

EAST SIDE GAMES GROUP INC.
Consolidated Financial Statements
(Presented in Canadian Dollars)
For the Years Ended December 31, 2023 and 2022



Tel: (604) 688-5421
Fax: (604) 688-5132
www.bdo.ca

BDO Canada LLP
Unit 1100 Royal Centre
1055 West Georgia Street, P.O. Box 11101
Vancouver, British Columbia
V6E 3P3

Independent Auditor's Report

To the Shareholders of East Side Games Group Inc.

Opinion

We have audited the consolidated financial statements of East Side Games Group Inc. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2023, and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity, and cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information (the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company 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. 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 judgment, were of most significance in our audit of the financial statements of the current period. 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.

Impairment testing of goodwill

Description of the key audit matter

The Company acquired goodwill in a reverse takeover transaction during the fiscal year ended December 31, 2021. In accordance with IAS 36 *Impairment of Assets* ("IAS 36"), management is required to test goodwill for impairment annually, or when facts and circumstances suggest it may be impaired. Management is required to exert judgment when determining cash generating units ("CGUs") within the Company and determining the recoverable amount of a CGU requires significant estimation with respect to revenues, growth rates, operating margins and the application of an appropriate discount rate. Management concluded that no impairment charge was required as a result of the impairment testing performed.

Please refer to Notes 2 and 10 of the financial statements for the Company's accounting policy, the significant judgments and estimates applied in determining the recoverable amount of the identified CGU, and other relevant information including key assumptions when estimating the recoverable amount and a sensitivity analysis.



How the key audit matter was addressed in the audit

Our approach in addressing this matter included the following procedures, among others:

- Assessed management's determination of a single CGU, the allocation of goodwill to the identified CGU and the application of an appropriate valuation methodology to test for impairment;
- Examined management's forecasts which support their value-in-use calculations, through considering whether the judgments and estimates applied were appropriate based on our understanding of the CGU and its historical performance;
- Involved valuation professionals with specialized skills and knowledge in evaluating the assumptions and inputs applied in the model; and
- Assessed the adequacy of the disclosures in the financial statements, including disclosures relating to significant judgments and estimates.

Other Matter

The financial statements of the Company for the year ended December 31, 2022 were audited by another auditor who expressed an unmodified opinion on those financial statements on March 31, 2023.

Other Information

Management is responsible for the other information. The other information other than the financial statements and our auditor's report thereon, is included in Management's Discussion and Analysis (the "MD&A").

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

In connection with our audit of the 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, or otherwise appears to be materially misstated.

We obtained the MD&A prior to the date of this auditor's 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 this auditor's 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 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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



Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine 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 auditor's 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 report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Rob Scupham.

BDO Canada LLP

Chartered Professional Accountants

Vancouver, British Columbia

April 1, 2024

EAST SIDE GAMES GROUP INC.
Consolidated Statement of Financial Position
(Presented in Canadian dollars)
As at December 31, 2023 and 2022

	<i>Note</i>	2023 <i>December 31</i>	2022 <i>December 31</i>
ASSETS			
CURRENT			
Cash and cash equivalents	4	\$ 5,237,381	\$ 5,657,886
Trade and other receivables	5	8,375,822	8,720,183
Government assistance receivable	6	2,693,565	2,285,909
Prepaid expenses and deposits	7	4,746,560	1,785,643
		21,053,328	18,449,621
PREPAID EXPENSES AND DEPOSITS	7	153,815	1,066,874
PROPERTY AND EQUIPMENT	8	423,613	545,473
INTANGIBLE ASSETS	9	14,942,750	25,599,430
GOODWILL	10	30,507,520	30,507,520
LONG TERM INVESTMENTS	11	1,101,175	1,057,323
DEFERRED INCOME TAXES	15	1,273,949	3,021,815
		\$ 69,456,150	\$ 80,248,056
LIABILITIES			
CURRENT			
Bank indebtedness	12	\$ -	\$ 870,000
Trade and other payables	13	12,476,853	15,874,340
Deferred revenue		1,644,672	3,039,799
		14,121,525	19,784,139
LONG TERM LIABILITIES		2,725,318	6,264,448
DEFERRED INCOME TAXES	15	3,726,684	5,678,362
		\$ 20,573,527	\$ 31,726,949
SHAREHOLDERS' EQUITY			
Share capital	16	87,812,158	88,274,715
Contributed surplus	17	8,151,543	7,414,138
Deficit		(47,081,078)	(47,167,746)
		48,882,623	48,521,107
		\$ 69,456,150	\$ 80,248,056
COMMITMENTS AND CONTINGENCIES	20		

APPROVED ON BEHALF OF THE BOARD

"Jason Bailey"
Director

"Jeremy Pierce"
Director

EAST SIDE GAMES GROUP INC.
Consolidated Statement of Income (Loss)
and Comprehensive Income (Loss)
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

