

EAST SIDE GAMES GROUP INC.
Consolidated Financial Statements
(Presented in Canadian Dollars)
For the Years Ended December 31, 2022 and 2021



KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITORS' 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 Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2022, December 31, 2021, and January 1, 2021
- the consolidated statements of income (loss) and comprehensive income (loss) for the years ended December 31, 2022 and December 31, 2021
- the consolidated statements of changes in equity for the years ended December 31, 2022 and December 31, 2021
- the consolidated statements of cash flow for the years ended December 31, 2022 and December 31, 2021
- 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, 2022, December 31, 2021, and January 1, 2021 and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2022 and December 31, 2021 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.



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

Emphasis of Matter – Comparative Information

We draw attention to Note 2 to the financial statements (“Note 2”), which explains that certain comparative information presented:

- for the year ended December 31, 2021 has been restated
- as at January 1, 2021 has been derived from the financial statements for the year ended December 31, 2020 which have been restated.

Note 2 explains the reason for the restatement and also explains the adjustments that were applied to restate certain comparative information.

Our opinion is not modified in respect of this matter.

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, 2022. 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.

Recognition and Measurement of Certain Intangible Assets

Description of the matter

We draw attention to Notes 2, 3 and 11 to the financial statements. The Entity incurs external game development costs and non-refundable payments for intellectual property rights which are recognized as Intangible Assets. These Intangible Assets are stated at cost less accumulated depreciation and accumulated impairment losses. They are depreciated on a straight-line basis over the estimated useful life. During the current period, the Entity discovered that certain external game development costs and non-refundable payments for intellectual property rights were accounted for as prepaid expenses and deposits in previous periods, rather than being recognized as Intangible Assets. The Entity has corrected the error and has restated the presentation from Prepaid expense to Intangible Assets and restated the expenses to depreciation of Intangible Assets. In addition, certain of these contracts had certain minimum future payments that should have been accrued in previous periods and added to the value of the Intangible Assets.

Why the matter is a Key Audit Matter

We identified the recognition and measurement of certain Intangible Assets as a key audit matter. Obtaining audit evidence related to the recognition and measurement, including the correction of the error, required significant auditor attention and audit effort from senior members of the engagement team, including the assessment of the appropriateness of disclosures of the impact to the comparative information.



How the matter was addressed in the audit

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

- We obtained management's schedule and analysis by game for external game development costs and non-refundable payments for intellectual property rights and assessed the adjustments recorded for the current and prior periods by examining contract terms of certain external game development costs and intellectual property rights contracts. We also compared the games identified by management's schedule to the Entity's website.
- We selected certain external game development costs and intellectual property rights contracts from the current and prior periods to evaluate whether the capitalization criteria were met by inspecting contract terms.
- We assessed the appropriateness of the disclosure of the correction of the error by comparing it to the requirements of IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

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 auditor's report is Lyndon Fung.

Vancouver, Canada

March 31, 2023

EAST SIDE GAMES GROUP INC.
Consolidated Statement of Financial Position
As at December 31, 2022 and 2021 and January 1, 2021

