LEAF MOBILE INC.

(Doing business as "East Side Games Group")

Consolidated Financial Statements

(Presented in Canadian Dollars)

For the Years Ended December 31, 2021 and 2020

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Leaf Mobile Inc.

Opinion

We have audited the consolidated financial statements of Leaf Mobile Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2021 and December 31, 2020
- the consolidated statements of income (loss) and comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flow for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

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

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 "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

KPMG LLP, an Ontario limited liability partnership and member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. KPMG Canada provides services to KPMG LLP.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our auditors' report.

Evaluation of the acquisition-date fair value of intangible assets

Description of the matter

We draw attention to Notes 2(a) and 5 to the financial statements. The Entity had a reverse acquisition of East Side Games Inc. ("ESG") on February 5, 2021 for a total purchase price of $78,844,917. In connection with the acquisition, the Entity recorded identifiable intangible assets, including brand, developed game technology and customer relationships (collectively, the intangible assets). The acquisition-date fair value of these intangible assets was estimated at $23,610,000. The Entity's significant assumptions in determining the acquisition-date fair value for the intangible assets include:

- future net cash flows
- royalty rates
- annual customer attrition rate
- the discount rate.

Why the matter is a Key Audit Matter

We identified the evaluation of the acquisition-date fair value of the intangible assets acquired in the reverse acquisition as a key audit matter. We identified this as a key audit matter because significant auditor judgment was required in evaluating the Entity's independent valuation expert's determination of the fair value of the intangible assets. Further, there was a significant risk of material misstatement because the valuation models included significant assumptions for which there was limited observable market information, and the calculated fair value of intangible assets was sensitive to possible changes to these significant assumptions.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We evaluated the Entity's ability to accurately forecast the Entity's future net cash flows by comparing the Entity's forecast developed at acquisition to the Entity's actual results. We took into account changes in conditions and events to assess the Entity's forecasts.

We evaluated the estimated annual customer attrition rate by assessing against comparable companies and comparing to the Entity's past performance.

In addition, we involved valuation professionals with specialized skills and knowledge, who assisted in:

- evaluating the appropriateness of the valuation approach used by the Entity to calculate the fair value of the intangible assets based on the knowledge of the valuation professional
- evaluating the appropriateness of the Entity's discount rate by comparing it against a discount rate range that was independently developed
- evaluating the royalty rates by comparing them against publicly available market data for comparable entities.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the 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 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- 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.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Lyndon Fung.

Vancouver, Canada
March 10, 2022

LEAF MOBILE INC. (dba "East Side Games Group")
Consolidated Statement of Financial Position
(Presented in Canadian dollars)
As at December 31, 2021 and December 31, 2020

	Note	2021 December 31	2020 December 31
ASSETS			
CURRENT			
Cash and cash equivalents	5	**$ 9,242,144**	$ 4,416,399
Marketable securities		**-**	5,249,052
Trade and other receivables	8	**10,146,362**	12,731,190
Income taxes recoverable		**540,218**	-
Government assistance receivable	9	**1,099,789**	2,005,998
Prepaid expenses and deposits	10	**2,713,846**	627,445
		23,742,359	25,030,084
PREPAID EXPENSES AND DEPOSITS	10	**2,766,763**	1,531,958
PROPERTY AND EQUIPMENT	11	**680,742**	646,948
INTANGIBLE ASSETS	12	**18,662,468**	-
GOODWILL	23	**30,507,520**	-
LONG TERM INVESTMENTS	13	**3,950,000**	8,121,397
DEFERRED INCOME TAXES	18	**2,035,262**	-
		$ 82,345,114	$ 35,330,387
LIABILITIES			
CURRENT			
Trade and other payables	15	**$ 12,739,096**	$ 4,277,777
Contingent payable	5	**20,000,000**	-
Income taxes payable		**-**	3,762,790
Deferred Revenue		**915,870**	-
Current portion of lease obligation	16	**131,201**	174,390
		33,786,167	8,214,957
LEASE OBLIGATION	16	**-**	131,201
CONTINGENT LIABILITIES	5	**19,024,654**	-
DEFERRED INCOME TAXES	18	**5,501,505**	1,336,703
		$ 58,312,326	$ 9,682,861
SHAREHOLDERS' EQUITY			
Share capital	19	**74,758,038**	2,104,861
Contributed surplus		**7,364,733**	1,312,366
Retained earnings (Deficit)		**(58,089,983)**	22,230,299
		24,032,788	25,647,526
		$ 82,345,114	$ 35,330,387
COMMITMENTS AND CONTINGENCIES	25		
SUBSEQUENT EVENTS	26		
		$ -	

APPROVED ON BEHALF OF THE BOARD

"Derek Lew" *Director* *"Mike Edwards"* *Director*

LEAF MOBILE INC. (dba "East Side Games Group")
Consolidated Statement of Income (Loss)
and Comprehensive Income (Loss)
(Presented in Canadian dollars)
For the Years Ended December 31, 2021 and 2020

	Note	2021	2020
REVENUE			
Gaming		**$ 69,718,451**	$ 58,587,399
Advertising		**23,468,367**	9,463,052
		93,186,818	68,050,451
COST OF SALES		**33,273,373**	20,209,075
GROSS PROFIT		**59,913,445**	47,841,376
EXPENSES			
Research and development	*9*	**13,061,923**	11,279,507
Sales and marketing		**32,283,369**	21,602,400
General and administrative		**11,694,856**	3,564,471
Transaction expenses	*5*	**2,193,867**	-
Depreciation of property and equipment and right-of use assets		**398,028**	305,084
Depreciation of intangible assets		**5,706,250**	-
		65,338,293	36,751,462
INCOME (LOSS) BEFORE OTHER INCOME (EXPENSES) AND INCOME TAXES		**$ (5,424,848)**	$ 11,089,914
OTHER INCOME (EXPENSES)			
Gain on long term investment and disposal of subsidiary	*4, 13*	**4,953,291**	9,597,771
Investment income		**370,213**	(885,294)
Unrealized gain on investments		**350,000**	559,496
Loss on foreign exchange		**(673,442)**	(219,051)
Accretion expense		**(1,719,623)**	-
		3,280,439	9,052,922
INCOME (LOSS) BEFORE INCOME TAXES		**$ (2,144,409)**	$ 20,142,836
INCOME TAX EXPENSE (RECOVERY)			
Current	*17*	**2,585,460**	3,582,220
Deferred	*17*	**(2,848,953)**	1,451,236
		(263,493)	5,033,456
NET AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD		**$ (1,880,916)**	$ 15,109,380
BASIC AND DILUTED NET INCOME (LOSS) PER COMMON SHARE		**$ (0.03)**	$ 0.35
SHARES USED IN CALCULATING EARNINGS PER SHARE			
Basic		73,469,877	42,771,596
Diluted		73,469,877	43,638,897