	Note	2023	2022
REVENUE			
Gaming		\$ 65,801,427	\$ 86,771,232
Advertising		21,176,748	29,508,387
		86,978,175	116,279,619
COST OF SALES			
		32,649,805	43,766,931
GROSS PROFIT			
		54,328,370	72,512,688
EXPENSES			
Research and development		8,038,837	16,323,797
Sales and marketing		21,503,958	35,157,655
General and administrative		12,674,002	16,068,634
Transaction expenses and restructuring charges		1,125,991	1,353,673
Depreciation of property and equipment	8	180,708	336,432
Depreciation of intangible assets	9	11,232,946	12,465,104
		54,756,442	81,705,295
LOSS BEFORE OTHER INCOME (EXPENSES) AND INCOME TAXES			
		\$ (428,072)	\$ (9,192,607)
OTHER INCOME (EXPENSES)			
Investment and other income		423,420	546,489
Unrealized loss on investment		(160,311)	(807,308)
Gain (loss) on foreign exchange		(116,443)	577,688
Reversal of contingent liabilities	3	-	19,502,224
Impairment of intangible assets	9	-	(194,754)
Accretion expense		-	(477,570)
		146,666	19,146,769
INCOME (LOSS) BEFORE INCOME TAXES			
		\$ (281,406)	\$ 9,954,162
INCOME TAX EXPENSE (RECOVERY)			
Current	14	(164,262)	8,100
Deferred	14	(203,812)	(809,696)
		(368,074)	(801,596)
NET AND COMPREHENSIVE INCOME FOR THE PERIOD			
		\$ 86,668	\$ 10,755,758
BASIC AND DILUTED EARNINGS PER SHARE			
		\$ 0.00	\$ 0.13
SHARES USED IN CALCULATING EARNINGS PER SHARE			
Basic and Diluted		81,536,436	80,506,952

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

EAST SIDE GAMES GROUP INC.
Consolidated Statement of Changes in Equity
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

	Note	Number of shares	Share capital	Contributed surplus	Retained deficit	Total equity
As at January 1, 2022		76,620,326	\$ 74,758,038	\$ 7,364,733	\$ (57,923,504)	\$ 24,199,267
Stock options exercised		11,027	49,071	(21,503)	-	27,568
Warrants exercised		41,250	100,237	(34,237)	-	66,000
Stock based compensation	17	-	-	2,527,810	-	2,527,810
Shares issued for acquisition		419,389	1,267,000	-	-	1,267,000
Shares issued for contingent payment	3	4,444,444	12,340,787	(2,340,787)	-	10,000,000
Share buyback	16	-	(240,418)	(81,878)	-	(322,296)
Comprehensive income for the year		-	-	-	10,755,758	10,755,758
As at December 31, 2022		81,536,436	\$ 88,274,715	\$ 7,414,138	\$ (47,167,746)	\$ 48,521,107
As at January 1, 2023		81,536,436	\$ 88,274,715	\$ 7,414,138	\$ (47,167,746)	\$ 48,521,107
Stock based compensation	17	-	-	737,405	-	737,405
Share buyback	16	-	(462,557)	-	-	(462,557)
Comprehensive income for the year		-	-	-	86,668	86,668
As at December 31, 2023		81,536,436	\$ 87,812,158	\$ 8,151,543	\$ (47,081,078)	\$ 48,882,623

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

EAST SIDE GAMES GROUP INC.
Consolidated Statement of Cash Flow
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

	2023 <i>December 31</i>	2022 <i>December 31</i>
OPERATING ACTIVITIES		
Net and comprehensive income	\$ 86,668	\$ 10,755,758
Items not affecting cash:		
Depreciation of intangible assets	11,232,946	12,465,104
Stock based compensation	737,405	2,527,810
Depreciation of property and equipment	180,708	336,432
Loss on equipment disposal	25,828	68,875
Gain on long term investments and equity income	(43,852)	(107,323)
Deferred income tax	(203,812)	(809,696)
Reversal of contingent liabilities	-	(19,502,224)
Impairment of intangible assets	-	194,754
Accretion expense on contingent liabilities	-	477,570
Changes in non-cash working capital		
Trade and other receivables	344,361	1,426,179
Government assistance receivable	(407,656)	(1,186,120)
Deferred revenue	(1,395,127)	2,123,929
Prepaid expenses and deposits	(2,047,858)	(662,383)
Trade and other payables	(3,397,487)	(5,240,614)
Long term liabilities	(3,539,130)	6,682,734
Income taxes payable and recoverable	-	540,218
Cash flow from operating activities	<u>\$ 1,572,994</u>	<u>\$ 10,091,003</u>
INVESTING ACTIVITIES		
Purchase of equipment	\$ (84,676)	\$ (270,038)
Purchase of intangibles	(576,266)	(3,915,294)
Cash flow used in investing activities	<u>\$ (660,942)</u>	<u>\$ (4,185,332)</u>
FINANCING ACTIVITIES		
Share buybacks	\$ (462,557)	\$ (322,296)
Bank indebtedness	(870,000)	870,000
Warrants exercised	-	66,000
Stock options exercised	-	27,568
Earnout payment on reverse takeover	-	(10,000,000)
Repayment of lease obligation	-	(131,201)
Cash flow used in financing activities	<u>\$ (1,332,557)</u>	<u>\$ (9,489,929)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	\$ (420,505)	\$ (3,584,258)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	5,657,886	9,242,144
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 5,237,381</u>	<u>\$ 5,657,886</u>

Supplemental cash flow information

Note 19

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

1. NATURE AND CONTINUANCE OF OPERATIONS

East Side Games Group Inc. (the "Company", "ESGG") was incorporated provincially under the Business Corporations Act of British Columbia on November 29, 2018. The head office of the Company is Suite 3104 – 1055 Dunsmuir Street, Vancouver, British Columbia, V6C 3A8. The Company was formerly known as Leaf Mobile Inc. ("LEAF") and changed its name to East Side Games Group Inc. at its Annual General Meeting on May 17, 2022.