	<i>Note</i>	2022 <i>December 31</i>	2021 <i>December 31</i>	2021 <i>January 1</i>
			(Restated - Note 2)	(Restated - Note 2)
ASSETS				
CURRENT				
Cash and cash equivalents	6	\$ 5,657,886	\$ 9,242,144	\$ 4,416,399
Marketable securities		48,907	-	5,249,052
Trade and other receivables	7	8,720,183	10,146,361	12,731,190
Income taxes recoverable		-	540,218	-
Government assistance receivable	8	2,285,909	1,099,789	2,005,998
Prepaid expenses and deposits	9	1,736,736	1,068,609	365,279
		18,449,621	22,097,121	24,767,918
PREPAID EXPENSES AND DEPOSITS	9	1,066,874	1,121,526	1,269,792
PROPERTY AND EQUIPMENT	10	545,473	680,742	646,948
INTANGIBLE ASSETS	11	25,599,430	23,398,307	2,837,658
GOODWILL	22	30,507,520	30,507,520	-
LONG TERM INVESTMENTS	12	1,057,323	950,000	8,121,397
DEFERRED INCOME TAXES	16	3,021,815	2,035,262	-
		\$ 80,248,056	\$ 80,790,478	\$ 37,643,713
LIABILITIES				
CURRENT				
Bank indebtedness	13	\$ 870,000	\$ -	\$ -
Trade and other payables	14	15,874,340	10,633,726	5,488,096
Deferred revenue		3,039,799	915,870	-
Contingent liabilities	4	-	20,000,000	-
Income taxes payable		-	-	3,762,790
Current portion of lease obligation		-	131,201	174,390
		19,784,139	31,680,797	9,425,276
LEASE OBLIGATION		-	-	131,201
LONG TERM AND CONTINGENT LIABILITIES	4 & 14	6,264,448	19,408,909	-
DEFERRED INCOME TAXES	16	5,678,362	5,501,505	1,336,703
		\$ 31,726,949	\$ 56,591,211	\$ 10,893,180
SHAREHOLDERS' EQUITY				
Share capital	17	88,274,715	74,758,038	2,104,861
Contributed surplus		7,414,138	7,364,733	1,312,366
Retained earnings (Deficit)		(47,167,746)	(57,923,504)	23,333,306
		48,521,107	24,199,267	26,750,533
		\$ 80,248,056	\$ 80,790,478	\$ 37,643,713
COMMITMENTS AND CONTINGENCIES	23			

APPROVED ON BEHALF OF THE BOARD

"Jason Bailey" Director

"Mike Edwards" Director

EAST SIDE GAMES GROUP INC.
Consolidated Statement of Income (Loss)
and Comprehensive Income (Loss)
For the Years Ended December 31, 2022 and 2021

	Note	2022	2021
			(Restated - Note 2)
REVENUE			
Gaming		\$ 86,771,232	\$ 69,718,451
Advertising		<u>29,508,387</u>	<u>23,468,367</u>
		116,279,619	93,186,818
COST OF SALES		<u>43,766,931</u>	<u>32,471,893</u>
GROSS PROFIT		<u>72,512,688</u>	<u>60,714,925</u>
EXPENSES			
Research and development	8	16,323,797	13,160,121
Sales and marketing		35,157,655	32,283,369
General and administrative		16,068,634	11,694,856
Transaction expenses and restructuring charges		1,353,673	2,193,867
Depreciation of property and equipment	10	336,432	398,028
Depreciation of intangible assets	11	<u>12,465,104</u>	<u>7,383,059</u>
		81,705,295	67,113,300
LOSS BEFORE OTHER INCOME (EXPENSES) AND INCOME TAXES		<u>\$ (9,192,607)</u>	<u>\$ (6,398,375)</u>
OTHER INCOME (EXPENSES)			
Reversal of contingent liabilities	4	19,502,224	-
Gain on sale of long term investment		-	4,953,291
Impairment of intangible assets	11	(194,754)	-
Investment and other income	12	546,489	370,213
Unrealized gain (loss) on investment	12	(807,308)	350,000
Gain (loss) on foreign exchange		577,688	(636,443)
Accretion expense		<u>(477,570)</u>	<u>(1,719,623)</u>
		19,146,769	3,317,438
INCOME (LOSS) BEFORE INCOME TAXES		<u>\$ 9,954,162</u>	<u>\$ (3,080,937)</u>
INCOME TAX EXPENSE (RECOVERY)			
Current	15	8,100	2,585,460
Deferred	16	<u>(809,696)</u>	<u>(2,848,953)</u>
		(801,596)	(263,493)
NET AND COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		<u>\$ 10,755,758</u>	<u>\$ (2,817,444)</u>
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE		<u>\$ 0.13</u>	<u>\$ (0.04)</u>
SHARES USED IN CALCULATING EARNINGS (LOSS) PER SHARE			
Basic and Diluted		80,506,952	73,469,877

EAST SIDE GAMES GROUP INC.
Consolidated Statement of Changes in Equity
For the Years Ended December 31, 2022 and 2021

