

5 August 2021

Laura Gomme, Adviser, Listings Compliance (Perth)  
ASX Compliance Pty Ltd  
Level 40, Central Park,  
152-158 St Georges Terrace  
Perth WA 6000

Dear Laura,

## **EMERGE GAMING LIMITED ('EM1'): QUERY LETTER**

In reference to your query letter of 30 July 2021 entitled "Emerge Gaming Limited ('EM1'): Query Letter" which refers to: -

- A. EM1's announcement titled "Response to ASX Query" lodged on the ASX Market Announcements Platform ('MAP') on 9 July 2021;
- B. EM1's announcement titled "Quarterly Activities/Appendix 4C Cash Flow Report", released on MAP on 22 July 2021 (the 'Quarterly Reports');
- C. The tweet from @Crowd1Official dated 5 July 2021 which reads (relevantly);
- D. EM1's announcement titled "EM1 Cloudzen JV to accelerate cloud gaming commercialisation", lodged on MAP on 28 July 2021;
- E. Cloudzen's website for its cloud game streaming product (<https://www.cloudzen.tech/cz-gamestreaming.html>), which appears to have last been updated on 1 April 2018; and
- F. Guidance Note 14 to the ASX listing rules.

EM1's response to the Query Letter's request for further information in number order is as follows:

- 1) The relevant correspondence as requested and that is not for release to the market is appended market **Annexure A**.
- 2) Under the 'MIGGSTER Offer':
  - a) The cash received by EM1 for the 'MIGGSTER Offer' comes from Crowd1. Miggster subscribers obtaining subscriptions through the 'MIGGSTER Offer' did not pay for such subscriptions; and
  - b) The 'MIGGSTER Offer' was made available to new and existing Crowd1 members.
- 3) Of the cash receipts received during the quarter ended 30 June 2021, EM1 does not owe any amount to either Crowd1, or ICT, as at the quarter end being 30 June 2021.
- 4) Crowd1 and ICT did not receive any consideration, commission or similar for conducting the 'MIGGSTER Offer'.
- 5) The 'MIGGSTER Offer' is currently being offered by Crowd1. Yes, there were periods that the 'MIGGSTER Offer' was not being offered. During those times that the 'MIGGSTER Offer' was not being offered, EM1 did not receive any promotional subscriptions but did receive subscriptions that were not promotional in nature.



- 6) EM1 measures engagement by the number of monthly active users on the platform, number of competitive games played on the platform and number of entries per tournament. A breakdown is provided in point 7. To EM1, every MIGGSTER subscriber is equal in terms of right to access and use the platform (other than in respect of future premium packages with enhanced gaming features/content).
- 7) The metrics which speak to subscriber engagement on the MIGGSTER platform in point 6 above are:
- Monthly Active Users on Platform was ~270,000 for the month ended 30 June 2021. The Monthly Active Users on Platform was ~315,000 for the month ended 31 July 2021.
  - More than 20 million competitive games played since the MIGGSTER platform launched and up until 30 June 2021. As at the 31 July 2021 more than 26 million competitive games have been played since launch.
  - Number of entries per tournament have peaked, at up to 16,000 entries in a single tournament for the period ended 30 June 2021.

EM1 believes that the above engagement statistics support the statement that EM1 “has delivered volume, scale, and a vibrant active community”.

- 8) The question posed seeks to apply assessment criteria to support an extract of a statement made being “*primed to renew their subscription*”. This extract of the statement was made within the broader context of the paragraph in which it appeared in the ‘Quarterly Reports’. To ensure the context is correct in answering this question, the paragraph is repeated: -

*“Despite trading off reduced revenue on a per subscription basis under its promotional strategy, Emerge has delivered volume, scale and a vibrant, active community full of new and existing users playing and primed to renew their subscriptions in the next period. Importantly this tradeoff has not adversely impacted Emerge in meeting its finance performance targets for the quarter.”*

The answers to point 7 of this “Emerge Gaming Limited (‘EM1’): Query Letter” demonstrates that platform users are actively engaged and are using the platform. EM1 believes that if the users of the MIGGSTER platform are actively engaging in competitions and other activities on the platform this means that they are enjoying the benefits of their subscription.