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". On December 8, 2021, the Company changed its ticker to "EAGR" on the TSX and "EAGRF" on the OTCQB Marketplace in the United States.

2. MATERIAL ACCOUNTING POLICY INFORMATION

Basis of preparation

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 April 1, 2024.

Basis of measurement

The consolidated financial statements have been prepared on an accrual basis and are based on historical cost with the exception of financial instruments classified as at fair value through profit and loss ("FVTPL"). The consolidated financial statements are presented in Canadian dollars unless otherwise noted, which is the Company's functional currency.

(continues)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

2. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Details of the controlled entities are as follows:

	Country of Incorporation	Functional Currency	Percentage Owned	
			December 31, 2023	December 31, 2022
Eastside Games Inc.	Canada	Canadian Dollar	100%	100%
LDRLY (Technologies) Inc.	Canada	Canadian Dollar	100%	100%
Eastside Games (Ontario) Inc.	Canada	Canadian Dollar	100%	100%
Eastside Games USA Inc.	United States	United States Dollar	100%	100%
1182533 B.C. Ltd. ("118Co")	Canada	Canadian Dollar	100%	100%
Keh Kaw Games Inc. ("KKG")	Canada	Canadian Dollar	100%	100%

Control is achieved when the Company has power over the investee, is exposed or has right to variable returns from its involvements with the investee and has the ability to use its power to affect its returns. 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.

Critical accounting estimates and judgements

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:

Identification and valuation of intangible assets and contingent liabilities 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.

(continues)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

2. MATERIAL ACCOUNTING POLICY INFORMATION (*continued*)

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.

Estimates related to earn out payments are typically recorded as contingent liabilities. These are remeasured quarterly based on the criteria surrounding the earn out, which in the case of the acquisition of ESG, is estimated revenue for the earn out period based on the Company's forecast.

Impairment of long-lived assets, indefinite life intangible assets and goodwill

Indefinite life intangible assets and goodwill are reviewed for impairment annually on December 31 or more frequently if changes in circumstances indicate that the carrying value may be impaired. The Company completed its annual impairment testing at December 31, 2023 and determined there was no impairment.

Management reviews depreciable long-lived assets for impairment indicators to determine if any events or changes in circumstances exist that would indicate that the carrying amount of an asset may not be recoverable over time. Impairment assessments are conducted at the Cash Generating Unit ("CGU") level. Impairment of an asset occurs when the carrying value of an asset exceeds its recoverable amount, measured as the greater of its value in use and its fair value less costs of disposal. Value in use is calculated based on a discounted cash flow model, which incorporates the Company's budget and business plan for the CGU being measured. The recoverable amount is most sensitive to the discount rate used in the discounted cash flow model as well as to the expected future cash flows and the growth rate.

To arrive at cash flow projections the Company uses estimates of economic and market information over the forecast period. Where goodwill is considered impaired, impairment losses are not reversed in subsequent periods if the recoverable amount increases. If future growth and results of the CGU differ significantly from management's current best estimates with respect to the critical assumptions noted above, it is reasonably possible that this could have an adverse impact on the estimated recoverable amounts of the CGU, including the amounts of allocated goodwill and indefinite life intangible assets, and result in an impairment charge.

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.

(continues)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

2. MATERIAL ACCOUNTING POLICY INFORMATION (*continued*)

In-app purchases revenue

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 virtual items through the Digital Storefronts.

Satisfaction of performance obligations is based on the nature of the virtual items purchased. The Company evaluates 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 the best estimate of the average life of durable virtual items.

Advertising services revenue

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.

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 is 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.

The Company signed an agreement with the advertising service provider, *AppLovin*, on November 18, 2022 in which *AppLovin* paid in advance to the Company a migration fee for the entire term of the agreement upon execution of \$2,718,400. The Company recorded the amount advanced in deferred revenue and is recognizing it as advertising revenue monthly over the term of the agreement.

(continues)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

2. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

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.

The Company has relationships with certain advertising service providers for advertisements within its mobile games. Revenue from these advertising service providers is generated through impressions, clickthroughs and offers. 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. The Company has determined the advertising buyer to be its customer and displaying the advertisements within the mobile games is identified as the single performance obligation. Revenue from advertisements and offers are recognized at the point-in-time the advertisements are displayed in the game or the offer has been completed by the user as the customer simultaneously receives and consumes the benefits provided from these services. As the Company has no control over pricing received for the ads our players watch, it records revenue from advertisers 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)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

2. MATERIAL ACCOUNTING POLICY INFORMATION *(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.

Long term investments

Long term 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. Factors considered when concluding that significance influence exists include, but are not limited to, a holding of 20% or more of the voting power, and representation on the board of directors of the investee.