	Note	Number of shares	Share capital	Contributed surplus	Retained earnings (Deficit)	Total equity (2021 Restated - Note 2)
As at January 1, 2021		44,444,444	\$ 2,104,861	\$ 1,312,366	\$ 23,333,306	\$ 26,750,533
Adjustment to the issued common shares of the legal parent at the time of the reverse takeover	4	31,566,347	71,024,281	-	-	71,024,281
Fair value of stock options from reverse takeover	4	-	-	55,000	-	55,000
Shares issued for advisory fees for reverse takeover	17	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	18	-	-	2,099,396	-	2,099,396
Distribution to shareholders on Reverse Takeover	4	-	-	-	(57,733,545)	(57,733,545)
Deferred consideration on Reverse Takeover	4	-	-	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	20	-	-	-	(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 year (restated - Note 2)		-	-	-	(2,817,444)	(2,817,444)
As at December 31, 2021		76,620,326	\$ 74,758,038	\$ 7,364,733	\$ (57,923,504)	\$ 24,199,267
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	18	-	-	2,527,810	-	2,527,810
Shares issued for acquisition	5	419,389	1,267,000	-	-	1,267,000
Shares issued for contingent payment	4	4,444,444	12,340,787	(2,340,787)	-	10,000,000
Share buyback	17	-	(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

See notes to consolidated financial statements

EAST SIDE GAMES GROUP INC.
Consolidated Statement of Cash Flow
For the Years Ended December 31, 2022 and 2021

	2022	2021
	<i>December 31</i>	<i>December 31</i>
		(Restated - Note 2)
OPERATING ACTIVITIES		
Net and comprehensive income (loss)	\$ 10,755,758	\$ (2,817,444)
Items not affecting cash:		
Reversal of Contingent liabilities	(19,502,224)	-
Depreciation of property and equipment	336,432	398,028
Depreciation of intangible assets	12,465,104	7,383,059
Impairment of intangible assets	194,754	
Deferred income tax	(809,696)	(2,848,953)
Share based payments	-	1,038,486
Loss (gain) on long term investments and equity income	(107,323)	(5,245,791)
Interest on lease obligation	-	27,365
Unrealized loss (gain) on marketable securities	719,631	-
Marketable securities received as revenue	(768,538)	-
Accretion expense on contingent liabilities	477,570	1,719,623
Stock based compensation	2,527,810	4,004,614
Changes in non-cash working capital		
Trade and other receivables	1,426,179	708,734
Government assistance receivable	(1,186,120)	1,062,524
Prepaid expenses and deposits	(613,476)	(455,675)
Trade and other payables	1,442,120	2,906,842
Deferred revenue	2,123,929	915,870
Income taxes payable and recoverable	540,218	(4,275,643)
Cash flow from operating activities	<u>\$ 10,022,128</u>	<u>\$ 4,521,639</u>
INVESTING ACTIVITIES		
Proceeds from marketable securities	-	5,249,052
Purchase of equipment	(201,163)	(342,722)
Purchase of Intangibles	(3,915,294)	(4,817,272)
Cash acquired from Reverse Takeover	\$ -	\$ 4,422,540
Cash flow from (used in) investing activities	<u>\$ (4,116,457)</u>	<u>\$ 4,511,598</u>
FINANCING ACTIVITIES		
Cash consideration paid on Reverse Takeover	-	(19,328,515)
Cash dividends paid prior to Reverse Takeover	-	(6,300,000)
Proceeds from subscription offering	-	21,028,250
Warrants exercised	66,000	31,828
Share Buybacks	(322,296)	-
Stock options exercised	27,568	347,463
Earnout payment on reverse takeover	(10,000,000)	-
Bank indebtedness	870,000	-
Refundable taxes, net	-	215,237
Repayment of lease obligation	(131,201)	(201,755)
Cash flow used in financing activities	<u>\$ (9,489,929)</u>	<u>\$ (4,207,492)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>\$ (3,584,258)</u>	<u>\$ 4,825,745</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>9,242,144</u>	<u>4,416,399</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 5,657,886</u>	<u>\$ 9,242,144</u>

Supplemental cash flow information

Note 20

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

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". Refer to Note 4 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.