If a user is actively engaged and is enjoying the benefits of their subscription, they are primed and are more likely to renew their subscriptions.

The context of the paragraph in which the statement “primed to renew their subscription” was used will cause a reader to understand and infer that the criteria for a primed user is such user’s activity and engagement on the platform.

- 9) The question posed seeks the explanation of an extract of a comment made by Gregory Stevens, the extract being “*business model is cash flow generative*” and refers to further inferences drawn by the ASX, being “*given that EM1’s revenue appears to predominantly consist of promotional fees received in respect of free MIGGSTER subscriptions offered to existing Crowd1 members.*”

To ensure the context is correct in answering this question, the full comment by Gregory Stevens is repeated: -

*“These financial results demonstrate that our subscription business model is cash flow generative.”*



On a point of clarity, EM1 did not receive “promotional fees” as stated in this question. As previously communicated EM1 received discounted subscriptions on the ‘MIGGSTER Offer’ and these subscriptions were paid for by Crowd1.

The comment made by Gregory Stevens refers to the subscription business model and states that the financial results show that the subscription business model is cash flow generative.

EM1’s subscription revenue as reported in the last quarter in the ‘Quarterly Reports’ does predominantly consist of discounted subscriptions received under the ‘MIGGSTER Offer’. It is EM1’s view that it is common business practice for companies to engage in commercially feasible promotional and marketing activities with the objective of generating cash flow and building userbases. The financial results which EM1 has reported during the quarter clearly demonstrate that the business model (Fully paid plus discounted subscriptions) has been cash flow generative to the Company albeit on a reduced basis, versus the prior quarter. Mr Stevens’ comment is therefore factual in nature.

10) In the video-game industry, “AAA games” is an informal classification used to categorise games produced and distributed by a mid-sized or major publisher, which typically have higher development and marketing budgets than other tiers of games.<sup>1</sup>

Under the agreement with Cloudzen, EM1 has licenced access to five AAA standard games developed by Cloudzen.

In addition, EM1 has access to more than 700 AAA games titles and publishers that Cloudzen have already integrated into the Cloud Game Streaming technology for demonstration purposes. Cloudzen and EM1 currently have no rights or licence to earn revenue from or commercialise these games. In the development of our cloud streaming products for market launch EM1 will be approaching the respective publishers to conclude region specific licence agreements where desired and commercially feasible.

EM1 is engaging a global AAA games content distributor to gain access to a AAA games content library and through its prospective distribution partners is in discussions with major AAA games publishers.

EM1 is further engaging with AAA games content aggregators that provide consolidated regionalised offerings of AAA games content.

11) On the understanding that, under the existing license agreement and any succeeding agreement, Cloudzen is to provide a game streaming platform under license to EM1 / the SPV:

- a) The “minimum viable product” is defined in the agreement to mean the Cloudzen Software that includes (at a minimum):
- delivery of a Mobile Application with Cloud Gaming functionality;
  - delivery of at least two GPU instances under Microsoft Public Cloud in Europe and Johannesburg;
  - delivery of concurrent users accessible to the nearest GPU instance within region;
  - enable all Cloudzen theme designed user interface;

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<sup>1</sup> Steinberg, Scott (2007). The definitive Guide: Videogame Marketing and PR (1st ed.). iUniverse. ISBN 978-0-59543-371-1. & [https://en.wikipedia.org/wiki/AAA\\_\(video\\_game\\_industry\)](https://en.wikipedia.org/wiki/AAA_(video_game_industry))



- integration of Emerge designed MIGGSTER, as well as other designs provide by Emerge, user interface skins into mobile application;
  - enable Game streaming, video streaming and other community features;
  - hosting of all game contents owned by Cloudzen; and
  - delivery of high resolution images and videos of Cloudzen games.
- b) EM1 has undertaken a prolonged technology due diligence to test the platform and cloud game streaming ability of Cloudzen’s technology including but not limited to:

- EM1 has had an instance of the Cloudzen technology integrated and setup on its own servers and tested a selection of the 700 demonstration AAA games over 4G and 5G mobile networks. EM1 has demonstrated this technology to a number of prospective partners;
- On 1 July 2020, EM1 showcased the Cloudzen technology on MTN’s 5G Network in a production published and released by MTN with the launch of its 5G network in South Africa (ASX: 1 July 2020);
- EM1 has had an instance of the Cloudzen technology integrated and tested on the Microsoft Azure PlayFab platform (ASX: 21 September 2020): -

*“As a Microsoft ISV Partner, Emerge has designed and successfully tested a uniquely scalable hardware infrastructure solutions that seamlessly operates its game cloud streaming technology solution on the Azure servers integrating into the Azure PlayFab software. Emerge is leveraging Microsoft’s new edge zone computing capabilities to efficiently stream high quality immersive gaming experiences to mobile devices, smart TVs and PCs, with no downloads required.”*

- c) EM1 testing the Cloudzen GameCloud streaming technology on the Microsoft servers (ASX: 21 September 2021). In order for EM1 to have the potential to develop and offer a commercially viable cloud game streaming service in conjunction with Cloudzen the cloud game streaming technology would need to be deployable using the Microsoft Azure servers to take advantage of the cost effective scalable hardware solution offered by Microsoft and to leverage the partnership with Microsoft to co-sell cloud game streaming products.

12) EM1 has agreed to establish an Australian Registered SPV for the following reasons: -

- The future spread and representation of EM1’s customer base is expected to be dynamic in the future as the business develops;
- Whilst EM1 does not currently offer its platforms in Australia, in the medium term future prospective offerings involving Cloudzen’s technology will be considered in Australia;
- EM1 is investing USD800,000 into research and development to customise and refine the Cloud Game Streaming offering and an SPV registered in Australia offers EM1 localised control over the spend under this investment;
- An Australian registered SPV will be subject to Australian laws and is a jurisdiction in which many Singaporean companies are well versed;
- The worldwide revenues from the EM1s products will be remitted back to EM1 in Australia; and
- EM1 can potentially benefit from government tax rebates from this investment into research and development.



# EMERGE GAMING

ASX:EM1 | ABN 31 004 766 376

13) The Company confirms that it is complying with the listing rules including listing rule 3.1.

14) Confirmed.

**By the order of the Emerge Gaming Board.**





30 July 2021

Mr Derek Hall  
642 Newcastle Street  
West Leederville  
WA 6007

By email: [dhall@regencycorporate.com.au](mailto:dhall@regencycorporate.com.au)

Dear Mr Hall

### **Emerge Gaming Limited ('EM1'): Query Letter**

ASX refers to the following:

- A. EM1's announcement titled "Response to ASX Query" lodged on the ASX Market Announcements Platform ('MAP') on 9 July 2021, which disclosed (relevantly) that:
- i. Since the MIGGSTER offer was launched, 861 subscribers joined under the standard agreement and 1,062,335 subscribers had joined under the MIGGSTER Offer.
  - ii. In response to ASX's question 3 (in the context of paragraph D) of the accompanying letter, which noted that EM1 informed ASX that the MIGGSTER Offer involved Crowd1/ICT providing MIGGSTER subscriptions for free to Crowd1 subscribers:  
  