Intangible assets

The intangible assets consist of brand, customer relationships, and intellectual property rights, games acquired and external development costs are stated at cost (or committed cost based on minimum guaranteed payments in the case of intellectual property rights) less accumulated depreciation and accumulated impairment losses. They are depreciated on a straight-line basis over their estimated useful life as follows:

Brand	5 years
Customer relationships	2 years
Intellectual property rights, games acquired and external development costs	20 months - 5 years

The amortization method, useful life and residual values are assessed annually, and the assets are tested for impairment, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Upon retirement or disposal, the cost of the asset disposed of and the related accumulated amortization are removed from the consolidated statements of financial position and any gain or loss is reflected in the consolidated statements of loss. Expenditures for maintenance are expensed as incurred.

(continues)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

2. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

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.

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. External game development costs are initially recorded as prepaid expenses and deposits. Once the game launches worldwide it is reclassified to intangible assets and amortized over the game's estimated life.

Impairment of non-financial assets

At each reporting period, the Company assesses if there are any indicators of impairment associated with non-financial assets, including development assets. If any such indicators exist, the asset's recoverable amount is estimated. Significant assumptions are required in determining the value of these assets depending on facts and circumstances that may not yet be known and changes in those assumptions may result in changes to the recoverable amount. The Company also assesses at the end of each reporting period, whether there is any indication that an impairment loss recognized in prior periods may no longer exist or may have decreased. If any such indication exists, the Company estimates the recoverable amount of that asset to determine if an impairment loss reversal should be recognized. In the case of impairment loss reversal, the increases in the carrying amount of the asset may not exceed the carrying amount had no impairment been recognized in prior periods.

(continues)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

2. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

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.

Earnings per share

Basic earnings per share is determined by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the reporting period. The computation of diluted earnings 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 17. 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)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

2. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

Current and deferred income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the consolidated statement of income (loss) and comprehensive income (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 consolidated 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 consolidated statement of income (loss) and comprehensive income (loss).

(continues)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

2. MATERIAL ACCOUNTING POLICY INFORMATION (*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, bank indebtedness, and long-term liabilities 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 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, 2023 and December 31, 2022, 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 consolidated statement of income (loss) and comprehensive income (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)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

2. MATERIAL ACCOUNTING POLICY INFORMATION (*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 income (loss) and comprehensive income (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 consolidated statement of income (loss) and comprehensive income (loss).

3. ACQUISITION OF EAST SIDE GAMES INC.

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:

1. 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;
2. Share consideration of 44,444,444 Leaf shares; and
3. \$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:
 - o \$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 on February 5, 2022 and the Company paid the \$20,000,000, with the vendors electing to take half in shares with 4,444,444 shares being issued and \$10,000,000 cash.
 - o \$20,000,000 if Leaf achieves \$150,000,000 in gross revenue in the second 12 months following transaction close date. At June 30, 2022, the Company reversed the remaining carrying value of \$19,502,224 contingent liability into income based on its forecast of not achieving \$150,000,000. As of February 5, 2023, it was determined that the target was not achieved.

As at December 31, 2023, cash of \$nil (December 31, 2022 - \$1,100,000) remains held in escrow pursuant to the share purchase agreement. This restricted amount of \$1,100,000 was released on February 5, 2023, of which \$908,928 is included in other payables on the statement of financial position.

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

4. FINANCIAL INSTRUMENTS

Categories of financial assets and financial liabilities

The carrying values of the Company's financial instruments are classified into the following categories:

Financial instrument	Category	December 31, 2023	December 31, 2022
Cash and cash equivalents	FVTPL	5,237,381	5,657,886
Trade and other receivables	Amortized Cost	8,375,822	8,720,183
Long term investments without significant influence	FVTPL	708,999	862,323
Bank indebtedness	Amortized Cost	-	870,000
Trade and other payables	Amortized Cost	12,476,853	15,874,340
Long-term liabilities	Amortized Cost	2,725,318	6,264,448

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 bank indebtedness approximate their fair value as most of these instruments are short-term in nature, while long-term liabilities are discounted to their present value. The Company's fair value of cash and cash equivalents are measured using Level 1 inputs. Long-term investments not subject to significant influence are measured using Level 3 inputs.

(continues)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

4. FINANCIAL INSTRUMENTS *(continued)*

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, 2023, 71% (December 31, 2022 – 68%) of the Company's trade receivables were 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.

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. The following are the remaining contractual maturities of financial liabilities at the reporting date:

	Contractual cash flows				
	Total	2 months	3-12 months	13-24 months	25-48 months
December 31, 2023					
Trade and other payables	12,476,853	9,785,185	2,691,668	-	-
Long-term liabilities ⁽ⁱ⁾ (minimum guarantee payments)	3,110,813	-	-	2,774,588	336,225
	15,587,666	9,785,185	2,691,668	2,774,588	336,225
December 31, 2022					
Trade and other payables	15,874,340	11,733,346	4,140,994	-	-
Long-term liabilities ⁽ⁱ⁾ (minimum guarantee payments)	6,825,329	-	-	4,101,904	2,723,425
	22,699,669	11,733,346	4,140,994	4,101,904	2,723,425

(i) Total cash payment amounts do not include present value discounts.