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 31, 2023.

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.

(continues)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

2. BASIS OF PRESENTATION *(continued)*

Prior period restatement

Adjustment 1 – External game development costs and payment for intellectual property

In 2020 and 2021, certain external game development costs and non-refundable payments for intellectual property rights were accounted for as prepaid expenses and deposits, rather than being recognized as intangible assets. The Company has corrected the error and restated the presentation from Prepaid expense to Intangible assets and restated the expenses to depreciation of intangible assets. In addition, certain of these contracts had certain minimum future payments that should have been accrued in previous periods and added to the value of the intangible assets.

Adjustment 2 – Investment in Truly Social Games

It was noted that the Company recorded an investment in Truly Social Games (“TSG”) in the amount of \$3 million for an interest of 20%. Under the terms of the agreement, the Company had also agreed to pay \$3 million in exchange for the development of specific games by TSG. The Company was required to record the value of each of the components of the arrangement separately. The investment in TSG was determined to have nominal value and the payments made should have been allocated to the development of the games. In addition, the commitment to obtain future services for the development of specific games should have been treated as a commitment as opposed to a legal obligation to pay. The Company has corrected the error to eliminate Long term investments and related payables as at December 31, 2021.

(continues)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

2. BASIS OF PRESENTATION *(continued)*

The Company has restated its financial statements as noted below:

Year Ended December 31, 2021	As Reported	Adjustment 1	Adjustment 2	As Restated
Consolidated Statement of Financial Position:				
Prepaid expenses and deposits – current	2,713,846	(1,645,237)	-	1,068,609
Prepaid expenses and deposits – long-term	2,766,763	(1,645,237)	-	1,121,526
Intangible assets, net	18,662,468	4,735,839	-	23,398,307
Long term investments	3,950,000	-	(3,000,000)	950,000
Trade and other payables	12,739,096	342,500	(2,447,870)	10,633,726
Long-term and contingent liabilities	19,024,654	384,255	-	19,408,909
Retained earnings (deficit)	(58,089,983)	718,609	(552,130)	(57,923,504)
Consolidated Statement of Income (Loss):				
Cost of sales	33,273,373	(801,480)	-	32,471,893
Research and development	13,061,923	(453,932)	552,130	13,160,121
Depreciation of intangible assets	5,706,250	1,676,809	-	7,383,059
Gain (loss) on foreign exchange	(673,442)	36,999	-	(636,443)
Net and comprehensive loss for the year	(1,880,916)	(384,398)	(552,130)	(2,817,444)
Consolidated Statement of Cash Flow:				
Cash flow from operating activities	1,015,215	4,058,554	(552,130)	4,521,639
Cash flow from investing activities	8,018,022	(4,058,554)	552,130	4,511,598

Retained earnings (deficit) and net and comprehensive loss for the year on the consolidated statement of changes in equity have been adjusted for the above changes.

As at January 1, 2021	As Reported	Adjustment 1	As Restated
Consolidated Statement of Financial Position:			
Prepaid expenses and deposits – current	627,445	(262,166)	365,279
Prepaid expenses and deposits – long-term	1,531,958	(262,166)	1,269,792
Intangible assets, net	-	2,837,658	2,837,658
Trade and other payables	4,277,777	1,210,319	5,488,096
Retained earnings	22,230,299	1,103,007	23,333,306

(continues)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

2. BASIS OF PRESENTATION *(continued)*

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, ESG, LDRLY, Eastside Games (Ontario) Inc., Eastside Games USA Inc., 1182533 B.C. Ltd. ("118Co"), 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.

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:

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.

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 ESG Acquisition, is estimated revenue for the earn out period based on the Company's forecast.

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

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)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

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)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

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.

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, 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

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)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

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.

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 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.

(continues)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

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

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.

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.

