LEAF MOBILE INC.

Consolidated Financial Statements

(Presented in Canadian dollars)

For the Years Ended December 31, 2020 and 2019

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Leaf Mobile Inc.

Opinion

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

- the consolidated statement of financial position as at December 31, 2020
- the consolidated statement of loss and comprehensive loss for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the “financial statements”).

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “***Auditors' Responsibilities for the Audit of the Financial Statements***” section of our auditors' report.

We are independent of the 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.

Other Matter - Comparative Information

The financial statements for the year ended December 31, 2019 were audited by another auditor who expressed an unmodified opinion on those financial statements on June 19, 2020.

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 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.

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 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 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 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.

- 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.

KPMG LLP

Chartered Professional Accountants

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

Vancouver, Canada
April 30, 2021

LEAF MOBILE INC.
Consolidated Statement of Financial Position
(Presented in Canadian dollars)
As at December 31, 2020 and 2019

	2020	2019
ASSETS		
CURRENT		
Cash and cash equivalents	**$ 7,202,659**	$ 32,598
Trade and other receivables *(Note 8)*	**3,244,438**	20,511
Government assistance receivable *(Note 9)*	**134,436**	-
Advance payment *(Note 4)*	**-**	1,250,000
Prepaid expenses and deposits *(Note 10)*	**124,852**	-
	10,706,385	1,303,109
PROPERTY AND EQUIPMENT *(Note 11)*	**90,745**	-
INTANGIBLE ASSETS *(Note 12)*	**6,824,500**	-
GOODWILL *(Note 13)*	**3,390,020**	-
	$ 21,011,650	$ 1,303,109
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Trade and other payables *(Note 14)*	**$ 1,403,912**	$ 108,947
Trade payables to related party *(Note 20)*	**7,461,400**	124,850
	8,865,312	233,797
DEFERRED INCOME TAXES *(Note 15)*	**1,323,069**	-
	10,188,381	233,797
SHAREHOLDERS' EQUITY		
Share capital *(Note 16)*	**14,913,986**	1,588,323
Contributed surplus	**763,552**	-
Deficit	**(4,854,269)**	(519,011)
	10,823,269	1,069,312
	$ 21,011,650	$ 1,303,109

EVENTS OCCURRING AFTER THE REPORTING PERIOD *(Note 21)*

APPROVED ON BEHALF OF THE BOARD

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

See notes to consolidated financial statements

LEAF MOBILE INC.

Consolidated Statement of Loss and Comprehensive Loss

(Presented in Canadian dollars)

For the Years Ended December 31, 2020 and 2019

	2020	2019
REVENUE		
Gaming	$ 23,462,680	$ -
Advertising	7,622,573	-
	31,085,253	-
COST OF SALES, SELLING AND DEVELOPMENT EXPENSES *(Note 9)*	29,066,823	-
PROFIT BEFORE OTHER EXPENSES AND INCOME TAXES	2,018,430	-
EXPENSES		
General and administrative expenses	3,401,448	471,714
Public listing and transaction expenses	2,168,963	-
Depreciation of intangible assets	1,686,950	-
Depreciation of equipment and right-of-use assets	65,507	-
	7,322,868	471,714
LOSS BEFORE INCOME TAXES	(5,304,438)	(471,714)
INCOME TAXES		
Deferred income tax recovery *(Note 15)*	(969,180)	-
NET AND COMPREHENSIVE LOSS FOR THE YEAR	$ (4,335,258)	$ (471,714)
BASIC AND DILUTED LOSS PER SHARE	$ (0.02)	$ (0.00)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	188,745,102	127,148,459

See notes to consolidated financial statements

LEAF MOBILE INC.
Consolidated Statement of Changes in Equity
(Presented in Canadian dollars)
For the Year Ended December 31, 2020 and 2019