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

4. FINANCIAL INSTRUMENTS *(continued)*

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 and cash equivalents, 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, 2023, 1 Canadian Dollar was equal to \$0.7561 US Dollar (December 31, 2022 - \$0.7357).

	December 31, 2023		December 31, 2022	
	US Dollar	CDN Equivalent	US Dollar	CDN Equivalent
Cash and cash equivalents	3,218,365	4,256,610	3,335,621	4,533,776
Trade and other receivables	4,790,427	6,335,819	4,418,117	6,005,105
Trade and other payables	(3,102,401)	(4,103,235)	(6,749,582)	(9,174,032)

Based on the net exposures as of December 31, 2023 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 \$589,927 (December 31, 2022 - \$128,523).

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

5. TRADE AND OTHER RECEIVABLES

	Current	Over 30 days past due	Over 90 days past due	Total
December 31, 2023				
Trade receivable	\$ 7,485,114	\$ 314,470	\$ 187,390	\$ 7,986,974
Goods and services tax recoverable	388,848	-	-	388,848
	\$ 7,873,962	\$ 314,470	\$ 187,390	\$ 8,375,822
December 31, 2022				
Trade receivable	\$ 7,531,217	\$ 104,086	\$ 155,132	7,790,435
Goods and services tax recoverable	929,748	-	-	929,748
	\$ 8,460,965	\$ 104,086	\$ 155,132	\$ 8,720,183

6. GOVERNMENT ASSISTANCE RECEIVABLE

Included in research and development expenses are tax credits from various government assistance programs. The Company claims investment tax credits (“ITC”) from the British Columbia and Ontario Interactive Digital Media Tax Credits (“BC IDMTC” and “Ontario IDMTC”). During the years ended December 31, 2023 and 2022, the Company accrued the following tax credits from the government assistance programs, which are offset against research and development expenses:

	2023 December 31	2022 December 31
BC IDMTC		
Carryforward from prior years	\$ 1,451,480	\$ 1,042,668
Received during the year	(1,347,205)	(960,584)
Adjustments to prior year	64,301	86,492
Accrued during the year	1,173,059	1,282,904
	1,341,635	1,451,480
Ontario IDMTC		
Carryforward from prior years	834,429	215,487
Accrued during the year	517,501	618,942
	1,351,930	834,429
	\$ 2,693,565	\$ 2,285,909

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

7. PREPAID EXPENSES AND DEPOSITS

	2023 <i>December 31</i>	2022 <i>December 31</i>
Prepaid development cost - current	\$ 3,525,368	\$ 689,784
Other prepaids	1,185,235	1,059,902
Security deposits	35,957	35,957
Prepaid expenses and deposits	\$ 4,746,560	\$ 1,785,643
Prepaid development cost - non-current	153,815	1,066,874
	\$ 4,900,375	\$ 2,852,517

8. PROPERTY AND EQUIPMENT

	Computer equipment	Furniture and fixtures	Leasehold improvement	Right-of-use asset	Total
Cost					
Balance at January 1, 2022	\$ 1,144,281	\$ 254,689	\$ 62,576	\$ 581,874	\$ 2,043,420
Additions	270,038	-	-	-	270,038
Disposals	(73,331)	(15,749)	-	-	(89,080)
Balance at December 31, 2022	\$ 1,340,988	\$ 238,940	\$ 62,576	\$ 581,874	\$ 2,224,378
Additions	80,901	3,775	-	-	84,676
Disposals	(129,546)	-	-	-	(129,546)
Balance at December 31, 2023	\$ 1,292,343	\$ 242,715	\$ 62,576	\$ 581,874	\$ 2,179,508
Accumulated depreciation					
Balance at January 1, 2022	\$ 683,561	\$ 140,463	\$ 62,576	\$ 476,078	\$ 1,362,678
Depreciation for the year	209,545	21,091	-	105,796	336,432
Disposals	(20,205)	-	-	-	(20,205)
Balance at December 31, 2022	\$ 872,901	\$ 161,554	\$ 62,576	\$ 581,874	\$ 1,678,905
Depreciation for the year	164,476	16,232	-	-	180,708
Disposals	(103,718)	-	-	-	(103,718)
Balance at December 31, 2023	\$ 933,659	\$ 177,786	\$ 62,576	\$ 581,874	\$ 1,755,895
Carrying value					
At December 31, 2022	\$ 468,087	\$ 77,386	\$ -	\$ -	\$ 545,473
At December 31, 2023	\$ 358,684	\$ 64,929	\$ -	\$ -	\$ 423,613

