

ESPORTS USA HOLDINGS, INC.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED

DECEMBER 31, 2019 AND 2018

TABLE OF CONTENTS

| | |
|---|---|
| CONSOLIDATED BALANCE SHEET | 3 |
| CONSOLIDATED STATEMENT OF INCOME | 4 |
| CONSOLIDATED STATEMENT OF EQUITY | 5 |
| CONSOLIDATED STATEMENT OF CASH FLOWS | 6 |
| NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT | 7 |

**ESPORTS USA HOLDINGS, INC.
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2019 AND 2018**

ASSETS

| CURRENT ASSETS | 2019 | 2018 |
|--|-----------------------|----------------------|
| CASH | 17,920 | 73,170 |
| ACCOUNTS RECEIVABLE | 3,584 | - |
| FOOD & ALCOHOL INVENTORY | <u>20,705</u> | <u>-</u> |
| TOTAL CURRENT ASSETS | <u>42,209</u> | <u>73,170</u> |
| PROPERTY AND EQUIPMENT | | |
| LEASEHOLD IMPROVEMENTS, FURNITURE & EQUIPMENT, NET | <u>464,158</u> | <u>-</u> |
| OTHER ASSETS | | |
| INTANGIBLE ASSETS, NET | 15,588 | - |
| DEPOSITS | <u>32,724</u> | - |
| TOTAL OTHER ASSETS | <u>48,312</u> | <u>-</u> |
| TOTAL ASSETS | <u>554,679</u> | <u>73,170</u> |

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

| | | |
|------------------------------|----------------|----------|
| ACCOUNTS PAYABLE TO OFFICERS | 26,005 | - |
| CREDIT CARD PAYABLE | 44,308 | - |
| NOTES PAYABLE TO OFFICERS | 97,000 | - |
| OTHER CURRENT LIABILITIES | <u>3,316</u> | <u>-</u> |
| TOTAL CURRENT LIABILITIES | <u>170,629</u> | <u>-</u> |

LONG TERM LIABILITIES-CONVERTIBLE NOTES

945,099 100,000

SHAREHOLDERS' EQUITY

| | | |
|---|-----------------------|----------------------|
| COMMON STOCK | 500 | 500 |
| ADDITIONAL PAID IN CAPITAL | 12,607 | 12,607 |
| RETAINED EARNINGS/(DEFICIT) | <u>(574,156)</u> | <u>(39,937)</u> |
| TOTAL SHAREHOLDERS' EQUITY | <u>(561,049)</u> | <u>(26,830)</u> |
| TOTAL LIABILITIES & SHAREHOLDERS' EQUITY | <u>554,679</u> | <u>73,170</u> |

ESPORTS USA HOLDINGS, INC.
CONSOLIDATED STATEMENT OF INCOME
DECEMBER 31, 2019 AND 2018

| | <u>2019</u> | <u>2018</u> |
|-----------------------------------|-------------------------|------------------------|
| REVENUES | \$191,986 | - |
| COST OF GOODS SOLD | <u>82,507</u> | <u> </u> |
| GROSS PROFIT | 109,479 | - |
| EXPENSES: | | |
| ADVERTISING & MARKETING | 33,157 | 1,440 |
| BANK CHARGES | 1,424 | 110 |
| CREDIT CARD PROCESSING FEES | 6,938 | - |
| PAYROLL EXPENSE & PAYROLL TAXES | 249,962 | - |
| INDEPENDENT CONTRACTOR | 34,575 | - |
| RENTS | 107,436 | - |
| REPAIRS & MAINTENANCE | 22,449 | - |
| LEGAL & PROFESSIONAL FEES | 17,401 | 23,426 |
| INSURANCE | 27,743 | - |
| TRAVEL | 19,168 | 1,160 |
| CLEANING EXPENSES | 13,600 | - |
| DEPRECIATION & AMORTIZATION | 19,579 | 8,801 |
| SUPPLIES | 11,772 | - |
| DISC JOCKEY SERVICES | 8,950 | - |
| EDUCATION & TRAINING | 5,006 | - |
| UTILITIES | 23,779 | - |
| TRASH REMOVAL | 2,370 | - |
| SOFTWARE | 3,986 | - |
| TOAST POS PROCESSING FEES | 2,161 | - |
| EQUIPMENT RENTAL | 1,780 | - |
| RESTAURANT & BAR DECORATION | 2,442 | - |
| HEALTH & FIRE INSPECTION FEES | 1,059 | - |
| MIXED BEVERAGE GROSS RECEIPTS TAX | 8,226 | - |
| OTHER EXPENSES | <u>18,736</u> | <u>5,000</u> |
| TOTAL EXPENSES | <u>643,698</u> | <u>39,937</u> |
| NET INCOME/ (LOSS) | <u>(534,219)</u> | <u>(39,937)</u> |

**ESPORTS USA HOLDINGS, INC.
CONSOLIDATED STATEMENT OF EQUITY
DECEMBER 31, 2019 AND 2018**

| | COMMON STOCK | ADDITIONAL PAID IN CAPITAL | RETAINED EARNINGS/ (DEFICIT) | TOTAL |
|-------------------------------------|--------------|-------------------------------|---------------------------------|-----------|
| BEGINNING BALANCE JAN 1, 2018 | 0 | 0 | 0 | 0 |
| STOCK ISSUED & PAID IN CAPITAL 2018 | 500 | 12,607 | | 13,107 |
| NET INCOME/(LOSS) 2019 | | | (39,937) | (39,937) |
| BEGINNING BALANCE DEC 31 ,2018 | 500 | 12,607 | (39,937) | (26,830) |
| NET INCOME/(LOSS) 2019 | | | (534,219) | (534,219) |
| ENDING BALANCE DEC 31, 2019 | 500 | 12,607 | (574,156) | (561,049) |