	Number of shares	Share capital	Reserves	Deficit	**Total equity**
As at January 1, 2019	105,200,000	$ 40,168	-	$ (47,297)	**$ (7,129)**
Proceeds from common shares issued	24,562,500	1,615,000	-	-	**1,615,000**
Share issuance costs	-	(66,845)	-	-	**(66,845)**
Comprehensive loss for the period	-	-	-	(471,714)	**(471,714)**
As at December 31, 2019	129,762,500	$ 1,588,323	-	$ (519,011)	**$ 1,069,312**
As at January 1, 2020	129,762,500	$ 1,588,323	$ -	$ (519,011)	**$ 1,069,312**
Shares issued from private placement (Note 5)	21,856,250	3,497,000	-	-	**3,497,000**
Share issuance costs (Note 5)	-	(66,000)	-	-	**(66,000)**
Warrants issued (Note 5)	-	-	24,773	-	**24,773**
Share issuance in acquisition of LDRLY (Technologies) Inc. (Note 4)	55,187,500	8,830,000	-	-	**8,830,000**
Adjustment to record the issued common shares of the legal parent at the time of the reverse takeover (Note 5)	5,500,000	880,000	-	-	**880,000**
Fair value of stock options from reverse takeover (Note 5)	-	-	49,217	-	**49,217**
Fair value of agent's warrants from reverse takeover (Note 5)	-	-	10,553	-	**10,553**
Shares issued in relation to the professional fees (Note 16)	1,000,000	160,000	-	-	**160,000**
Warrants exercised	25,000	3,820	(1,320)	-	**2,500**
Stock options exercised	110,000	20,843	(9,843)	-	**11,000**
Stock-based compensation	-	-	690,172	-	**690,172**
Comprehensive loss for the year	-	-	-	(4,335,258)	**(4,335,258)**
As at December 31, 2020	213,441,250	$ 14,913,986	$ 763,552	$ (4,854,269)	**$ 10,823,269**

LEAF MOBILE INC.

Consolidated Statement of Cash Flows

(Presented in Canadian dollars)

For the Years Ended December 31, 2020 and 2019

	2020	2019
OPERATING ACTIVITIES		
Net and comprehensive loss for the year	**$ (4,335,258)**	$ (471,714)
Items not affecting cash:		
Depreciation of equipment and right-of-use assets	**65,507**	-
Depreciation of intangible assets	**1,686,950**	-
Deferred income taxes	**(969,180)**	-
Stock-based compensation	**714,944**	-
Public company listing expenses	**791,942**	-
Non-cash share issuance as professional fees	**160,000**	-
Changes in non-cash working capital:		
Trade and other receivables	**(754,269)**	(20,511)
Government assistance receivable	**49,247**	-
Prepaid expenses and deposit	**(34,872)**	-
Trade and other payables	**(162,818)**	100,808
Trade payables to related party	**5,160,950**	124,850
Cash flow from (used by) operating activities	**2,373,143**	(266,567)
INVESTING ACTIVITIES		
Advance payment	**-**	(1,250,000)
Purchase of equipment	**(74,101)**	-
Purchase of intangible assets	**(11,450)**	-
Cash acquired on acquisition of LDRLY	**1,192,010**	-
Cash flow from (used by) investing activities	**1,106,459**	(1,250,000)
FINANCING ACTIVITIES		
Cash acquired from Caprice on Reverse Take Over	**287,643**	-
Common shares issued	**3,497,000**	1,615,000
Share issuance costs paid	**(66,000)**	(66,845)
Warrant exercised	**2,500**	-
Stock options exercised	**11,000**	-
Repayment of lease obligations	**(41,684)**	-
Repayment of loan to director	**-**	1,010
Cash flow from financing activities	**3,690,459**	1,549,165
INCREASE IN CASH FLOW	**7,170,061**	32,598
Cash - beginning of year	**32,598**	-
CASH - END OF YEAR	**$ 7,202,659**	$ 32,598

Supplemental cash flow information *(Note 19)*

See notes to consolidated financial statements

1. NATURE AND CONTINUANCE OF OPERATIONS

Leaf Mobile Inc. (the "Company", "Leaf") was incorporated provincially under the Business Corporations Act of British Columbia on November 29, 2018 as Caprice Business Development Canada Inc. (Caprice), a Capital Pool Company. The head office of the Company is Suite 909 - 510 Burrard Street, Vancouver, British Columbia, V6C 3A8.

