO of the Company. As at July 31, 2021, the Company has not utilized any of the credit facility.

On April 14, 2020, the Company issued 200,000 common at a price of \$0.15 per share for total proceed of \$30,000.

On May 13, 2020, the Company entered into a promissory note with Konrad Wasiela, CEO in the amount of \$20,000, unsecured bears interest at 8% per annum and due on or before May 13, 2021. On August 17, 2020 the Company repaid the loan plus interest of \$1,600.

On July 22, 2020, the Company issued 3,800,000 common shares at a price of \$0.25 per share for total proceeds of \$950,000.

On August 12, 2020, the Company converted 5,243,724 subscription receipts at a price of \$0.25 per subscription receipts for gross proceeds of \$1,310,931 into common shares of the Company. In connection with the subscription receipts the Company paid a cash finders fee of \$41,580 and issued 166,320 Agent's warrants exercisable into one common share of the Company at an exercise price of \$0.25 for two years expiring on August 12, 2022. The Agent's warrants were fair valued at \$21,600 using the Black-Scholes option

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valuation mode with the following assumptions: Share price at the time of issuance \$0.25; risk-free interest rate of 0.29%; expected life of two years; dividend rate – 0%; forfeiture rate – 0% and annualized volatility of 100%. Since the Company does not have enough history of trading price, the Company utilized annualized volatility of comparable startup companies.

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

On July 19, 2021, the company completed a bought deal public offering of 6,164,000 units a price of \$1.40 per unit for total proceeds of \$8,629,600. Each unit consisted of one common share and one common share purchase warrant. Each common share purchase warrant is exercisable to acquire one common share at a price of \$1.95 at any time before July 19, 2023. All of the proceeds were allocated to share capital. In connection with the bought deal public offering, the Company paid cash financing fees of \$758,645 and issued 431,480 Agents' warrants units. Each Agents' warrant unit is exercisable at \$1.40 per unit expiring two years from closing. Each Agents' warrant unit consists of one common share and one Agents' warrant, with each Agents' warrant being exercisable to acquire one common share at a price of \$1.95 at any time before July 19, 2023. The Agents' warrants units were fair valued at \$491,900 using the Black-Scholes option valuation mode with the following assumptions: Share price at the time of issuance \$1.25; weighted average exercise price of \$1.68; risk-free interest rate of 0.47%; expected life of two years; dividend rate – 0%; forfeiture rate – 0% and annualized volatility of 100%. Since the Company does not have enough history of trading prices, the Company utilized annualized volatility of comparable startup companies. Additionally, the company issued 154,100 units to the lead underwriter as a corporate finance fee. The Company recognized additions to share capital and recorded share issuance costs of \$215,740.

During the nine months ended July 31, 2021, 1,020,037 stock options were exercised for total proceeds of \$359,273.

During the nine months ended July 31, 2021, 348,006 agent's warrants were exercised for total proceeds of \$50,191.

**Other share issuances not disclosed above**

On July 1, 2020, the Company issued 100,000 common shares with a fair value of \$0.25 per share to settle \$25,000 in unpaid consulting fees with the CFO of the Company.

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

On April 12, 2021, the Company acquired 51% of WPG by issuing 585,156 common shares to WPGI for a total fair value of \$1,345,858. The Company also issued 434,999 common shares to a consultant for a total value of \$1,000,498 for providing M&A advisory services in connection with the acquisition of WPG.

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

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terminated for reasons of willful misconduct or fraud, pursuant to the terms of the share purchase agreement dated February 15, 2021. As at July 31, 2021 the fair value of the shares is \$975,193.

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

**Going Concern**

The condensed interim consolidated financial statements for the three and nine months ended July 31, 2021 have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company was not expected to continue operations for the foreseeable future. At July 31, 2021, the Company has not achieved profitable operations, has accumulated losses of \$10,569,195 since inception and expects to incur further losses in the development of its business. The above material uncertainties cast significant doubt about the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent upon successful results from its operations, its ability to attain profitable operations to generate funds, and/or its ability to raise equity capital or borrowings sufficient to meet its current and future obligations. Although the Company has been successful in the past in raising funds to continue operations, there is no assurance it will be able to do so in the future.

In March 2020, there was a global pandemic outbreak of COVID-19. The actual and threatened spread of the virus globally has had a material adverse effect on the global economy and, specifically, the regional economies in which the Company operates. The pandemic could have a negative impact on the stock market, including trading prices of the Company's shares and its ability to raise new capital. These factors, among others, could have a significant impact on the Company's operations.