ESPORTS USA HOLDINGS, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
DECEMBER 31, 2019 AND 2018

| | <u>2019</u> | <u>2018</u> |
|---|------------------|----------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | |
| NET INCOME/(LOSS) | (534,219) | (39,937) |
| ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATIONS: | | |
| INVENTORY | (20,706) | |
| CREDIT CARD SALES RECEIVABLE | (3,584) | |
| CHASE VISA CREDIT CARD PAYABLE | 44,307 | |
| ACCOUNTS PAYABLE TO OFFICERS | 26,005 | |
| NOTES PAYABLE TO OFFICERS | 97,000 | |
| DEPRECIATION & AMORTIZATION | 19,579 | 8,801 |
| SALES TAX LIABILITY | 3,613 | |
| OTHER | <u>(296)</u> | _____ |
| CASH PROVIDED/(USED) FOR OPERATING ACTIVITIES | <u>(368,301)</u> | (31,136) |
| INVESTING ACTIVITIES | | |
| LEASEHOLD IMPROVEMENTS | (201,806) | |
| NEON SIGN | (19,761) | |
| FURNITURE & EQUIPMENT | (14,109) | |
| COMPUTERS | (51,309) | (8,801) |
| KITCHEN & BAR EQUIPMENT | (29,598) | |
| KEY MONEY FOR LEASE | (125,000) | |
| POS TERMINALS | (12,687) | |
| TV'S , AUDIO EQUIPMENT & VIDEO GAMES | (24,902) | |
| LIQUOR LICENSE | (19,500) | |
| SECURITY & ADVANCED RENT DEPOSITS | (32,724) | |
| OTHER | <u>(652)</u> | _____ |
| CASH USED IN INVESTING ACTIVITIES | <u>(532,048)</u> | <u>(8,801)</u> |
| FINANCING ACTIVITIES | | |
| CAPITAL STOCK ISSUED & ADDITIONAL PAID IN CAPITAL | | 13,107 |
| CONVERTIBLE NOTES | <u>845,099</u> | <u>100,000</u> |
| CASH PROVIDED BY FINANCING ACTIVITIES | <u>845,099</u> | <u>113,107</u> |
| NET INCREASE/(DECREASE) IN CASH | (55,250) | (26,830) |
| CASH AT BEGINNING OF YEAR | <u>73,170</u> | _____ |
| CASH AT END OF YEAR | <u>17,920</u> | <u>73,170</u> |

ESPORTS USA HOLDINGS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

1. Summary of Significant Accounting Policies

The Company

Esports USA Holdings, Inc. was incorporated in Delaware on September 27, 2018. It is the sole owner of 100% membership interests in HOU-1 LFG Esports Bar LLC and 710B West Sixth LLC. The consolidated financial statements include the financial position and results of operations of all related entities (referred collectively as the 'Company'). The Company does business (dba) Valhalla Esports Lounge. The Company opened its first Valhalla Esports Lounge in Austin, Texas in August of 2019.

Fiscal Year

The company's fiscal year is the calendar year ending on December 31.

Accrual Basis

The financial statements have been prepared using the accrual method of accounting.

Use of Estimates

The preparation of the financial statement in conformity with accounting principles generally accepted in the United States of America requires the use of management's estimates. These estimates are subjective in nature and involve judgments that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at fiscal year-end. Actual results could differ from those estimates.

Risks and Uncertainties

The Company has a limited operating history. The Company's business and operations are sensitive to general business and economic conditions in the United States. A host of factors beyond the Company's control could cause fluctuations in these conditions. Adverse conditions may include epidemic outbreak, recession, downturn or otherwise, local competition or changes in consumer taste. These adverse conditions could affect the Company's financial condition and the results of its operations.

Accounts Receivable

The Company's trade receivables consist of credit card payments receivable from the credit card processing companies and recorded when credit card sales occur and represent amounts to be settled in cash.

Inventory

Inventories are stated at cost. Inventories consist of alcohol and food.

Property and Equipment

Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Office equipment is depreciated over five years. Repair and maintenance costs are charged to operations as incurred and major improvements are capitalized

Income Taxes

The company has currently elected to be treated as a Subchapter S corporation. As a Subchapter S corporation, the Company is a flow through entity and does not pay income tax.

Advertising Expenses

The Company expenses advertising costs as they are incurred.

2. Common Stock

Under the articles of incorporation, the total number of common shares of stock that the Corporation shall have authority to issue is ten million (10,000,000) with \$0.0001 par value per shares. As of December 31, 2019, 5,000,000 shares have been issued and are outstanding.

3. Convertible Notes

The company have issued convertible notes to investors since December 2018. These notes have 4 year terms and carry an interest of 8% to 10%. They convert to equity in four years. The notes have a provision of a discount at the time of conversion and a maximum market value cap. The outstanding amount of convertible notes at December 31, 2019 was \$945,099.