LDRLY (Technologies) Inc. ("LDRLY"), a wholly-owned subsidiary of the Company, has been developing a brand in counter culture mobile gaming and is currently an industry leader in the development of cannabis related mobile games. None of LDRLY's games promotes the sale of cannabis, nor do they include any advertisements for cannabis producers or display any use of cannabis. LDRLY was acquired by the Company on April 17, 2020. Refer to Note 4 for details of the acquisition transaction.

On April 17, 2020, the Company received approval from the TSX Venture Exchange ("TSX-V") to close its Qualifying Transaction. As a result, the Company is no longer considered a Capital Pool Company, and on April 21, 2020, the Company resumed trading on the TSX-V under the symbol "LEAF". Refer to Note 5 for details of the Qualifying transaction.

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

These consolidated financial statements have been prepared on a going-concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. The Company's ability to continue as a going concern is dependent upon its ability to generate profits and positive cash flows from operations to successfully integrate acquisitions and to fund the development, launch and growth of new games.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary were the going concern assumption determined to be inappropriate and these adjustments could be material.

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 April 30, 2021.

Basis of measurement

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

Basis of consolidation

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

Comparative balances

The amalgamation transaction as stated in Note 5 constituted a reverse takeover of Leaf by 118Co. Accordingly, the consolidated financial statements are a continuation of the financial statements of 118Co. All prior period comparative amounts are those of 118Co, and include the financial results of the LDRLY acquisition from April 17, 2020.

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2. BASIS OF PRESENTATION *(continued)*

Significant Judgments and estimates

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

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

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

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

(b) Share-based payments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

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

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

In-app purchases

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

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

- Consumables - Consumable virtual items are items that are consumed at a predetermined time or otherwise have limitations on repeated use. They are consumed by a specific action. The Company's performance obligation is satisfied upon consumption, and thus revenue is recognized at a point in time.
- Durables - Durable virtual items are items purchased and the obligation to the paying users is to continue displaying and providing access to the virtual items within the game. The Company's performance obligation is satisfied over time, and thus any revenue arising from durable items is recognized over time.

The Company has assessed its sources of revenue and concluded that there is no material durable revenue arising from its current games.

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.

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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 and advertisements served through its advertising service providers. Therefore, the Company recognizes 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 and advertising service providers. The fees retained by the Digital Storefronts are presented as part of cost of sales.

<u>Cash and cash equivalents</u>

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.

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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.

Intangible assets

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

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

Goodwill

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

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.

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

Research and development

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

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

Impairment of Long Lived Assets

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

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

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

Trade and other payables

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(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.

Loss per share

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

Stock based compensation

The Company has a stock option plan that is described in Note 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 equity reserve, 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 the options reserve is transferred to share capital.

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

Current and deferred income taxes

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

Current Income Tax

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

Deferred Income Tax

Deferred income tax is recognized, using the asset and liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

Government assistance

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

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

Financial instruments

a) Classification

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

b) Measurement

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment. Trade and other receivables, trade and other payables, and trade payables to related party 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 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, 2020 and December 31, 2019, the Company has not classified any financial assets as FVOCI.

c) Impairment of financial asset at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. Regardless of whether credit risk has increased significantly, the loss allowance for trade receivables without a significant financing component classified at amortized cost, are measured using the lifetime expected credit loss approach. The Company shall recognize in the statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(continues)

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

d) Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statements of loss and comprehensive loss.

Foreign currency translation

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

(Presented in Canadian dollars)

4. ACQUISITION OF LDRLY (TECHNOLOGIES) INC.

As noted in Note 1, on April 17, 2020, 100% of the shares of LDRLY were acquired by 118Co pursuant to a share purchase agreement. The consideration paid by 118Co was $1,250,000 in cash and the issuance of 55,187,500 common shares of 118Co with a fair value of $0.16 per share, with references to the private placement completed immediately before the acquisition. Transaction costs for the acquisition were $212,391 and were expensed during the year.