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 (loss) per share

Basic earnings (loss) per share is determined by dividing the net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the reporting period. The computation of diluted earnings (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 18. 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, 2022 and 2021

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 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, 2022 and 2021

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, bank indebtedness, long-term liabilities 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, 2022 and December 31, 2021, 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)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

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 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 statement of income (loss) and comprehensive income (loss).

4. 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:

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.

(continues)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

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

- \$20,000,000 if Leaf achieves \$150,000,000 in gross revenue in the second 12 months following transaction close date. Until Q2 2022, the Company estimated that this contingent amount would be paid and accrued the present value of the expected payments as contingent liabilities. 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.

The cash consideration, working capital adjustment and the original estimate of contingent amounts totalling \$57,733,545 are payments, or expected payments, from Leaf to its shareholders and were 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 was 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%.

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.

As at December 31, 2022, cash of \$1,100,000 (December 31, 2021 - \$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 year ended December 31, 2021.

(continues)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

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

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

<u>Consideration</u>	
31,566,347 Leaf shares at a price of \$2.25 per share	\$ 71,024,281
44,000 stock options	55,000
	<hr/>
Total consideration before settling the pre-existing relationship	\$ 71,079,281
Net payables to ESG eliminated on acquisition	7,765,636
	<hr/>
	\$ 78,844,917
 <u>Net assets acquired</u>	
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
	<hr/>
	\$ 78,844,917
	<hr/>

(continues)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

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

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 year 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 (as restated - Note 2)	\$ 4,061,390

5. ASSET ACQUISITION OF FUNKO POP! BLITZ

In January 2022, the Company acquired all of N3TWORK Inc.'s interest in the *Funko Pop! Blitz* mobile game, and all assets used and related to the free-to-play mobile game on iOS and Android thereto. The purchase price included 419,389 shares and the assumption of \$1,267,000 in minimum guarantees due in 2023 and 2024 which are included in current and long term liabilities at December 31, 2022. The assets acquired are included in intangible assets and are being amortized over their estimated useful life of 20 months.

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

6. 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, 2022	December 31, 2021 (Restated – Note 2)
Cash and cash equivalents	FVTPL	5,657,886	9,242,144
Marketable securities	FVTPL	48,907	-
Trade and other receivables	Amortized Cost	8,720,183	10,146,361
Long term investments without significant influence	FVTPL	862,323	950,000
Bank indebtedness	Amortized Cost	870,000	-
Trade and other payables	Amortized Cost	15,874,340	10,633,726
Contingent liabilities	Amortized Cost	-	39,024,654
Long-term liabilities	Amortized Cost	6,264,448	384,255

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, bank indebtedness, and long-term liabilities approximate their fair value as most of these instruments are short-term in 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.

(continues)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

6. 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, 2022, 68% (December 31, 2021 – 72%) 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.

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, 2022, 1 Canadian Dollar was equal to \$0.7357 US Dollar (December 31, 2021 - \$0.7816).

	December 31, 2022		(Restated - Note 2) December 31, 2021	
	US Dollar	CDN Equivalent	US Dollar	CDN Equivalent
Cash	3,335,621	4,533,776	3,068,482	3,925,898
Trade and other receivables	4,418,117	6,005,105	4,487,200	5,741,044
Trade and other payables	(6,749,582)	(9,174,032)	(2,617,854)	(3,349,353)

Based on the net exposures as of December 31, 2022 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 \$128,523 (December 31, 2021 - \$574,326).

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

7. TRADE AND OTHER RECEIVABLES

	2022	2021
	<i>December 31</i>	<i>December 31</i>
Trade receivable	\$ 7,790,435	\$ 9,467,801
Goods and services tax recoverable	929,748	678,560
	\$ 8,720,183	\$ 10,146,361

8. 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, 2022, the Company has an amount receivable from these government assistance programs of \$2,285,909 (December 31, 2021 - \$1,099,789).