*"All MIGGSTER subscriptions sold by EM1 are paid MIGGSTER subscriptions because, in each case EM1 has received payment for the subscriptions."*
  - iii. *"All promotional subscriptions under the MIGGSTER Offer are 12-month subscriptions. EM1 receives the following amounts under the MIGGSTER Offer:*
    - o *EUR 2.00 (± AUD \$3.10) per subscription up to 1,000,000 subscriptions*
    - o *EUR 0.25 (± AUD \$0.39) per subscription for subscriptions in excess of 1,000,000 subscriptions*
    - o *EUR 500,000 (± AUD \$780,000) in prize contribution revenue over 12 months, paid quarterly*
    - o *Reimbursement of server costs to support these discounted promotional subscriptions"*
  - iv. *"EM1 does not remit any amounts to Crowd1 or Influence Crowd Technologies S.L (ICT) in the form of 'marketing commission cost' and/or revenue sharing arrangements if the subscription revenues result from subscriptions sold under the MIGGSTER Offer."*
- B. EM1's announcement titled "Quarterly Activities/Appendix 4C Cash Flow Report", released on MAP on 22 July 2021 (the 'Quarterly Reports'), which disclosed (relevantly) that:
- i. *"In the next quarter, Emerge will invest in R&D to develop new platform features, including game streaming of AAA games, strengthening the product's value proposition to new subscribers and existing subscribers on renewal".*
  - ii. \$5.858M had been received "from customers".
  - iii. *"Despite trading off reduced revenue on a per subscription basis under its promotional strategy, Emerge has delivered volume, scale, and a vibrant active community full of new and existing users playing and primed to renew their subscriptions in the next period."*

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- iv. CEO Greg Stevens noted: *“These financial results demonstrate that our subscription business model is cash flow generative”*
- C. The tweet from @Crowd1Official dated 5 July 2021<sup>1</sup> which reads (relevantly):
- “We are opening Miggster for All at 16:00 CET, 3<sup>rd</sup> July, so that anyone who still hasn’t got their free subscription has a further opportunity to climb on board.”*
- “LIVE AGAIN! FOR ALL EXISTING MEMBERS”*
- D. EM1’s announcement titled “EM1 Cloudzen JV to accelerate cloud gaming commercialisation”, lodged on MAP on 28 July 2021, which disclosed (relevantly, emphasis added) that:
- i. EM1 and Cloudzen Pte Ltd (**‘Cloudzen’**) had entered into a licensing joint-venture agreement to launch and distribute “a AAA game streaming product.”
- ii. EM1 would pay an initial USD 200,000 license fee upon delivery by Cloudzen of a **‘minimum viable product’**.
- iii. The purpose of the joint-venture was to “integrate the Cloudzen technology with Emerge’s platforms in key markets and to invest in research and development to customise and refine the offering to Emerge’s customer base.”
- iv. *“Emerge is an Independent Software Vendor (“ISV”) partner of Microsoft (ASX: 21 September 2020), and has worked with Microsoft to design and **successfully test a scalable hardware infrastructure solution that operates its game cloud technology on Microsoft’s Azure servers.**”*
- v. The agreement anticipates that an Australian-registered special purpose vehicle will eventually be established which will be the licensee and operate the joint venture (the **‘SPV’**).
- vi. EM1 “may terminate the license agreement with one month’s written notice. Additionally, if the agreed commercialisation plan has not been implemented for a period of 12 consecutive months, then either part may provide one month’s written notice to terminate the agreement.”
- E. Cloudzen’s website for its cloud game streaming product (<https://www.cloudzen.tech/cz-gamestreaming.html>), which appears to have last been updated on 1 April 2018, and which says “We are launching GameCloud very soon in Asia. Signup early with us on Beta to enjoy free 1-month of trial”.
- F. Guidance Note 14 to the ASX listing rules, which states (amongst other things):
- “An announcement for release to the market must also be couched in language that is appropriate for release to the market. It should be factual, relevant and expressed in a clear and objective manner. Emotive, intemperate or defamatory language should not be used, nor should vague or imprecise expressions such as “single digit” or “double digit”, which do not allow investors to assess the value of the information for the purpose of making an investment decision.”*

### **Request for information**

Having regard to the above, ASX asks EM1 to respond separately to each of the following questions and requests for information:

1. Please provide a copy of any correspondence or agreement between EM1 and with Crowd1/ICT that outlines the new pricing model under the MIGGSTER Offer (not for release to market).
2. Noting the observations in sub-paragraph A.ii. above, clearly confirm whether, under the MIGGSTER Offer:

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<sup>1</sup> <https://twitter.com/Crowd1Official/status/1411973018151182336> (accessed 30 July 2021)