The purchase price allocation for the transaction was determined as follows:

		2020
Consideration		
55,187,500 common shares of 118 Co issued at $0.16	**$**	**8,830,000**
Cash consideration - advanced payment in 2019		**1,250,000**
		10,080,000
Purchase price allocation analysis		
Net assets acquired		
Cash		**1,192,010**
Trade receivables		**2,469,658**
Government assistance receivable		**183,683**
Prepaid expenses and deposits		**87,980**
Equipment		**42,817**
Right-of-use asset		**39,334**
Brand		**1,330,000**
Developed game technology		**5,390,000**
Customer relationships		**1,780,000**
Goodwill		**3,390,020**
Trade and other payables		**(1,315,969)**
Due to related party		**(2,175,600)**
Lease liability		**(41,684)**
Deferred income tax		**(2,292,249)**
		10,080,000

Goodwill recognized in the acquisition pertains to the value of the assembled workforce within the Company in terms of its capability to develop and publish new games and new versions of existing games.

See Note 6 for further details.

(Presented in Canadian dollars)

5. REVERSE ACQUISITION - ACQUISITION OF LEAF MOBILE INC.

On April 17, 2020 immediately following the acquisition of LDRLY, 118Co amalgamated with 1220311 B.C. Ltd, a direct and wholly-owned subsidiary of Caprice to become a direct, wholly-owned subsidiary of Caprice. Caprice changed its name to Leaf Mobile Inc. and remains as the resulting issuer. The transaction constituted the qualifying transaction of Leaf under the policies of the TSX Venture Exchange.

The substance of the transaction was a reverse acquisition of a non-operating company. The transaction does not constitute a business combination since the non-operating Capital Pool Company does not meet the accounting definition of a business. As a result, the transaction has been accounted for as a capital transaction, with 118Co being identified as the accounting acquirer. The fair value of the consideration was measured at the per share price of Leaf's private placement.

118Co (legal subsidiary) has been treated as the accounting parent and Leaf (legal parent) has been treated as the accounting subsidiary in these consolidated financial statements. As 118Co 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.

IFRS 2, Share-based Payments, applies to transactions where an entity grants equity instruments and cannot identify specifically some or all of the goods or services received in return. Since 118Co shareholders have issued shares with a fair value in excess of the net assets received, IFRS 2 would indicate that the difference is recognized in net loss as a public company listing expense.

Caprice acquired all of the issued and outstanding shares of 118Co by issuing one share for each 118Co common share held. Each of the stock options and warrants to purchase common shares of Caprice is exercisable for one common share of Leaf Mobile Inc.

The Company has issued a total of 207,806,250 common shares. Leaf has also completed a private placement of 21,856,250 shares at a price of $0.16 per share for aggregate proceeds of $3,497,000. The agent has received a cash finder's fee of $66,000 and 412,500 brokers warrants which are exercisable into Leaf shares at $0.16 per share for a total value of $90,773.

The purchase price allocation is summarized as follows:

		2020
Consideration		
5,500,000 Caprice shares at a price of $0.16 per share	$	880,000
550,000 stock options		49,217
200,000 warrants		10,553
		939,770
Net assets acquired		
Cash		287,643
Prepaid expenses		2,000
Trade and other payables		(141,815)
Public company listing expense		791,942
		939,770

(Presented in Canadian dollars)

6. BUSINESS COMBINATION DISCLOSURES

IFRS 3, Business combinations, applies to the acquisition of LDRLY (Technologies) Inc. by 1182533 B.C. Ltd. on April 17, 2020. In order to evaluate the nature and financial effect of this business combination, the following information has been provided

LDRLY (Technologies) Inc. Statement of Income for the 258 Days Period Ended December 31, 2020