LEAF MOBILE INC. (dba "East Side Games Group")
Consolidated Statement of Changes in Equity
(Presented in Canadian dollars)
For the Years Ended December 31, 2021 and 2020

	Note	Number of shares	Share capital	Contributed surplus	Retained earnings (Deficit)	**Total equity**
As at January 1, 2020		41,455,959	$ 375,666	1,195,419	$ 10,152,870	**$ 11,723,955**
Share issuance		12,543,164	2,206,761	(497,926)	$ -	**1,708,835**
Share exchange and redemption		(9,554,679)	(477,566)		$ (1,510,383)	**(1,987,949)**
Stock based compensation		-	-	614,873	-	**614,873**
Comprehensive income for the period		-	-	-	15,109,380	**15,109,380**
Dividends paid		-	-	-	(1,521,568)	**(1,521,568)**
As at December 31, 2020		44,444,444	$ 2,104,861	$ 1,312,366	$ 22,230,299	**$ 25,647,526**
As at January 1, 2021		44,444,444	$ 2,104,861	$ 1,312,366	$ 22,230,299	**$ 25,647,526**
Adjustment to the issued common shares of the legal parent at the time of the reverse takeover	*5*	31,566,347	71,024,281	-	-	**71,024,281**
Fair value of stock options from reverse takeover	*5*	-	-	55,000	-	**55,000**
Shares issued for advisory fees for reverse takeover	*19*	426,883	960,486	-	-	**960,486**
Stock option exchange		-	-	(1,255,349)	-	**(1,255,349)**
Stock option exercised		158,785	622,092	(274,629)	-	**347,463**
Warrants exercised		23,867	46,318	(14,490)	-	**31,828**
Stock based compensation	*20*	-	-	2,099,396	-	**2,099,396**
Distribution to shareholders on Reverse Takeover	*5*	-	-	-	(57,733,545)	**(57,733,545)**
Deferred consideration on Reverse Takeover, as adjusted	*5*	-	-	5,442,439	(5,442,439)	**-**
Cash dividends paid prior to Reverse Takeover		-	-	-	(6,300,000)	**(6,300,000)**
Non-cash dividends paid prior to Reverse Takeover	*12, 22*	-	-	-	(9,178,619)	**(9,178,619)**
Refundable taxes paid		-	-	-	(1,818,171)	**(1,818,171)**
Refundable taxes recovered		-	-	-	2,033,408	**2,033,408**
Comprehensive loss for the period		-	-	-	(1,880,916)	**(1,880,916)**
As at December 31, 2021		76,620,326	$ 74,758,038	$ 7,364,733	$ (58,089,983)	**$ 24,032,788**

LEAF MOBILE INC. (dba "East Side Games Group")
Consolidated Statement of Cash Flow
(Presented in Canadian dollars)
For the Years Ended December 31, 2021 and 2020

	2021 *December 31*	2020 *December 31*
OPERATING ACTIVITIES		
Net and comprehensive income (loss)	**$ (1,880,916)**	$ 15,109,380
Items not affecting cash:		
Depreciation of property and equipment	**398,028**	305,084
Depreciation of intangible assets	**5,706,250**	-
Deferred income tax expense (recovery)	**(2,848,953)**	1,451,236
Share based payments	**1,038,486**	-
Gain on investments and disposal of subsidiary	**(4,895,791)**	(9,597,771)
Interest on lease obligation	**27,365**	46,625
Unrealized gain on investments	**(350,000)**	(559,496)
Equity-method accounting loss on long term investment	-	1,324,407
Accretion expense on contingent liabilities	**1,719,623**	-
Stock based compensation	**4,004,614**	614,873
Changes in non-cash working capital		
Trade and other receivables	**708,734**	(3,106,111)
Trade receivable from related parties	**-**	(7,345,805)
Government assistance receivable	**1,062,524**	1,145,563
Prepaid expenses	**(3,221,818)**	1,588,749
Net assets classified as held for sale	**-**	2,662,445
Trade and other payables	**2,906,842**	1,051,603
Deferred revenue	**915,870**	-
Income taxes payable and recoverable	**(4,275,643)**	2,433,926
Cash flow from operating activities	**$ 1,015,215**	$ 7,124,708
INVESTING ACTIVITIES		
Proceeds from (purchase of) marketable securities	**5,249,052**	(1,206,798)
Purchase of equipment	**(342,722)**	(118,190)
Purchase of Intangibles	**(758,718)**	-
Purchase of long term investments	**(552,130)**	(225,000)
Cash acquired (disposed of) in acquisitions and dispositions	**4,422,540**	(1,192,010)
Cash flow from investing activities	**$ 8,018,022**	$ (2,741,998)
FINANCING ACTIVITIES		
Cash consideration paid on Reverse Takeover	**(19,328,515)**	-
Cash dividends paid prior to Reverse Takeover	**(6,300,000)**	(1,300,000)
Proceeds from subscription offering	**21,028,250**	-
Stock options exercised	**347,463**	1,470,052
Share Redemption	**-**	(1,749,166)
Warrants exercised	**31,828**	-
Refundable taxes net	**215,237**	(221,568)
Repayment of lease obligation	**(201,755)**	(195,855)
Cash flow from (used in) financing activities	**$ (4,207,492)**	$ (1,996,537)
INCREASE IN CASH	**$ 4,825,745**	$ 2,386,173
Cash - beginning of period	**4,416,399**	2,030,226
CASH - END OF PERIOD	**$ 9,242,144**	$ 4,416,399

Supplemental cash flow information *Note 22*

1. NATURE AND CONTINUANCE OF OPERATIONS

Leaf Mobile Inc. (the "Company", "Leaf") was incorporated provincially under the Business Corporations Act of British Columbia on November 29, 2018. The head office of the Company is Suite 909 - 510 Burrard Street, Vancouver, British Columbia, V6C 3A8. The Company is doing business as East Side Games Group and expects to officially change its name to East Side Games Group Inc. at its next Annual General Meeting.

Eastside Games Inc. ("ESG") and LDRLY (Technologies) Inc. ("LDRLY"), wholly owned subsidiaries of the Company, are mobile game developers and publishers, specialising in free-to-play casual mobile games. ESG and LDRLY generate in-app purchases revenue from the sale of in game virtual items that enhance the game-playing experience, and through advertising.

On February 5, 2021, the Company received approval from the Toronto Stock Exchange ("TSX") and the TSX Venture Exchange ("TSX-V") to close its acquisition by ESG. On February 10, 2021, the Company resumed trading on the TSX under the symbol "LEAF". Refer to Note 5 for details of the acquisition of ESG, which is being accounted for as a reverse takeover. On December 8, 2021, the Company changed its ticker to "EAGR" on the TSX and "EAGRF" on the OTCQB Marketplace in the United States.