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- a. the cash received by EM1 come from the end users of MIGGSTER, or from Crowd1/ICT; and
  - b. the subscription to MIGGSTER was only for new subscribers to Crowd1 or for all existing subscribers.
3. Of the cash receipts received during the quarter, does EM1 owe any amount to Crowd1/ICT? If so, how much, and for what?
  4. What consideration did Crowd1/ICT receive for conducting the MIGGSTER Offer, if it did not receive a commission or similar from subscriptions received thereunder?
  5. Is the MIGGSTER Offer still being offered by Crowd1/ICT? If so, were there any periods since its inception where it was not being offered? If so, did EM1 receive any subscriptions during those times?
  6. How does EM1 measure how much a subscriber is using MIGGSTER? Please provide a breakdown of the metrics by which EM1 measures subscriber engagement and how many subscribers are in each band.
  7. How do EM1's records of customer engagement support the representation that the MIGGSTER Offer "has delivered volume, scale, and a vibrant active community"?
  8. How does EM1 assess whether a user is "primed to renew their subscription"? How many of its existing users meet that criteria?
  9. Given that, and according to EM1's responses to previous ASX query letters, as at 30 June 2021 MIGGSTER has/had:
    - a. 174,687 standard subscribers, under the fee structure of EUR7.50 (per month) / EUR 39.00 (per 6 months) / EUR69.00 (per 12 months);
    - b. 861 of those standard subscribers created a subscription after the launch of the MIGGSTER Offer; and
    - c. 1,237,022 MIGGSTER Offer subscribers, under the fee structure referred to above from Crowd1/ICT;and that, therefore, standard subscribers represent 14% of total subscribers and 0.08% of total subscribers since the introduction of the MIGGSTER Offer, please explain why Mr Stevens commented that the "business model is cash flow generative", given that EM1's revenue appears to predominantly consist of promotional fees received in respect of free MIGGSTER subscriptions offered to existing Crowd1 members.
  10. Does EM1 have any licensing agreements in place with the publishers of AAA games? If not, how does EM1 intend to procure those licenses?
  11. On the understanding that, under the existing license agreement and any succeeding agreement, Cloudzen is to provide a game streaming platform under license to EM1 / the SPV:
    - a. What is a 'minimum viable product' in the context of cloud gaming technology for the purpose of the agreement?
    - b. What due-diligence was undertaken by EM1 to satisfy itself that Cloudzen can deliver a minimum viable product?
    - c. Please explain what technology EM1 tested on Microsoft's servers and what relevance this has to the product and license to be provided by Cloudzen.
  12. Given that EM1 does not offer its platforms in Australia, why has it agreed to establish an Australia-registered SPV to pursue its plan to "integrate the Cloudzen technology with Emerge's platforms in key



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markets and to invest in research and development to customise and refine the offering to Emerge's customer base"?

13. Please confirm that EM1 is complying with the Listing Rules and, in particular, Listing Rule 3.1.
14. Please confirm that EM1's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of EM1 with delegated authority from the board to respond to ASX on disclosure matters.

### **When and where to send your response**

This request is made under listing rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **9:00 AM AEST Thursday, 5 August 2021**. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, EM1's obligation is to disclose the information 'immediately'. This may require the information to be disclosed before the deadline set out in the previous paragraph and may require EM1 to request a trading halt immediately.

Your response should be sent to me by e-mail at **ListingsCompliancePerth@asx.com.au**. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

### **Trading halt**

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in EM1's securities under listing rule 17.1. If you wish a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

### **Suspension**

If you are unable to respond to this letter by the time specified above, ASX will likely suspend trading in EM1's securities under listing rule 17.3.

### **Listing Rules 3.1 and 3.1A**

In responding to this letter, you should have regard to EM1's obligations under listing rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*. It should be noted that EM1's obligation to disclose information under listing rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

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**Release of correspondence between ASX and entity**

We reserve the right to release a copy of this letter, your reply and any other related correspondence between us to the market under listing rule 18.7A.

**Questions**

If you have any questions in relation to the above, please do not hesitate to contact me.

Regards

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**Laura Gomme**  
Compliance Adviser, Listings Compliance (Perth)