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

9. INTANGIBLE ASSETS

	Brand	Customer relationships	Intellectual property rights, games acquired and external development costs	Total
Cost				
Balance at January 1, 2022	\$ 7,130,000	\$ 5,010,000	\$ 20,300,812	\$ 32,440,812
Additions	-	-	14,860,981	14,860,981
Disposals	-	-	(662,050)	(662,050)
Impairment	-	-	(194,754)	(194,754)
Balance at December 31, 2022	<u>\$ 7,130,000</u>	<u>\$ 5,010,000</u>	<u>\$ 34,304,989</u>	<u>\$ 46,444,989</u>
Additions	\$ -	\$ -	\$ 576,266	\$ 576,266
Balance at December 31, 2023	<u>\$ 7,130,000</u>	<u>\$ 5,010,000</u>	<u>\$ 34,881,255</u>	<u>\$ 47,021,255</u>
Accumulated depreciation				
Balance at January 1, 2022	\$ 1,307,167	\$ 2,296,250	\$ 5,439,088	\$ 9,042,505
Depreciation for the year	1,426,000	2,505,000	8,534,104	12,465,104
Disposals	-	-	(662,050)	(662,050)
Balance at December 31, 2022	<u>\$ 2,733,167</u>	<u>\$ 4,801,250</u>	<u>\$ 13,311,142</u>	<u>\$ 20,845,559</u>
Depreciation for the year	\$ 1,426,000	\$ 208,750	\$ 9,598,196	\$ 11,232,946
Balance at December 31, 2023	<u>\$ 4,159,167</u>	<u>\$ 5,010,000</u>	<u>\$ 22,909,338</u>	<u>\$ 32,078,505</u>
Carrying value				
At December 31, 2022	<u>\$ 4,396,833</u>	<u>\$ 208,750</u>	<u>\$ 20,993,847</u>	<u>\$ 25,599,430</u>
At December 31, 2023	<u>\$ 2,970,833</u>	<u>\$ -</u>	<u>\$ 11,971,917</u>	<u>\$ 14,942,750</u>

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

10. GOODWILL

The following reflects the carrying amounts of goodwill held by the CGU after recognition of impairment losses.

	2023	2022
Goodwill	\$ 30,507,520	\$ 30,507,520

The Company is required to perform impairment testing on an annual basis. In addition, the Company assesses whether there are indicators of impairment at each reporting date and if they exist, then test whether impairment exists at that date. The recoverable amount of the assets was calculated using the value in use method which determines the recoverable amount by discounting the future cash flows expected to be generated from the continuing use of the assets and/or CGU.

At December 31, 2023, the CGU was tested for impairment. The key assumptions used in the estimation of the recoverable amounts for CGUs are management's cash flow projections based on expectations of revenue growth, expense and margin changes which are based on data from both external and internal sources. Cash flows were projected over a five-year period including considerations of past experience and actual operating results. Discount rate and terminal value capitalization rate assumptions are summarized below:

Discount rate ⁽¹⁾		Terminal Value Capitalization Rate ⁽²⁾	
Low	High	Low	High
25.0%	27.0%	2.0%	2.0%

⁽¹⁾ The discount rate is a pre-tax measure estimated based on market sources in the relevant market and in the same currency as the cash flows. Discount rates represents the current market assessment of the risks specific to the respective CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate represents the midpoint of the ranges of risks.

⁽²⁾ The terminal value capitalization rate used is consistent with the Bank of Canada's inflation target and a reasonable representation of expected long term growth.

Significant management judgement is necessary to evaluate the impact of operating and economic changes. Management believes that reasonably possible changes in the key assumptions stated above would not cause the CGU's carrying values to exceed their recoverable amounts.

(continues)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

10. GOODWILL *(continued)*

Sensitivity Analysis

To determine the impact of discount rate and terminal growth rate assumptions on recoverable amount, a sensitivity analysis is summarized in table below:

(in CAD millions)		Discount Rate				
		21.0%	23.0%	25.0%	27.0%	29.0%
Terminal Growth Rate	1.0%	61.29	55.95	51.51	47.76	44.54
	2.0%	62.89	57.19	52.48	48.53	45.17
	3.0%	64.66	58.54	53.54	49.38	45.85

To determine the impact of discount rate and revenue growth rate assumptions on recoverable amount, a sensitivity analysis is summarized in table below:

(in CAD millions)		Discount Rate				
		21.0%	23.0%	25.0%	27.0%	29.0%
% Change in Revenue Growth	(1.0%)	57.85	52.62	48.31	44.69	41.61
	0.0%	62.89	57.19	52.48	48.53	45.17
	1.0%	67.92	61.75	56.65	52.37	48.73

To determine the impact of discount rate and EBITDA margin assumptions on recoverable amount, a sensitivity analysis is summarized in table below:

(in CAD millions)		Discount Rate				
		21.0%	23.0%	25.0%	27.0%	29.0%
% Change in EBITDA Growth	(1.0%)	62.25	56.60	51.95	48.04	44.71
	0.0%	62.89	57.19	52.48	48.53	45.17
	1.0%	63.53	57.77	53.02	49.03	45.63

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

11. LONG TERM INVESTMENTS

	2023	2022
	<i>December 31</i>	<i>December 31</i>
Creative Labs Limited Partnership (i)	\$ 708,999	\$ 862,323
Night Garden Studio Inc. (ii)	392,176	195,000
Truly Social Games Inc. (iii)	-	-
	\$ 1,101,175	\$ 1,057,323

- i. The Company entered into a subscription agreement with 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, 2023, 500,000 (December 31, 2022 – 500,000) of the committed units have been funded. The Company recognized an unrealized loss of \$153,324 during the year ended December 31, 2023 (2022 – unrealized loss of \$87,677). The unrealized loss is included in unrealized loss on investment on the consolidated statement of income (loss) and comprehensive income (loss).
- ii. 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 20% ownership in Night Garden and has been accounted for using the equity method. The Company recorded an equity pick up of \$197,176 during the year ended December 31, 2023 (2022 – equity pick up of \$195,000). The equity pick up is included in investment and other income on the consolidated statement of income (loss) and comprehensive income (loss).