On March 11, 2020, the World Health Organization characterized the outbreak of a disease caused by a strain of a novel coronavirus ("COVID-19"), as a pandemic. This has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. These events are resulting in a challenging economic climate in which it is difficult to reliably estimate the length or severity of these developments and their financial impact. The direct and indirect impact to the Company has been considered in management's judgments, estimates and uncertainties at period-end. Although management has determined that no significant revisions to such estimates, judgments or assumptions were required at period-end, there could be a further prospective material impact in future periods to the extent that the negative impacts from SARS-CoV-2 continue or worsen. To date, the Company has taken steps to protect its employees during this time including having them work from home since March 2020, without any material disruption to the Company's day-to-day operations to date. The Company is monitoring developments of the SARS-CoV-2 outbreak and will adapt its business plans accordingly.

2. BASIS OF PRESENTATION

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The consolidated financial statements were authorized for issue by the Board of Directors on March 10th, 2022.

Basis of measurement

The consolidated financial statements have been prepared on an accrual basis and are based on historical costs. The consolidated financial statements are presented in Canadian dollars unless otherwise noted, which is the Company's functional currency.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Eastside Games Inc. ("ESG"), Eastside Games (Ontario) Inc ("ESG-ON"), Eastside Games USA Inc. ("ESG-USA), 1182533 B.C. Ltd. ("118Co"), LDRLY (Technologies) Inc. ("LDRLY") and Keh Kaw Games Inc. ("KKG"). The subsidiaries are entities over which the Company is able, directly or indirectly, to control financial operating policies, which is the authority usually connected with holding majority voting rights. The results of operations of the subsidiaries are included in the consolidated financial statements from the respective dates of acquisition or incorporation. All intercompany balances and transactions have been eliminated.

Comparative balances

The transaction as stated in Note 5 constituted a reverse takeover of Leaf by ESG. Accordingly, the consolidated financial statements are a continuation of the financial statements of ESG. All prior period comparative amounts are those of ESG and the current year period includes the financial results of Leaf / LDRLY (the "acquiree") from February 5, 2021. The prior period share and stock option amounts for ESG were retrospectively restated to reflect the share exchange ratio in the merger between LEAF and ESG which was 94.8.

On August 16, 2021, the Company completed a 10-for-1 share consolidation. The share consolidation has been reflected in the retrospectively restated Statements of Shareholders' Equity and in the notes to the financial statements.

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2. BASIS OF PRESENTATION *(continued)*

Significant Judgments and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the application of policies and reported amounts of assets and liabilities and disclosures of assets and liabilities at the date of the consolidated financial statements, along with reported amounts of expenses and net losses during the period. Actual results may differ from these estimates, and as such, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and in any future periods affected. Significant assumptions about the future and other sources of estimation uncertainty that management has made at the balance sheet reporting date that could result in a material adjustment to the carrying value of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

(a) Identification and valuation of intangible assets acquired in business combinations

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of intangible assets. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, management with assistance from an independent valuation expert develops the fair value using appropriate valuation techniques which are based on a forecast of the total expected future net cash flows. In determining the fair value of the intangible assets at the acquisition date, the Company's significant assumptions include the future net cash flows, royalty rates, annual customer attrition rates and the discount rate applied.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will last for one year from the acquisition date.

(b) Share-based payments

The fair value of all share-based payments granted are determined using the Black-Scholes option pricing model which incorporates assumptions regarding risk-free interest rates, dividend yield, expected volatility, estimated forfeitures, and the expected life of options. The Company has a significant number of options outstanding and expects to continue to make option grants.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control over a product or service to a customer. The following steps are considered when recognizing revenue:

1. Identify the contract with customers;
2. Identify the performance obligation in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to performance obligation; and
5. Recognize revenue when/as performance obligation(s) are satisfied.

In-app purchases

Users can download the Company's free-to-play games within the Digital Storefronts/platform providers. Users can pay to acquire virtual currency, which can be redeemed in the game for virtual goods, or purchase virtual goods directly (together, defined as "virtual items") to enhance their game-playing experience. The Company sells consumable virtual items through the Digital Storefronts.

Satisfaction of performance obligations is based on the nature of the virtual items purchased. We evaluate our revenue against these criteria and recognize in accordance with their nature:

- Consumables - Consumable virtual items are items that are consumed at a predetermined time or otherwise have limitations on repeated use. They are consumed by a specific action. The Company's performance obligation is satisfied upon consumption, and thus revenue is recognized at a point in time.

- Durables - Durable virtual items are items purchased and the obligation to the paying users is to continue displaying and providing access to the virtual items within the game. The Company's performance obligation is satisfied over time, and thus any revenue arising from durable items is recognized over time. The Company recognizes revenue from the sale of durable virtual items on a straight-line basis ratably over the estimated average playing period of paying players, which represents our best estimate of the average life of durable virtual items.

Advertising services

The Company has relationships with certain advertising service providers for advertisements within its games. Revenue from these advertising service providers is generated through impressions, clickthroughs, offers and banner ads. Offers are the type of advertisements where the players are rewarded with virtual currency for completing specified actions, such as downloading another application, watching a short video, subscribing to a service or completing a survey.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The Company has determined the advertising buyer to be its customer and displaying the advertisements within the games is identified as the single performance obligation. Revenue associated with advertising are recognized at the point-in-time the advertisements are displayed in the game or the offer has been completed by the users as the customer simultaneously receives and consumes the benefits provided from these services.

Principal vs Agent Considerations

The Company evaluated its Digital Storefront and advertising service provider agreements under IFRS 15 in order to determine if it is acting as the principal or as an agent when selling virtual items or advertisements within its games. The Company primarily uses Digital Storefronts for distributing its games and for enabling players to purchase virtual items and advertising service providers to serve advertisements within its games. The Company evaluated the following factors to assess whether it controls each specified good or service before that good or service is transferred to the customer:

- the party responsible for the fulfillment of the virtual items, game related services, or serving of advertisements;
- the party having the discretion to set pricing with the end-users; and
- the party having inventory risk before the specified good or service have been transferred to a customer.

Based on the evaluation of the above indicators, the Company determined that it has control of the services before they are transferred to the end-user. Thus, the Company is generally acting as a principal and is the primary obligor to end-users for games distributed through Digital Storefronts. Therefore, the Company recognizes in-app purchases revenue related to these arrangements on a gross basis, when the necessary information about the gross amounts or Digital Storefront fees charged, before any adjustments, are made available by the Digital Storefronts. The fees retained by the Digital Storefronts are presented as part of cost of sales. Advertising revenue is recorded on a net basis.