The amount of revenue and net income of LDRLY (acquiree) subsequent to April 17, 2020 included in the consolidated statement of loss for the reporting period is as follows:

LDRLY revenue	**$ 31,085,253**
LDRLY net income	**1,948,714**

LDRLY (Technologies) Inc. Statement of Income for the Year Ended December 31, 2020

The amount of revenue and net income of LDRLY had the acquisition occurred on January 1, 2020 is as follows:

LDRLY revenue	**$ 37,798,303**
LDRLY net income	**2,379,381**

(Presented in Canadian dollars)

7. FINANCIAL INSTRUMENTS

Categories of financial assets and financial liabilities

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

Financial Instrument	**Category**	**December 31, 2020**	**December 31, 2019**
Cash and cash equivalents	FVTPL	7,202,659	32,598
Trade and other receivables	Amortized Cost	3,244,438	20,511
Trade and other payables	Amortized Cost	1,403,912	108,947
Trade payables to related party	Amortized Cost	7,461,400	124,850

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 trade payables to related party approximates their fair value due to their short-term nature. The Company’s fair value of cash under fair value hierarchy are measured using Level 1 inputs.

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company's main exposure to credit risk relates to its trade receivables. The credit risk is minimal since the majority of the Company's receivables come from large corporations who pay the Company advertising and gaming revenue. There is no bad debt expense in the current or prior periods and in the opinion of management, none of the amounts comprising this balance were considered impaired. As at December 31, 2020, 64% (2019 - 0%) of the Company’s trade receivables was concentrated to three major Digital Storefronts and advertisers. The Company has not had any problems with payment from these Digital Storefronts and advertisers and as such management is of the opinion that any concentration of credit risk is minimal.

(continues)

7. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that it will have sufficient liquidity to meet its obligations. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period.

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, 2020, 1 Canadian Dollar was equal to $0.7854 US Dollar (2019 - $0.7699).

	December 31, 2020		**December 31, 2019**	
	US Dollar	**CDN Equivalent**	**US Dollar**	**CDN Equivalent**
Cash	2,592,224	3,300,514	-	-
Trade and other receivables	1,022,731	1,302,179	-	-
Trade and other payables	(306,413)	(390,136)	-	-

Based on the net exposures as of December 31, 2020 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 loss by approximately $421,255 (2019 - $Nil).

8. TRADE AND OTHER RECEIVABLES

	2020	2019
Trade receivable	**$ 2,719,232**	$ -
Goods and services tax recoverable	**525,206**	20,511
	$ 3,244,438	$ 20,511

There is no bad debt expense for the period. There are no trade receivables owing from related parties, and all trade and other receivables are current.

9. GOVERNMENT ASSISTANCE

During the year the Company claimed $134,436 in tax credits from the British Columbia Interactive Digital Media Tax Credit program, which are offset against cost of sales, selling and development costs.

10. PREPAID EXPENSES AND DEPOSITS

The Company has entered into agreements with several external studios in an effort to develop new video games. Included in prepaid expenses and deposits are amounts paid to external studios in advance related to development and royalty costs of the games under development.

	2020	2019
Prepaid expenses	**$ 116,537**	$ -
Security deposits	**8,315**	-
	$ 124,852	$ -

(Presented in Canadian dollars)

11. EQUIPMENT

Cost	2019 Balance	Additions	Disposals	**2020 Balance**
Computer equipment	$ -	$ 95,401	$ -	**$ 95,401**
Furniture and fixtures	-	21,517	-	**21,517**
Right-of-use asset	-	39,334	-	**39,334**
	$ -	$ 156,252	$ -	**$ 156,252**

Accumulated Depreciation	2019 Balance	Depreciation	Accumulated Depreciation on Disposals	**2020 Balance**
Computer equipment	$ -	$ 23,131	$ -	**$ 23,131**
Furniture and fixtures	-	3,042	-	**3,042**
Right-of-use asset	-	39,334	-	**39,334**
	$ -	$ 65,507	$ -	**$ 65,507**