The Company also entered into a Live-Ops Services Agreement with Night Garden on July 23, 2021 to support the game known as “RuPaul’s Drag Race: Superstar”. During the year ended December 31, 2023, the Company incurred \$2,232,000 (2022 – \$3,300,000) in costs to Night Garden and is included in cost of sales on the consolidated statement of income (loss) and comprehensive income (loss).

- iii. The Company entered into a membership interest purchase agreement (the “MIPA”) to acquire Truly Social Games Inc. (“TSG”) on June 22, 2021, the details of which were announced in the Company’s news release on the same date. Pursuant to the MIPA, the Company was entitled to acquire a 20% membership interest in TSG, in consideration of the Company funding up to \$3,000,000 in development expenses in relation to four game titles to be developed by TSG for the Company. Additionally, the Company was granted options to acquire the remaining membership interests in TSG. The initial value of the 20% membership was considered to be nominal.

The Company also provided TSG with additional funding in excess of that amount. In October 2022, the Company provided notice to TSG that it did not intend to exercise its option to acquire the remaining membership interests in TSG. TSG subsequently filed claims in Oregon and in British Columbia, which claim, among other things, that the Company is in breach of its obligations under the MIPA and publishing agreements related to aforementioned game titles, and that the Company has improperly used TSG’s intellectual property with respect to the same. The Company believes these claims have no merit, intends to vigorously defend against all such claims, and has filed a response to TSG’s claim and filed a counter claim against TSG in British Columbia. The Company intends to pursue all legal and/or equitable remedies available to it with respect to the repayment of all excess amounts funded. The outcome of the claim is not yet determinable. On December 11, 2023, the claim was dismissed by the US District Court of Oregon.

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

12. CREDIT FACILITIES

The Company has two authorized operating lines of credit and an acquisition line totalling \$27,100,000. One of the operating lines is with a Canadian Bank for up to \$7,100,000, limited to approximately 85% of its outstanding accounts receivables and carries interest at prime plus 0.75%. The other for \$10,000,000 is with a director of the Company and carries an interest rate of 5%. The acquisition line is with a Canadian Bank for \$10,000,000, is limited to 70% of the acquisition purchase price and carries interest at prime plus 1%. At December 31, 2023, no amounts have been drawn (December 31, 2022 - \$870,000) from its lines of credit.

13. TRADE AND OTHER PAYABLES

	2023	2022
	<i>December 31</i>	<i>December 31</i>
Trade payables and accrued liabilities	\$ 8,422,491	\$ 11,340,095
Minimum guarantee payments for intellectual property	3,924,896	4,140,994
Wages and vacation payable	129,466	393,251
	\$ 12,476,853	\$ 15,874,340

14. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 27% (2022 - 27%) to the income (loss) for the year and is reconciled as follows:

	2023	2022
	<i>December 31</i>	<i>December 31</i>
Income (loss) before income taxes	\$ (281,406)	\$ 9,954,162
Combined federal and provincial tax rate	27%	27%
Expected tax recovery	\$ (75,979)	\$ 2,687,624
Stock based compensation	199,099	701,636
Non-deductible items and other	18,453	-
Fair value adjustments	(6,863)	111,639
True-up	(37,678)	(3,895,417)
Government assistance	(465,198)	(378,513)
Other	92	(28,565)
Effective tax recovery	\$ (368,074)	\$ (801,596)

The Company has loss carryforwards of \$3,861,892 expiring in 2039 to 2043.

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

15. DEFERRED INCOME TAXES

The following components of deferred income taxes are calculated based on a current period enacted rate of 27% (December 31, 2022 - 27%). The change in deferred income taxes is \$203,812 (December 31, 2022 - \$809,696) 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, 2023 and 2022 are as follows:

	2023	2022
	<i>December 31</i>	<i>December 31</i>
Deferred income tax assets		
Non-capital losses	\$ 1,042,711	\$ 3,049,661
Investment tax credits	821,554	394,843
Financing and share issuance costs	230,857	351,209
Capital assets	40,918	-
Fair value adjustments	30,435	35,412
Total deferred tax assets	<u>\$ 2,166,475</u>	<u>\$ 3,831,125</u>
Deferred income tax liabilities		
Government assistance	\$ (623,566)	\$ (551,986)
Intangible assets	(1,903,144)	(3,863,876)
Intangible assets – RTO	(2,092,500)	(1,966,117)
Capital assets	-	(105,693)
Total deferred tax liabilities	<u>\$ (4,619,210)</u>	<u>\$ (6,487,672)</u>
Net deferred tax liabilities	<u>\$ (2,452,735)</u>	<u>\$ (2,656,547)</u>
Deferred tax asset, as recognized on the balance sheet	1,273,949	3,021,815
Deferred tax liability, as recognized on the balance sheet	<u>(3,726,684)</u>	<u>(5,678,362)</u>
	<u>\$ (2,452,735)</u>	<u>\$ (2,656,547)</u>

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

16. SHARE CAPITAL

Authorized:

Unlimited common shares of the Company without par value.