Cash and cash equivalents

Cash includes cash and cash equivalents. Cash equivalents are considered to be any term deposit with a maturity of three months or less that the Company may hold.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. It is depreciated over its estimated useful life at the following rates and methods:

Computer equipment	30% declining balance method
Furniture and fixtures	20% declining balance method

The Company regularly reviews its property and equipment to eliminate obsolete items. Property and equipment acquired during the year but not placed into use are not depreciated until they are placed into use.

Marketable securities

Marketable securities consist of investments that are quoted in an active market, which the Company does not exercise significant influence over, and are initially and subsequently measured at fair value

Long term investments

Long term investments consist of investments in associates. The investments are accounted for using the equity-method of accounting if the Company exercises significant influence over the investment. If significant influence does not exist the investment is recorded at fair value.

Intangible assets

The intangible assets consist of brand, developed game technologies and customer relationships, and are stated at cost less accumulated depreciation and accumulated impairment losses. They are depreciated over their estimated useful life at the following rates and methods:

Brand	5 years straight line method
Developed game technology	5 years straight line method
Customer relationships	2 years straight line method

Goodwill

Goodwill, arising on the acquisition of a business, represents the excess of the cost of acquisition over the Company's interest in the net fair value of the identifiable assets and liabilities of the business recognized at the date of acquisition. Goodwill is initially recognized at cost and is subsequently measured at cost less any impairment losses. Goodwill is tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may exceed the fair value.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases

The Company follows the guidance in IFRS 16 and recognizes a right-of-use asset and a lease liability for its lease. The right-of-use asset is measured at cost and depreciated over its estimated useful life. At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease or if that rate cannot be readily determined, the Company's incremental borrowing rate. If the lease terms are subsequently changed, the present value of the lease liability is re-measured using the revised lease terms and applying the appropriate discount rate to the remaining lease payments. The Company recognizes the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Company recognizes any remaining amount of the re-measurement in profit or loss. The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets.

Research and development

The Company incurs costs related to research, design and development of products. Such costs incurred in conjunction with product development for software to be sold, leased or otherwise marketed are charged to expense until technological feasibility is established. Thereafter, until the product is released for sale, software development costs must be capitalized and reported at the lower of unamortized cost or net realizable value of the related product.

The Company does not consider a game in development to have passed the technological feasibility milestone until the Company has completed a model of the game that contains essentially all the functionality and features of the final game and has tested the model to ensure that it works as expected. To date, the Company has not incurred significant costs between the establishment of technological feasibility and the release of a game for sale; thus, the Company has expensed all software development costs as incurred.

Impairment of Long Lived Assets

The Company's assets are assessed for impairment at each financial position date. If indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. Impairment losses are recognized in the statement of loss and comprehensive loss when incurred. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less costs to sell and 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 current market assessments of time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

Trade and other payables

Payables are obligations to pay for services that have been acquired in the ordinary course of business from suppliers and contractors. Payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Share capital

Common shares issued for non-monetary consideration are recorded at their fair value on the measurement date and classified as equity. The measurement date is defined as the earliest of the date at which the commitment for performance by the counterparty to earn the common shares is reached or the date at which the counterparty's performance is complete.

Transaction costs directly attributable to the issuance of common shares and share purchase options are recognized as a deduction from equity, net of any tax effects.

Loss per share

Basic loss per share is determined by dividing the net loss available to common shareholders by the weighted average number of common shares outstanding during the reporting period. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings.

Stock based compensation

The Company has a stock option plan that is described in Note 20. All goods and services received in exchange for the grant of any stock-based compensation are measured at their fair values. Where employees are rewarded using stock-based compensation, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. The fair value is measured at the grant date, using the Black-Scholes Option Pricing Model, and exclude the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions).

All stock-based compensation is recognized as an expense in profit or loss with a corresponding credit to the contributed surplus, over the period during which the related stock-based compensation vests. No amount is recognized for instruments which do not ultimately vest.

Consideration received on the exercise of share purchase options is recorded as share capital and the related amount originally recorded in contributed surplus is transferred to share capital.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current and deferred income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the statement of loss and comprehensive loss, except to the extent that it relates to items recognized in other comprehensive loss or directly in equity. In this case the income tax is also recognized in other comprehensive loss or directly in equity, respectively.

Current Income Tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the statement of financial position date in the country where the Company operates and generates taxable income. Management periodically evaluates position taken in the tax return with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred Income Tax

Deferred income tax is recognized, using the asset and liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is 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 laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Government assistance

Amounts receivable resulting from government assistance programs are recognized where there is reasonable assurance that the amount of government assistance will be received, and amounts can be reasonably estimated. When the government assistance relates to an expense item, it is recognized as a reduction of the corresponding expense on the statement of loss and comprehensive loss.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

a) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income ("FVOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

b) Measurement

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment. Trade and other receivables, trade and other payables, and contingent payables are classified as amortized cost.

Financial assets and liabilities carried at FVTPL are initially recorded at fair value. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in income or loss in the period in which they arise. Cash and cash equivalents, marketable securities, and long-term investments not subject to significant influence are classified as FVTPL.

Financial assets and liabilities carried at FVOCI are initially recorded at fair value. Unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVOCI are included in comprehensive income or loss in the period in which they arise. As at December 31, 2021 and December 31, 2020, the Company has not classified any financial assets as FVOCI.

c) Impairment of financial asset 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. Regardless of whether credit risk has increased significantly, the loss allowance for trade receivables without a significant financing component classified at amortized cost, are measured using the lifetime expected credit loss approach. The Company shall recognize in the statements of loss and comprehensive loss, as an impairment gain or loss, 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.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

d) Derecognition

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. Gains and losses on derecognition are generally recognized in the statements of loss and comprehensive loss.

Foreign currency translation

Transactions entered into in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates applicable when the transactions occur. The Company's and its subsidiaries' functional currency is the Canadian dollar. Foreign currency monetary assets and liabilities are translated at the rates applicable at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognized immediately in the statement of loss and comprehensive loss.

4. DISPOSAL OF SUBSIDIARY

On October 29, 2019 ESG entered into a share purchase agreement (the "SPA"), which completed on April 17, 2020, with 1182533 B.C. Ltd. (the "Purchaser") to sell its interest in LDRLY (Technologies) Inc. ("LDRLY") to LEAF for an aggregate selling price as follows:

- cash consideration of $1,250,000 (received on February 14, 2019); and
- share consideration of 5,518,750 common shares to the Company with a fair value of $1.60 per share for a total share consideration of $8,830,000.