Net book value	**2020**	2019
Computer equipment	**$ 72,270**	$ -
Furniture and fixtures	**18,475**	-
	$ 90,745	$ -

(Presented in Canadian dollars)

12. INTANGIBLE ASSETS

Cost	2019 Balance	Additions	Disposals	**2020 Balance**
Website development	$ -	$ 11,450	$ -	**$ 11,450**
Brand	-	1,330,000	-	**1,330,000**
Developed game technology	-	5,390,000	-	**5,390,000**
Customer relationships	-	1,780,000	-	**1,780,000**
	$ -	$ 8,511,450	$ -	**$ 8,511,450**

Accumulated Depreciation	2019 Balance	Depreciation	Accumulated Depreciation on Disposals	**2020 Balance**
Website development	$ -	$ 11,450	$ -	**$ 11,450**
Brand	-	199,500	-	**199,500**
Developed game technology	-	808,500	-	**808,500**
Customer relationships	-	667,500	-	**667,500**
	$ -	$ 1,686,950	$ -	**$ 1,686,950**

Net book value	**2020**	2019
Brand	**$ 1,130,500**	$ -
Developed game technology	**4,581,500**	-
Customer relationships	**1,112,500**	-
	$ 6,824,500	$ -

(Presented in Canadian dollars)

13. GOODWILL

	2020	2019
Goodwill	**$ 3,390,020**	$ -

The Company completed its annual assessment as at December 31, 2020, and concluded that there was no goodwill impairment.

14. TRADE AND OTHER PAYABLES

	2020	2019
Trade payables	**$ 1,074,754**	$ 108,947
Wages and bonus payable	**298,251**	-
Employee deductions payable	**30,907**	-
	$ 1,403,912	$ 108,947

15. DEFERRED INCOME TAXES

The following components of deferred income taxes are calculated based on a current year enacted rate of 27% (2019 - 27%). The change in deferred income taxes is $969,180 (2019 - $Nil) and is represented as a deferred income tax recovery on the consolidated statement of loss and comprehensive loss in the years then ended. The deferred income tax assets and liabilities recognized as at December 31 are as follows:

	2020	2019
Property and equipment	**$ (5,637)**	$ -
Intangible assets	**(1,842,615)**	-
Available non-capital loss carryforwards	**525,183**	142,930
Share issue costs	**-**	14,900
Deferred tax assets not recognized	**-**	(157,830)
	$ (1,323,069)	$ -

As at December 31, 2020, the Company had $1,945,124 (2019 - $529,350) of unused non-capital losses. These non-capital losses begin to expire in 2039.

16. SHARE CAPITAL

Authorized:

Unlimited common shares without par value

Share transactions during the year

For the year ended December 31, 2020, the Company had the following transactions:

- LDRLY acquisition
  a) On April 17, 2020, pursuant to the share purchase agreement, 118Co issued 55,187,500 common shares at a fair value of $0.16 per share as part of the consideration for the purchase of LDRLY. As part of the amalgamation agreement, all shares of 118Co were exchanged for Leaf shares on a one to one basis.
- Qualifying transaction
  a) The Company completed a private placement of 21,856,250 shares at a price of $0.16 per share as part of the amalgamation agreement.
  b) As part of the amalgamation transaction, an increase of $880,000 to share capital and $791,942 to listing costs were recorded as consideration for the 5,500,000 Caprice shares transferred to Leaf.
  c) Also as part of the amalgamation transaction, an issuance of 1,000,000 shares was made for the professional fees.
- During the year, 25,000 warrants and 110,000 stock options were exercised.