Share transactions during the year

For the year ended December 31, 2023, the Company had the following transactions:

- 717,246 shares were repurchased under the Normal Course Issuer Bid (“NCIB”) for a total of \$462,557.

For the year ended December 31, 2022, the Company had the following transactions:

- As part of the contingent consideration related to the reverse takeover (“RTO”) as described in Note 3, the Company issued 4,444,444 shares for achieving \$100,000,000 in revenue during the first twelve months subsequent to the acquisition.
- As part of the Funko Pop! Acquisition, the Company issued 419,389 shares.
- During the year, 11,027 options and 41,250 warrants were exercised.
- 234,733 shares were repurchased under the NCIB for a total of \$322,296.

Normal Course Issuer Bid

- On August 11, 2022, the Company announced a Normal Course Issuer Bid authorizing the Company to purchase up to 4,076,819 of its shares, and the renewal of its NCIB was subsequently announced on November 13, 2023. Through December 31, 2023, 951,979 shares were repurchased for a total of \$784,853 and are held in treasury.

Escrow shares

Former ESG shareholders agreed that 48,985,416 shares are 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. As of the issuance date of these consolidated financial statements, all of these shares have been released, including the contingent shares.

	Shares Locked-up	Released on Feb 5, 2022	Released on Feb 5, 2023	Released on Feb 5, 2024
Acquisition of ESG	48,985,416	16,328,472	16,328,472	16,328,472
Contingent payment (shares issuable)	2,962,962	-	1,481,481	1,481,481

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

17. 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 are as follows:

	Number	Weighted Average Exercise Price 2023 <i>December 31</i>	Number	Weighted Average Exercise Price 2022 <i>December 31</i>
Outstanding at beginning of year	4,644,733	\$ 2.59	2,877,028	\$ 2.35
Granted	2,750,000	0.39	2,109,800	2.95
Exercised	-	-	(11,027)	2.50
Forfeited	(978,672)	2.96	(331,068)	2.75
Outstanding at end of year	6,416,061	\$ 1.61	4,644,733	\$ 2.59

(continues)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

17. STOCK OPTIONS *(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% - 3.10% (2022 – 0.33% - 3.32%).
- The expected life of the options ranges from 2 - 5 years (2022 – 2 - 5 years).
- The expected volatility is 67.5% (2022 – 67.5%).
- The expected forfeiture rate is 0% (2022 – 0%).
- The expected dividends yield is 0% (2022 – 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 year, the Company recognized stock-based compensation expense of \$737,405 respectively (year ended December 31, 2022 - \$2,527,810).

The weighted average fair value of all share options granted, using the Black Scholes option pricing model, during the year ended December 31, 2023 was \$1.61 per option (2022 – \$1.31). The weighted average remaining contractual life of outstanding share options at December 31, 2023 was 3.19 years (2022 – 3.6 years).

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

18. CAPITAL MANAGEMENT

The Company manages, as capital, the components of shareholders' equity and its cash and cash equivalents. 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.

19. SUPPLEMENTAL CASH FLOW INFORMATION

There were no non-cash transactions occurred during the year ended December 31, 2023.

The following non-cash transaction occurred during the year ended December 31, 2022:

- 419,389 shares were issued for the purchase of Funko Pop!
- 4,444,444 shares were issued for settlement of the contingent payable.
- \$768,538 in marketable securities were received in exchange for the license of intellectual property.

20. COMMITMENTS AND CONTINGENCIES

See note 11 for details surrounding legal claim filed by TSG.

See note 13 for minimum guarantees associated with intellectual property rights.

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2023 and 2022

21. RELATED PARTY TRANSACTIONS

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

	2023	2022
	<i>December 31</i>	<i>December 31</i>
Key Management Personnel <i>Management and directors</i>		
Compensation, including stock-based compensation	<u>\$ 2,570,621</u>	<u>\$ 1,942,910</u>
Payments made to Night Garden <i>Refer to note 11 for nature of payments</i>	<u>\$ 2,232,000</u>	<u>\$ 3,300,000</u>
Payable to Night Garden <i>Refer to note 11 for nature of payments</i>	<u>\$ 381,300</u>	<u>\$ -</u>
Bailey Ransen Family Trust <i>Entity with common directorship</i>		
Amount included in other payables	<u>\$ 908,928</u>	<u>\$ -</u>
Vohora LLP <i>Entity in which director is a partner</i>		
Consulting fees	<u>\$ 30,000</u>	<u>\$ -</u>
RDO Holdings Limited <i>Entity with common directorship</i>	<u>\$ 3,130</u>	<u>\$ -</u>
Royalties paid to TSG	<u>\$ -</u>	<u>\$ 605,757</u>
Development fees and other payments made to TSG	<u>\$ -</u>	<u>\$ 2,989,195</u>
Pioneer Media Holdings Ltd. <i>Entity with common directorship</i>		
License revenue (recorded in gaming revenue)	<u>\$ -</u>	<u>\$ 768,538</u>
Growthworks Capital Ltd. <i>Entity with common directorship</i>		
Accounting and administrative services	<u>\$ -</u>	<u>\$ 112,000</u>