The gain on sale of LDRLY is calculated as follows:

Consideration received		
Cash	**$**	**1,250,000**
Share consideration		**8,830,000**
		10,080,000
Net assets disposed of		**(482,229)**
Gain of sale of subsidiary	**$**	**9,597,771**

5. ACQUISITION OF EAST SIDE GAMES INC.

Prior to the acquisition of ESG, on January 22, 2021, the Company received all necessary approvals from the TSX, the TSX-V and all security commissions in each of the Provinces of Canada (except Quebec), and filed its short form prospectus with respect to its public offering of Subscription Receipts and acquisition of ESG. The offering consisted of 8,888,888 Subscription Receipts at a price of $2.25 per Subscription Receipt, for gross proceeds of $20,000,000, and an over-allotment option for an additional 1,333,333 Subscription Receipts at a price of $2.25 per Subscription Receipt, for additional gross proceeds of $3,000,000.

The Company completed its offering on February 4, 2021, including the over-allotment, for aggregate gross proceeds of $23,000,000. The Company paid $1,971,750 in cash and issued 613,333 broker warrants exercisable into Leaf shares at $2.25 per share, in share issuance costs.

On February 5, 2021, the Company acquired all issued and outstanding shares of ESG, such that ESG is now a wholly owned subsidiary, for the following consideration:

- Cash consideration of $10,000,000, plus a working capital adjustment of $10,428,514, with $1,100,000 being held in escrow for a period of 12 months;
- Share consideration of 44,444,444 Leaf shares; and
- $40,000,000 in contingent payable, with an acquisition date present value of $37,305,031, upon the Company reaching certain milestones. At the option of the vendors, the contingent payable will be paid fully in cash or up to a maximum of 50% in Leaf common shares at a set price of $2.25 per share. The contingent amount becomes payable based on the following:
    - $20,000,000 if Leaf achieves $100,000,000 in gross revenue, as defined in the purchase agreement, in the first 12 months following transaction close date. This milestone was achieved subsequent to year end. (See note 26); and
    - $20,000,000 if Leaf achieves $150,000,000 in gross revenue in the second 12 months following transaction close date. The Company estimates that the contingent amount will be paid and has accrued the present value of the expected payments as contingent liabilities. However, if the above targets are not achieved no additional payments will be made to the vendors.

The cash consideration, working capital adjustment and estimated contingent amount totalling $57,733,545 are payments from Leaf to its shareholders and have been included as part of dividends and distributions to shareholders in the consolidated statement of changes in equity. Given the contingent liability has an equity feature allowing for up to 50% to be settled in shares, the equity settlement option has been valued using the Black-Scholes model resulting in a value of $5,442,439 being recognized as an increase to contributed surplus and as a further distribution to shareholders in the consolidated statement of changes in equity. The Black-Scholes option pricing model used the following inputs: risk-free interest rate of 0.48%, expected volatility ranging from 55.80% to 59.06%, and expected dividend yield of 0%. The $5,442,439 value for the equity settlement option was not specifically recognized in the interim financial statements as at March 31, 2021, June 30, 2021 and September 30, 2021. As a result, this year-end adjustment would result in the increase in contributed surplus and deficit by $5,442,439 for each of those period ends.

As a result of the shares issued to shareholders of ESG, ESG shareholders owned 58% of the combined Company. As such, despite being the legal subsidiary, ESG was identified as the accounting acquiror and LEAF was identified as the legal parent and the accounting acquiree. As ESG was deemed to be the acquirer for accounting purposes, its assets, liabilities, and operations since incorporation are included in the consolidated financial statements at their historical carrying values. Leaf's results of operations have been included from the date of the transaction. The legal capital continues to be that of Leaf, the legal parent.

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5. ACQUISITION OF EAST SIDE GAMES INC. *(continued)*

As at December 31, 2021, cash of $1,100,000 remains held in escrow pursuant to the share purchase agreement. This restricted amount is included in the total cash and cash equivalents and trade and other payables on the statement of financial position.

Transaction costs for the reverse acquisition were $1,210,375 and were expensed during the period ended December 31, 2021 (December 31, 2020 – nil).

The purchase price allocation based on the reverse takeover accounting is summarized as follows:

Consideration	
31,566,347 Leaf shares at a price of $2.25 per share	$ 71,024,281
44,000 stock options	55,000
Total consideration before settling the pre-existing relationship	$71,079,281
Net payables to ESG eliminated on acquisition	7,765,636
	$ 78,844,917
Net assets acquired	
Cash	$ 4,422,540
Trade and other receivables	5,447,741
Subscription proceeds receivable	21,028,250
Government assistance receivable	156,315
Prepaid expenses and deposits	99,388
Property and equipment	89,100
Trade and other payables	(1,537,444)
Deferred income taxes	(4,978,493)
Brand	7,130,000
Developed game technology	11,470,000
Customer relationships	5,010,000
Goodwill	30,507,520
	$ 78,844,917

6. BUSINESS COMBINATION DISCLOSURES

IFRS 3, Business combinations, applies to the reverse acquisition of Leaf Mobile Inc. by Eastside Games Inc. on February 5, 2021. In order to evaluate the nature and financial effect of this business combination, the following information has been provided:

Leaf Mobile Inc. Statement of Loss for the period from February 5, 2021 to December 31, 2021

The amount of revenue and net loss of Leaf Mobile Inc. subsequent to February 5, 2021 included in the consolidated statement of income (loss) and comprehensive income (loss) for the reporting period is as follows:

Revenue	$ 38,996,540
Net loss	$ 4,531,278

Leaf Mobile Inc. Statement of Loss for the period ended December 31, 2021

The amount of revenue and net loss of Leaf Mobile Inc. had the acquisition occurred on January 1, 2021 is as follows:

Revenue	$ 44,799,728
Net loss	$ 5,775,224

The amount of revenue and net loss of Leaf Mobile Inc. on a combined basis had the acquisition occurred on January 1, 2021 after intercompany eliminations is as follows:

Combined Revenue	$ 95,450,087
Combined Net loss	$ 3,124,863

7. FINANCIAL INSTRUMENTS

Categories of financial assets and financial liabilities

Financial instruments are classified into one of the following three categories: fair value through profit or loss ("FVTPL"); fair value through other comprehensive income ("FVOCI"); and amortized cost. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	December 31, 2021	December 31, 2020
Cash and cash equivalents	FVTPL	9,242,144	4,416,399
Marketable securities	FVTPL	-	5,249,052
Trade and other receivables	Amortized Cost	10,146,362	12,731,190
Long term investments without significant influence	FVTPL	950,000	500,000
Trade and other payables	Amortized Cost	12,739,097	4,277,777
Contingent liabilities	Amortized Cost	39,024,654	-

Fair value

IFRS 13 establishes a fair value hierarchy for financial instruments measured at fair value that reflects the significance of inputs in making fair value measurements as follows:

Level 1 - applied to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 - applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.

Level 3 - applies to assets or liabilities for which there are unobservable market data.