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

	2022	2021
	<i>December 31</i>	<i>December 31</i>
ITC from SR&ED expenditures	\$ -	\$ 408,678
BC IDMTC	1,451,480	1,211,244
Ontario IDMTC	834,429	215,487
	\$ 2,285,909	\$ 1,835,409

9. PREPAID EXPENSES AND DEPOSITS

	2022	2021
	<i>December 31</i>	<i>December 31</i>
		(Restated - Note 2)
Prepaid development cost - current	\$ 689,784	\$ 113,254
Other prepaids	1,010,995	919,398
Security deposits	35,957	35,957
Prepaid expenses and deposits	\$ 1,736,736	\$ 1,068,609
Prepaid development cost - non-current	1,066,874	1,121,526
	\$ 2,803,610	\$ 2,190,135

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

10. PROPERTY AND EQUIPMENT

	Computer equipment	Furniture and Fixture	Leasehold Improvement	Right-of-use asset	Total
Cost					
Balance at January 1, 2021	\$ 730,626	\$ 236,522	\$ 62,576	\$ 581,874	\$ 1,611,598
Additions	413,655	18,167	-	-	431,822
Disposals	-	-	-	-	-
Balance at December 31, 2021	\$ 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
Accumulated depreciation					
Balance at January 1, 2021	\$ 474,671	\$ 110,017	\$ 62,576	\$ 317,386	\$ 964,650
Depreciation for the year	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
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
Carrying value					
At December 31, 2021	\$ 460,720	\$ 114,226	\$ -	\$ 105,796	\$ 680,742
At December 31, 2022	\$ 468,087	\$ 77,386	\$ -	\$ -	\$ 545,473

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

11. INTANGIBLE ASSETS

	Brand	Customer relationships	Intellectual property rights, games acquired and external development costs	Total
Cost				
Balance at January 1, 2021	\$ -	\$ -	\$ 4,497,104 ⁽ⁱ⁾	\$ 4,497,104
Additions	7,130,000	5,010,000	15,803,708 ⁽ⁱ⁾	27,943,708
Disposals	-	-	-	-
Balance at December 31, 2021	<u>\$ 7,130,000</u>	<u>\$ 5,010,000</u>	<u>\$ 20,300,812⁽ⁱ⁾</u>	<u>\$ 32,440,812</u>
Additions (note 5)	\$ -	\$ -	\$ 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>
Accumulated depreciation				
Balance at January 1, 2021	\$ -	\$ -	\$ 1,659,446 ⁽ⁱ⁾	\$ 1,659,446
Depreciation for the year	1,307,167	2,296,250	3,779,642 ⁽ⁱ⁾	7,383,059
Disposals	-	-	-	-
Balance at December 31, 2021	<u>\$ 1,307,167</u>	<u>\$ 2,296,250</u>	<u>\$ 5,439,088⁽ⁱ⁾</u>	<u>\$ 9,042,505</u>
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>
Carrying value				
At December 31, 2021	<u>\$ 5,822,833</u>	<u>\$ 2,713,750</u>	<u>\$ 14,861,724⁽ⁱ⁾</u>	<u>\$ 23,398,307</u>
At December 31, 2022	<u>\$ 4,396,833</u>	<u>\$ 208,750</u>	<u>\$ 20,993,847</u>	<u>\$ 25,599,430</u>

(i) Opening balances were restated as per Note 2.

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

12. LONG TERM INVESTMENTS

	2022 <i>December 31</i>	2021 <i>December 31</i> (Restated - Note 2)
Creative Labs Limited Partnership (i)	\$ 862,323	\$ 950,000
Night Garden Studio Inc. (ii)	195,000	-
Truly Social Games Inc. (iii)	-	-
	\$ 1,057,323	\$ 950,000

- i. 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, 2022, 500,000 (December 31, 2021 – 500,000) of the committed units have been funded. The Company recognized an unrealized loss of \$87,677 during the year ended December 31, 2022 (2021 – unrealized gain of \$450,000).
- 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 25% ownership in Night Garden and has been accounted for using the equity method. The Company recorded an equity pick up of \$195,000 during the year ended December 31, 2022 (2021 – loss of \$100,000). The equity pick up is included in investment and other income.
- 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 options 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 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.