**Off Balance Sheet Arrangements**

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

**Financial Instruments**

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

*Credit risk*

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and trade accounts receivable. The Company limits its exposure to credit loss by placing its cash with major financial institutions.

*Interest rate risk*

The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to floating rate of interest. The interest rate risks on cash and on the Company's obligations are not considered significant.

*Liquidity risk*

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

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

As at July 31, 2021, the Company had a cash balance of \$9,168,069 and receivables of \$750,216 to settle accounts payable and accrued liabilities of \$814,736.

*Foreign currency risk*

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

As at July 31, 2021, the Company held cash denominated in Polish Zloty of PLN1,879,200 (October 31, 2020 – PLN115,004), accounts receivable of PLN34,749 (October 31, 2020 – PLN270,108) and accounts payable and accrued liabilities of PLN127,934 (October 31, 2020 – PLN181,353) translated at PLN1 for every CDN\$0.32. These factors expose the Company to foreign currency exchange rate risk, which could have a material adverse effect on the profitability of the Company. A 10% change in the exchange rate would change other comprehensive income/loss by approximately \$58,000.

As at July 31, 2021, the Company held cash denominated in Romanian New Leu of RON7,390 (October 31, 2020 – RONNil) and accounts payable and accrued liabilities of RON72,041 (October 31, 2020 – RONNil) translated at RON1 for every CDN\$0.30. These factors expose the Company to foreign currency exchange rate risk, which could have a material adverse effect on the profitability of the Company. A 10% change in the exchange rate would change other comprehensive income/loss by approximately \$2,000.

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

**Related Party Transactions**

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

**Key Management Compensation**

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

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	For the nine months ended July 31	
	2021	2020
<u>Consulting fees</u>		
Konrad Wasiela, CEO and Director	\$ 19,000	\$ 85,500
1176149 BC Ltd., a company controlled by Ryan Maarschalk, former Director	36,000	42,000
Wasiela Services Ltd., a company controlled by Konrad Wasiela	116,000	49,500
RSJ Consulting Inc., a company controlled by Rob Kang, CFO	36,000	-
	207,000	177,000
Share-based payments incurred with directors and officers	329,704	-
<u>Legal fees, included in professional fees</u>		
Segev LLP, of which Ron Segev, Director is a principal partner	188,976	-
	\$ 725,680	\$ 177,000

Included in accounts payable and accrued liabilities at July 31, 2021 is \$55,189 (October 31, 2020 - \$nil) in unpaid legal fees and other balances owing to an officer of the company and to companies with an officer or director in common.

On May 13, 2020, the Company entered into a promissory note with Konrad Wasiela, CEO in the amount of \$20,000, unsecured bears interest at 8% per annum and due on or before May 13, 2021. On August 17, 2020 the Company repaid the loan plus interest of \$1,600.

On October 7, 2019, the Company obtained a credit facility of \$50,000 which bears interest at prime rate plus 3% which is secured by the CEO of the Company. As at July 31, 2021, the Company has not utilized any of the credit facility.

On August 11, 2020, the Company entered into an agreement with Ron Segev to be a director of the Company, and as consideration, the Company agreed to issue 200,000 common shares and granted 300,000 in stock options at a price of \$0.25 per share for a period of 5 years. On August 17, 2020, the Company granted the stock option and recorded the 200,000 common shares at the fair market value of \$0.25 per share for \$50,000. This amount is included in commitment to issue shares at July 31, 2021.

Consulting agreements

On November 6, 2019, the Company entered into a management consulting agreement with 1176149 BC Ltd., a company controlled by Ryan Maarschalk, for the position of CFO commencing on December 1, 2019 for a period of six months at a monthly rate of \$4,000 per month and on a month to month basis thereafter. In addition, the Company agreed to granted 75,000 stock options at \$0.15 per share upon listing on the TSXV. On August 17, 2020, the Company granted the 75,000 stock options at a revised price of \$0.25 per share. On August 12, 2020 Ryan resigned as CFO and became a director of the Company. On April 25, 2021, Ryan resigned as a director.

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

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

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On August 1, 2020, the Company entered into a management consulting agreement with RSJ Consulting Inc, a company controlled by Ravinder Kang, for the position of CFO for a period of one year at a monthly rate of \$3,000 per month which shall automatically be renewed annually unless one party provides written notice at least one month prior to the end of the term.