The carrying values of trade and other receivables, trade and other payables, and contingent payable approximate their fair value due to their short-term nature. The Company's fair value of cash and cash equivalents and marketable securities under fair value hierarchy are measured using Level 1 inputs. Long-term investments not subject to significant influence are measured using Level 2 inputs.

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company's main exposure to credit risk relates to its trade receivables. The credit risk is minimal since the majority of the Company's receivables come from large corporations who pay the Company advertising and gaming revenue. There is no bad debt expense in the current or prior periods and in the opinion of management, none of the amounts comprising this balance were considered impaired. As at December 31, 2021, 72% (December 31, 2020 - 77%) of the Company's trade receivables was concentrated to three major Digital Storefronts and advertisers. The Company has not had any problems with payment from these Digital Storefronts and advertisers and as such management is of the opinion that any concentration of credit risk is minimal.

(continues)

7. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that it will have sufficient liquidity to meet its obligations.

Currency risk

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to foreign currency exchange risk on cash, trade and other receivables, and trade and other payables held primarily in U.S. dollars. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

At December 31, 2021, 1 Canadian Dollar was equal to $0.7816 US Dollar (December 31, 2020 - $0.7854).

	December 31, 2021		**December 31, 2020**	
	US Dollar	CDN Equivalent	US Dollar	CDN Equivalent
Cash	3,068,546	3,925,898	1,536,544	1,956,384
Marketable securities	-	-	2,260,201	2,877,771
Trade and other receivables	4,487,294	5,741,044	2,941,181	3,744,819
Trade and other payables	(2,350,206)	(3,006,853)	(1,123,091)	(1,429,961)

Based on the net exposures as of December 31, 2021 and assuming that all other variables remain constant, a 10% fluctuation on the Canadian Dollar against the US Dollar would result in a change to the Company's net income by approximately $605,463 (December 31, 2020 - $561,484).

8. TRADE AND OTHER RECEIVABLES

	2021 ***December 31***	2020 *December 31*
Trade receivable	**$ 9,467,801**	$ 5,260,385
Trade receivable from related party	**-**	7,470,805
Goods and services tax recoverable	**$ 678,561**	-
	$ 10,146,362	$ 12,731,190

The amounts due from related party (LDRLY) at December 31, 2020 were unsecured, non-interest bearing and due on demand with no set repayment terms.

9. GOVERNMENT ASSISTANCE

Included in research and development expenses are tax credits from various government assistance programs. The Company claims investment tax credits ("ITC") from the eligible scientific research and experimental development ("SR&ED") expenditures incurred during the year and British Columbia and Ontario Interactive Digital Media Tax Credits ("BC IDMTC" and "Ontario IDMTC"). As at December 31, 2021, the Company has an amount receivable from these government assistance programs of $1,099,789 (December 31, 2020 - $2,005,998).

During the year, the Company claimed the following tax credits from the government assistance programs, which are offset against research and development expenses:

	2021	2020
	December 31	*December 31*
ITC from SR&ED expenditures	**$ 408,678**	$ 1,101,125
BC IDMTC	**1,211,244**	978,815
Ontario IDMTC	**215,487**	-
	$ 1,835,409	$ 2,079,940

10. PREPAID EXPENSES AND DEPOSITS

The Company has entered into agreements with several license holders and external studios in an effort to develop new video games. Included in deposits and other are amounts paid to license holders and external studios in advance related to development and royalty costs of the games under development. The Company is also committed to pay royalties over and above prepaid minimum guarantees on these games in the future based on a percentage of sales less certain eligible costs.

	2021	2020
	December 31	*December 31*
Prepaid royalties - current	**$ 1,758,491**	$ 233,543
Other prepaids	**919,398**	359,058
Security deposits	**35,957**	34,844
Prepaid expenses and deposits	**$ 2,713,846**	$ 627,445
Prepaid royalties - non-current	**2,766,763**	1,531,958
	$ 5,480,609	$ 2,159,403

11. PROPERTY AND EQUIPMENT

	Computer equipment	Furniture and Fixture	Leasehold Improvement	Right-of-use asset	Total
Cost					
Balance at January 1, 2020	$ 616,382	$ 227,561	$ 62,576	$ 581,874	**$ 1,488,393**
Additions	114,244	8,961	-	-	**123,205**
Disposals	-	-	-	-	**-**
Balance at December 31, 2020	$ 730,626	$ 236,522	$ 62,576	$ 581,874	**$ 1,611,598**
Additions	413,655	18,167	-	-	**431,823**
Disposals	-	-	-	-	**-**
Balance at December 31, 2021	$ 1,144,281	$ 254,689	$ 62,576	$ 581,874	**$ 2,043,420**
Accumulated depreciation					
Balance at January 1, 2020	$ 364,976	$ 78,391	$ 62,576	$ 158,693	**$ 664,636**
Depreciation for the year	109,695	31,626	-	158,693	**300,014**
Disposals	-	-	-	-	**-**
Balance at December 31, 2020	$ 474,671	$ 110,017	$ 62,576	$ 317,386	**$ 964,650**
Depreciation for the period	208,890	30,446	-	158,692	**398,028**
Disposals	-	-	-	-	**-**
Balance at December 31, 2021	$ 683,561	$ 140,463	$ 62,576	$ 476,078	**$ 1,362,678**
Carrying value					
At December 31, 2020	$ 255,955	$ 126,505	$ -	$ 264,488	**$ 646,948**
At December 31, 2021	$ 460,720	$ 114,226	$ -	$ 105,796	**$ 680,742**

12. INTANGIBLE ASSETS

	Brand	Developed Game Technologies	Customer relationships	Total
Cost				
Balance at January 1, 2021	$ -	$ -	$ -	**$ -**
Additions	7,130,000	12,228,718	5,010,000	**24,368,718**
Disposals	-	-	-	**-**
Balance at December 31, 2021	$ 7,130,000	$ 12,228,718	$ 5,010,000	**$ 24,368,718**
Accumulated depreciation				
Balance at January 1, 2021	$ -	$ -	$ -	**$ -**
Depreciation for the period	1,307,167	2,102,833	2,296,250	**5,706,250**
Disposals	-	-	-	**-**
Balance at December 31, 2021	$ 1,307,167	$ 2,102,833	$ 2,296,250	**$ 5,706,250**
Carrying value				
At December 31, 2020	$ -	$ -	$ -	**$ -**
At December 31, 2021	$ 5,822,833	$ 10,125,885	$ 2,713,750	**$ 18,662,468**