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

13. 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, 2022, the Company has drawn \$870,000 (December 31, 2021 - \$nil) from its bank operating line.

14. TRADE AND OTHER PAYABLES

	2022	2021
	<i>December 31</i>	<i>December 31</i> (Restated - Note 2)
Trade payables and accrued liabilities	\$ 11,340,095	\$ 9,545,624
Minimum guarantee payments for intellectual property	4,140,994	342,500
Wages and vacation payable	393,251	745,602
	\$ 15,874,340	\$ 10,633,726

Minimum guarantees included in long term liabilities at December 31, 2022 were \$6,264,448, of which \$3,822,549 are due in 2024, \$2,145,811 are due in 2025 and \$296,088 are due in 2026.

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

15. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 27% (2021 - 27%) to the income (loss) for the year and is reconciled as follows:

	2022 <i>December 31</i>	2021 <i>December 31</i> (Restated – Note 2)
Income (loss) before income taxes	\$ 9,954,162	\$ (3,080,937)
Income tax expense (recovery) at the combined basic federal and provincial tax rate:	\$ 2,687,624	\$ (831,853)
Increase (decrease) resulting from:		
True-up	8,100	(134,470)
Permanent differences	701,636	1,348,934
Rate differential on investment income	-	1,403,351
Dividend tax refund	-	(1,818,368)
Fair value adjustment	111,639	(1,017,541)
Reversal of contingent liability	(5,136,657)	-
Investment tax credits	378,513	68,983
Other	447,549	717,471
Effective tax recovery (2022 – 8%; 2021 – 9%)	\$ (801,596)	\$ (263,493)

The Company has loss carryforwards of \$11,295,040 expiring in 2038 to 2042.

16. DEFERRED INCOME TAXES

The following components of deferred income taxes are calculated based on a current period enacted rate of 27% (December 31, 2021 - 27%). The change in deferred income taxes is \$809,696 (December 31, 2021 - \$2,848,953) 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, 2022 and 2021 are as follows:

	2022 <i>December 31</i>	2021 <i>December 31</i>
Long term investments	\$ 35,412	\$ (47,250)
Property and equipment	(105,693)	(131,114)
Right of use assets and lease liabilities	-	6,860
Intangible assets	(5,829,993)	(4,834,013)
Government tax credit	(157,142)	(495,560)
Loss carryforwards	3,049,661	1,563,273
Financing and share issuance costs	351,208	471,561
	\$ (2,656,547)	\$ (3,466,243)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

17. SHARE CAPITAL

Authorized:

Unlimited common shares of the Company without par value.

Share transactions during the year

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 4, 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 Normal Course Issuer Bid.

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 4, 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, 158,785 options and 23,867 warrants were exercised.

Normal Course Issuer Bid

- On August 11, 2022, the Company announced a Normal Course Issuer Bid (“NCIB”) authorizing the Company to purchase up to 4,076,819 of its shares. Through December 31, 2022, 234,733 shares were repurchased for a total of \$322,296 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. Accordingly, as of the issuance date of these financial statements, 16,328,472 of these shares are in lock-up. In addition, 1,481,481 of the contingent shares are in lock-up.

	Shares Locked-up	Released on Feb 5, 2022	To be released on Feb 5, 2023	To be 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, 2022 and 2021

18. 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 are as follows:

	Number	Weighted Average Exercise Price 2022 <i>December 31</i>	Number	Weighted Average Exercise Price 2021 <i>December 31</i>
Outstanding at beginning of year	2,877,028	\$ 2.35	2,372,351	\$ 0.80
Previously issued from legal parent	-	-	680,568	2.51
Granted	2,109,800	2.95	2,459,302	2.30
Exercised	(11,027)	2.50	(158,785)	2.19
Exchanged	-	-	(2,372,351)	0.80
Forfeited	(331,068)	2.75	(104,057)	2.50
Outstanding at end of year	4,644,733	\$ 2.59	2,877,028	\$ 2.35

(continues)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

18. 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% - 3.32% (2021 – 0.33% - 0.94%).
- The expected life of the options ranges from 2 - 5 years (2021 – 2 - 5 years).
- The expected volatility is 67.5% (2021 – 67.5%).
- The expected forfeiture rate is 0% (2021 – 0%).
- The expected dividends yield is 0% (2021 – 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 \$2,527,810 respectively (twelve month period ended December 31, 2021 - \$2,099,396).