**Subsequent Events**

- a) On September 15, 2021, the Company completed its previously announced acquisition of 100% of the shares of Auto Simulation Limited T/A Digital Motorsports ("Digital Motorsports"), an Ireland-based provider of advanced simulation racing infrastructure, technology, and support. The purchase price consisted of (i) \$1,681,250 in cash paid on the closing of the transaction; (ii) 941,500 common shares of the Company issued on closing; and (iii) up to 8,473,500 common shares (the "Earn Out Shares") to be released in six equal installments every 6 months (each such installment, an "Installment"), with the first Installment being released on December 31, 2021, subject to achievement of certain post-Closing revenue-based milestones. The Company has also agreed to make an investment of €250,000 in Digital Motorsports on closing to fund its working capital needs. The Company paid an aggregate of \$84,062 and issued an aggregate of 470,750 common shares for finder's fees and M&A advisory in connection with the acquisition.
- b) Subsequent to July 31, 2021, warrants to acquire 560 common shares at \$0.25 per share were exercised.
- c) Subsequent to July 31, 2021, options to acquire 50,000 common shares at \$0.25 per share were exercised.
- d) On September 14, 2021, the 200,000 common shares that represent the commitment to issue shares recorded as at October 31, 2020 and July 31, 2021 were issued.

**Outstanding Share Data**

Below is the summary of the Company's share capital as at July 31, 2021 and as of the date of this report:

Security description	As at	
	September 22, 2021	July 31, 2021
Common shares – issued and outstanding	59,356,199	57,693,389
Stock options	4,462,500	4,512,500
Warrant's outstanding	8,614,447	8,615,007
Common shares – fully diluted	72,433,146	70,820,896

**Critical Accounting Estimates and Judgements**

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

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

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

*Reverse Acquisition*

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The determination of the acquirer in the Arrangement between the Company and ESE requires significant judgement assessing the relative voting rights, composition of the governing body, and composition of senior management of the combined entity, amongst other factors. The Company concluded ESE is the acquirer, and its acquisition of all of the outstanding shares of Kepler has been determined to be an asset acquisition as Kepler does not meet the definition of a business under IFRS 3 - Business Combinations. As a result, the transaction has been accounted for as reverse takeover by ESE of Kepler's net assets and its public listing in accordance with the guidance under IFRS 2, Share-based Payment.

### *Functional currency*

The analysis of the functional currency for each entity of the Company is a significant judgement. In concluding that the Canadian dollar ("CDN\$") is the functional currency of the parent and ESE and WPG, the Romanian new leu ("RON") is the functional currency of WPG Racing Solutions and Foresight Resolutions, and the Polish Zloty ("PLN") is the functional currency of ESE Europe SP. Z O.O. ("ESE Europe"), management considered the currency that mainly influences the costs of providing goods and services in each jurisdiction in which the entities operate.

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

### *Revenue*

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

### *Share-based payments*

The determination of the fair value related to share-based payments are subject to estimate. The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. 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 the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 10.

### *Acquisition of K1CK assets*

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

### *Purchase price allocation*

The acquisition of WPG on April 12, 2021 was accounted for as a business combination at fair value in accordance with IFRS 3, Business Combinations. The acquired assets and assumed liabilities were adjusted to their fair values assigned through completion of a purchase price allocation, as described below.

The purchase price allocation process resulting from a business combination requires management to estimate the fair value of identifiable assets acquired including intangible assets and liabilities assumed. The

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Company relies on work performed by third-party valuation specialists. These valuations are closely linked to the assumptions used by management on the future performance of the related assets and the discount rates applied. As at July 31, 2021 the valuation related to the WPG acquisition has not yet been finalized.

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

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

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

The Company is subject to many risks common to development stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources, lack of revenues, technology, and market acceptance issues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the Company's early stage of operations.

### **Business and Industry Risks**

#### **Speculative Nature of Investment Risk**

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

#### **Liquidity and Future Financing Risk**

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

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

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

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

**Competition**

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

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

**Disclosure Controls and Procedures**

In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited condensed interim consolidated financial statements for the nine months ended July 31, 2021 and this accompanying MD&A.

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

**Additional Disclosure for Venture Issuers without Significant Revenue**

Additional disclosure concerning the Company's general and administrative expenses is provided in the Company's condensed interim consolidated statements of loss and comprehensive loss in its consolidated financial statements for the periods ended July 31, 2021 and 2020, which is available on the Company's website or through [www.sedar.com](http://www.sedar.com).