13. LONG TERM INVESTMENTS

	2021	2020
	December 31	*December 31*
Leaf Mobile (i)	$ -	$ 7,521,397
Creative Labs Limited Partnership (ii)	950,000	500,000
Night Garden Studio Inc. (iii)	$ -	100,000
Truly Social Games Inc. (iv)	3,000,000	-
	$ 3,950,000	$ 8,121,397

i. The 5,518,750 Leaf shares were adjusted to their fair value and distributed to option holders and shareholders of ESG upon the reverse acquisition of Leaf and a gain of $4,895,791 was recognized and a stock based charge of $1,905,217 was recorded in general and administrative expenses for this stock option exchange.

ii. The Company entered into a subscription agreement Creative Labs L.P. on December 5, 2016 and committed to subscribe for 500,000 units of the partnership and enter the partnership as a limited partner. As at December 31, 2021, 500,000 (December 31, 2020 – 500,000) of the committed units have been funded. During the year ended December 31, 2021, the Company recognized an unrealized gain on investment of $450,000 (2020 – nil)

iii. The Company entered into a Share Purchase Agreement with Night Garden Studio Inc. ("Night Garden") on November 15, 2020 to purchase 37,500 common shares of Night Garden for a purchase price of $100,000. This transaction has resulted in 25% ownership in Night Garden and has been accounted for using the equity method. During the year end December 31, 2021, the company incurred $2,176,000 (2020 – $ nil) recoupable development costs to Night Garden, the balance recoverable at December 31, 2021 was $2,176,000 (2020 – $ nil) and is included in prepaids. In addition, research and development expenses for the year ended December 31, 2021 were $46,000 (2020 -$710,000).

iv. The Company entered into a Definitive Agreement to acquire Truly Social Games Inc. ("TSG") on June 22, 2021. The Company initially acquired 20% of TSG in July 2021 in exchange for an initial investment of up to $3,000,000 which will be used by TSG to develop new game titles. The Company is committed to increasing its ownership position if certain performance targets are met. The remaining 80% ownership position would be purchased for $19,000,000, to be paid in LEAF shares on the achievement of defined revenue targets by June 2024. The Company is also committed to a $15,000,000 payment to TSG, also in LEAF shares, on the achievement of TSG achieving defined revenue targets by June 2027. Of the $3 million initial investment, $552,130 has been funded as of December 31, 2021. The remaining $2,447,870 is accrued in trade and other payables.

14. CREDIT FACILITIES

The Company has two authorized operating lines of credit totalling $13,500,000 and bearing interest up to 5%. One of the lines is with a Canadian Bank and the other for $10,000,000 is with a director of the Company. No amounts have been drawn as at December 31, 2021.

15. TRADE AND OTHER PAYABLES

	2021 ***December 31***	2020 *December 31*
Trade payables	**$ 11,993,494**	$ 3,941,678
Wages and vacation payable	**745,602**	154,386
Goods and services tax payable	**-**	181,713
	$ 12,739,096	$ 4,277,777

16. LEASE OBLIGATION

The lease obligation has been measured by discounting future lease payments using the Company's incremental borrowing rate at January 1, 2020. The weighted-average rate applied is 12%. Rates implicit in the leases were not readily determinable. Interest expense on lease obligations for the year ended December 31, 2021 was $27,365 (December 31, 2020 - $46,625) and is included in general and administrative expenses.

	2021 ***December 31***	2020 *December 31*
Opening balance	**$ 305,591**	$ 454,821
Lease payments, net of interest recognized	**(174,390)**	(149,230)
	131,201	305,591
Current portion of lease obligation	**131,201**	174,390
	$ -	$ 131,201

17. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 27.00% (2020 - 27.00%) to the income for the year and is reconciled as follows:

	2021 ***December 31***	2020 *December 31*
Income (loss) before income taxes	**$ (2,144,409)**	$ 20,142,836
Income tax expense (recovery) at the combined basic federal and provincial tax rate:	**$ (578,991)**	$ 5,438,566
Increase (decrease) resulting from:		
True-up	**(134,470)**	470,000
Permanent differences	**1,348,934**	(733,801)
Rate differential on investment income	**1,403,351**	(55,063)
Dividend tax refund	**(1,818,368)**	-
Fair value adjustment	**(1,017,541)**	-
Other	**533,592**	(86,246)
Effective tax expense (recovery) (2021 - 12.29%; 2020 - 24.90%)	**$ (263,493)**	$ 5,033,456

The Company has loss carryforwards of $5,789,901 expiring in 2038 to 2041.

18. DEFERRED INCOME TAXES

The following components of deferred income taxes are calculated based on a current period enacted rate of 27% (December 31, 2020 - 27%). The change in deferred income taxes is $2,848,953 (2020 - $1,451,236) and is represented as a deferred income tax recovery on the consolidated statement of income (loss) and comprehensive income (loss). The deferred income tax assets and liabilities recognized as at December 31, 2021 are as follows:

	2021 ***December 31***	2020 *December 31*
Marketable securities	**$ -**	$ (74,855)
Long term investments	**(47,250)**	(895,436)
Property and equipment	**(124,255)**	103,588
Intangible assets	**(4,834,013)**	-
Government tax credit	**(495,560)**	(470,000)
Loss carryforwards	**1,563,273**	-
Financing and share issuance costs	**471,561**	-
	$ (3,466,243)	$ (1,336,703)

19. SHARE CAPITAL

Authorized:

Unlimited common shares of Leaf without par value

Share transactions during the period

On August 16, 2021, the Company completed a 10-for-1 share consolidation. All share, option and warrant amounts in these financial statements have been retrospectively restated.

For the year ended December 31, 2021, the Company had the following transactions:

- As part of the reverse takeover ("RTO") as described in Note 5, an increase of $71,024,281 to share capital was recorded as consideration for the issued and outstanding Leaf shares immediately prior to the RTO transaction.
- As part of the RTO transaction, the Company issued 426,883 shares as advisory fees, valued at $960,486.
- During the year ended December 31, 2021, 23,867 warrants were exercised and 158,785 options were exercised.

Escrow shares

Former ESG shareholders have agreed that 48,985,416 shares would be subject to lock-up with one third coming out of lock-up on each of February 5, 2022, February 5, 2023 and February 5, 2024. Accordingly, as of February 5, 2022, 32,656,944 shares are in lock-up.

20. STOCK OPTIONS AND WARRANTS

Stock options

The Company has adopted an incentive stock option plan (the "Option Plan") which provides that the board of directors of the Company may from time to time, in its discretion, grant to directors, officers, employees and consultants non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares at the time of the grant. Under the Option Plan, options are required to have an exercise price not less than the closing market price of the Company's shares prevailing on the day that the option is granted less applicable discount, if any, permitted by the policies of the Exchange. Pursuant to the Option Plan, the board of directors of the Company may from time to time authorize the issue of options to directors, officers, employees and consultants of the Company and its subsidiaries or employees of companies providing management or consulting services to the Company or its subsidiaries. The number of shares which may be reserved for issuance to any one individual may not exceed 5% of the issued shares on a yearly basis or an aggregate maximum of 2% if the optionee is engaged in investor relations activities or if the optionee is a consultant, no more than 2% per consultant.