The weighted average fair value of all share options granted, using the Black Scholes option pricing model, during the year was \$1.31 per option (2021 - \$1.27). The weighted average remaining contractual life of outstanding share options at December 31, 2022 was 3.6 years (2021 – 4.01 years).

(continues)

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

18. STOCK OPTIONS AND WARRANTS *(continued)*

Warrants

Details of the warrants issued are as follows:

	Number	Weighted Average Exercise Price 2022 <i>December 31</i>	Number	Weighted Average Exercise Price 2021 <i>December 31</i>
Outstanding at beginning of year	648,216	\$ 2.21	-	\$ -
Previously issued from legal parent	-	-	672,083	2.18
Exercised	(41,250)	1.60	(23,867)	1.33
Outstanding at end of year	606,966	\$ 2.25	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 outstanding warrants at December 31, 2022 expired unexercised subsequent to year end.

The weighted average fair value of all warrants granted, using the Black Scholes option pricing model, during the year ended December 31, 2021 was \$0.83 per warrant. The weighted average remaining contractual life of outstanding warrants at December 31, 2022 was 0.1 years (December 31, 2021 – 1.1 years).

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

19. 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.

20. SUPPLEMENTAL CASH FLOW INFORMATION

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

- 419,389 shares were issued and \$1,267,000 of trade and other payables and long term liabilities were assumed for the purchase of Funko Pop!
- 4,444,444 shares were issued for settlement of the contingent payable.
- Purchase of intellectual property rights in exchange for \$8,411,687 in minimum guarantee payments.

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

- Shares and options issued on reverse takeover (Note 4) of \$71,024,281 and \$55,000, respectively.
 - Non-cash dividends of \$9,178,619.
 - Non-cash stock option exchange of \$3,160,569.
 - Purchase of intellectual property rights in exchange for \$726,755 in minimum guarantee payments.
-

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

21. RELATED PARTY TRANSACTIONS

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

	2022	2021
	<i>December 31</i>	<i>December 31</i>
LDRLY (Technologies) Inc. <i>Subsidiary of Leaf Mobile Inc. prior to RTO transaction</i> Game support services included in gaming revenue, prior to RTO transaction	<u>\$ -</u>	<u>\$ 3,539,918</u>
Key Management Personnel <i>Management and directors</i> Compensation, including stock-based compensation	<u>\$ 1,942,910</u>	<u>\$ 2,774,158</u>
Royalties paid to TSG	<u>\$ 605,757</u>	<u>\$ 1,052,061</u>
Development fees and other payments made to TSG	<u>\$ 2,989,195</u>	<u>\$ 3,113,188</u>
Payments made to Night Garden	<u>\$ 3,300,000</u>	<u>\$ 2,176,000</u>
Pioneer Media Holdings Ltd. <i>Entity with common directorship</i> License revenue (recorded in gaming revenue)	<u>\$ 768,538</u>	<u>\$ -</u>
Growthworks Capital Ltd. <i>Entity with common directorship</i> Accounting and administrative services	<u>\$ 112,000</u>	<u>\$ 340,400</u>

(i) For transactions with former ESG shareholders see note 4.

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Presented in Canadian dollars)
For the Years Ended December 31, 2022 and 2021

22. GOODWILL

	<u>2022</u>	<u>2021</u>
Goodwill	\$ 30,507,520	\$ 30,507,520

Management completed its annual impairment test on December 31, 2022 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, 2022.

23. COMMITMENTS AND CONTINGENCIES

See note 5 for liabilities associated with the Funko Pop! Blitz game acquisition.

See note 12 for details surrounding legal claim filed by TSG.

See note 14 for minimum guarantees associated with intellectual property rights.