Details of the stock options, reflecting ESG options in 2020 updated for the share exchange ratio of 94.8 on reverse takeover and the 10-for-1 share consolidation, are as follows:

	Number	**Weighted Average Exercise Price 2021** ***December 31***	Number	Weighted Average Exercise Price 2020 *December 31*
Outstanding at beginning of year	**2,372,351**	**$ 0.80**	7,735,218	$ 0.40
Previously issued from legal parent	**680,568**	**2.51**	-	-
Granted	**2,459,302**	**2.30**	408,625	1.20
Exercised	**(158,785)**	**2.19**	(4,996,658)	0.30
Exchanged	**(2,372,351)**	**0.80**	-	-
Forfeited	**(104,057)**	**2.50**	(774,834)	0.80
Outstanding at end of year	**2,877,028**	**$ 2.35**	2,372,351	$ 0.80

(continues)

20. STOCK OPTIONS AND WARRANTS *(continued)*

The Company applies the fair value method using the Black Scholes option pricing model in accounting for its stock options granted. The following inputs were used:

- The risk-free interest rate ranges from 0.33% - 0.94%.
- The expected life of the options ranges from 2 – 5 years.
- The expected volatility is 67.5%.
- The expected forfeiture rate is 0%.
- The expected dividends yield is 0%.

Option pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide a reliable measure of the fair value of the Company's share options. Volatility was estimated based on comparable public companies given the lack of historical data for the Company.

Accordingly, during the twelve month period, the Company recognized stock-based compensation expense of $2,099,396 respectively (2020 - $614,873).

The weighted average fair value of all share options granted, using the Black Scholes option pricing model, during the period was $1.27 per option (2020 - $0.60). The weighted average remaining contractual life of outstanding share options at December 31, 2021 was 4.01 years (2020 – 0.10 years).

(continues)

20. STOCK OPTIONS AND WARRANTS *(continued)*

Warrants

Details of the warrants issued are as follows:

	Number	**Weighted Average Exercise Price 2021**	Number	Weighted Average Exercise Price 2020
		December 31		*December 31*
Outstanding at beginning of year	**-**	**$ -**	-	$ -
Previously issued from legal parent	**672,083**	**2.18**	-	-
Exercised	**(23,867)**	**1.33**	-	-
Forfeited	**-**	**-**	-	-
Outstanding at end of year	**648,216**	**$ 2.21**	-	$ -

Of the total warrants previously issued from legal parent, 613,333 warrants were issued as part of the share issuance in February 2021 and the legal parent recognized stock-based compensation expense from granting the warrants of $507,999 prior to acquisition. These warrants are exercisable at $2.25 per warrant for a period of two years from the issuance date of February 5, 2021.

The Company applies the fair value method using the Black Scholes option pricing model in accounting for its warrants granted. The following inputs were used:

- The risk-free interest rate ranges from 0.20%.
- The expected life of the warrants is 2 years.
- The expected volatility is 67.5%.
- The expected forfeiture rate is 0%.
- The expected dividends yield is 0%.

The weighted average fair value of all warrants granted, using the Black Scholes option pricing model, during the year was $0.83 per warrant (2020 - $Nil). The weighted average remaining contractual life of outstanding warrants at December 31, 2021 was 1.05 years (2020 - Nil years)

21. CAPITAL MANAGEMENT

The Company manages, as capital, the components of shareholders' equity and its cash. The Company's objectives, when managing capital, are to safeguard its ability to continue as a going concern and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure, and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue common shares, borrow or adjust the amount of cash. The Company does not anticipate the payment of dividends in the foreseeable future.

22. SUPPLEMENTAL CASH FLOW INFORMATION

The following non-cash transaction occurred during the period ended December 31, 2021:

- Shares and options issued on reverse takeover (Note 5) of $71,024,281 and $55,000, respectively;
- Non-cash dividends of $9,178,619;
- Non-cash investment to acquire 20% of TSG of $2,447,870 which is accrued in trade and other payables (Note 13); and
- Non-cash stock option exchange of $3,160,569.

The following non-cash transaction occurred during the period ended December 31, 2020 in connection with the sale of LDRLY:

- Operating activities not affecting cash of $10,538,699.
- Investing activities not affecting cash of $82,151.
- Financing activities not affecting cash of ($10,620,850).

23. GOODWILL

	2021	2020
Goodwill	$ 30,507,520	$ -

Management completed its annual impairment test on December 31, 2021 by comparing the recoverable amount of the group of Cash Generating Units (CGUs) to which the goodwill is related, to the carrying amount of the group of CGUs. Goodwill is tested for impairment at a group of CGUs level, encompassing all of the CGUs which make up the Company. The recoverable amount of the group of CGUs was determined based on its fair value less costs to sell. There was no indication of goodwill impairment as at December 31, 2021.

24. RELATED PARTIES

The following is a summary of the Company's related party transactions:

	2021 ***December 31***	2020 *December 31*
LDRLY (Technologies) Inc.		
Subsidiary of Leaf Mobile Inc. prior to RTO transaction		
Game support services included in gaming revenue, prior to RTO transaction	**$ 3,539,918**	$18,628,035
Royalties paid to TSG	**$ 1,052,061**	$ -
Key Management Personnel		
Management and directors		
Compensation, including stock-based compensation	**$ 2,774,158**	$ 491,814
Growthworks Capital Ltd.		
Entity with common directorship		
Accounting and administrative services	**$ 340,400**	$ -

For transactions with Night Garden and Truly Social see note 13(iii) and 13(iv). These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

25. COMMITMENTS AND CONTINGENCIES

See note 5 for contingent payable related to the acquisition of ESG.

See note 13 for commitments related to the investment in Truly Social.

The Company has minimum guarantees of approximately $1,546,250 for certain intellectual property rights.

26. SUBSEQUENT EVENTS

On January 18, 2022, the Company announced that it acquired all of N3twork Inc.'s ("N3twork") rights to the Funko Pop! Blitz mobile game, and all assets used and related to the free-to-play mobile game on iOS and Android platforms. The Company issued 419,389 shares and assumed certain of N3twork's obligations as part of this transaction.

On February 14, 2022, it was determined that the Company achieved in excess of $100,000,000 in gross revenue, as defined in the purchase agreement, during the period February 6, 2021 to February 5, 2022, resulting in $20,000,000 of the contingent amounts to be payable. The vendors exercised their option to receive 4,444,444 shares of the Company issued at $2.25 per share for $10,000,000 of the obligation. The remaining $10,000,000 was settled in cash.