For the year ended December 31, 2019, the Company had the following transactions:

- On January 9, 2019, the Company issued 1,000,000 common shares as a price of $0.01 per common share for gross proceeds of $10,000. An additional 4,000,000 shares were issued on January 22, 2019 at a price of $0.01 per common share for gross proceeds of $40,000.
- On February 6, 2019, the Company issued 17,125,000 common shares at a price of $0.08 per common share for gross proceeds of $1,370,000. An additional 375,000 shares were issued on February 26, 2019 at a price of $0.08 per common share for gross proceeds of $30,000, and 2,062,500 shares were issued on April 8, 2019 at a price of $0.08 per common share for gross proceeds of $165,000

Escrow shares

Pursuant to the IPO Escrow Agreement from Caprice, 3,500,000 common shares issued are held in escrow pursuant to an escrow agreement dated May 31, 2019. Under the escrow agreement, 25% of the escrowed common shares has been released from escrow on the date of the issuance of the final exchange bulletin (the “Initial Release”) upon completion of a Qualifying Transaction, and an additional 25% will be released every six months following the Initial Release over a period of eighteen months.

Of the 207,806,250 common shares issued by the Company, 122,387,500 shares will be subject to escrow on a Tier 1 surplus security release timeline every six months over a period of eighteen months.

An additional 43,000,000 shares will also be subject to a separate escrow agreement. Under this agreement, 25% has been released upon completion of the Qualifying Transaction and an additional 25% will be released every six months over a period of eighteen months.

As at December 31, 2020, a total of 108,921,250 shares remain in escrow.

(Presented in Canadian dollars)

17. 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.

A summary of the stock options issued are as follows:

- 550,000 stock options issued and granted on July 15, 2019 as part of the Caprice stock option plan. All these stock options have been converted to Leaf stock options upon reverse acquisition of Caprice. These options are exercisable at $0.10 per option for a period of up to 10 years and vested immediately.
- 6,185,189 stock options have been issued and granted on May 19, 2020. These options are exercisable at $0.25 per share and have an exercise period of five years, with 10% of the options vesting immediately and 15% of the options vesting every six months. 4,266,128 of these options were granted to directors and officers of the Company.
- 500,000 stock options have been issued and granted on May 26, 2020. These options are exercisable at $0.40 per share and have an exercise period of five years from the time of issuance, and vest over twelve months, with 25% per quarter commencing on the three month anniversary of issuance.

Details of the stock options are as follows:

	Number	**Weighted Average Exercise Price 2020**	Number	Weighted Average Exercise Price 2019
Outstanding at beginning of year	**-**	**$ -**	-	$ -
Granted	**7,235,189**	**0.25**	-	-
Exercised	**(110,000)**	**0.10**	-	-
Forfeited	**(319,509)**	**0.25**	-	-
Outstanding at end of year	**6,805,680**	**$ 0.25**	-	-

(continues)

(Presented in Canadian dollars)

17. 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 0.36% - 0.42%.
- The expected life of the options ranges from 5 - 10 years.
- The expected volatility is 67.5%.
- The expected forfeiture rate is 4%.
- The expected dividends yield is 0%.

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

Accordingly, during the year, the Company recognized stock based compensation expense of $714,944 (2019 - $Nil).

The weighted average fair value of all share options granted, using the Black Scholes option pricing model, during the year was $0.17 per option (2019 - $Nil). The weighted average remaining contractual life of outstanding share options at December 31, 2020 was 4.65 (2019 - Nil) years.

The following table summarizes information about the share options outstanding and exercisable at December 31, 2020:

Number outstanding	Number exercisable	Exercise price	Expiry date
5,865,680	1,546,297	$ 0.25	May 19, 2025
500,000	250,000	$ 0.40	May 26, 2025
440,000	440,000	$ 0.10	July 15, 2029
6,805,680	2,236,297		

(continues)

(Presented in Canadian dollars)

17. STOCK OPTIONS AND WARRANTS *(continued)*

Warrants

On April 17, 2020, as part of the amalgamation agreement, 200,000 non transferable agent's warrants issued by Caprice have been exchanged to 200,000 warrants of the Company. The warrants are exercisable at a price of $0.10 per share for a period of two years from the issuance date of July 15, 2019.

On April 17, 2020, as part of the agent finder's fee, 412,500 broker warrants exercisable at a price of $0.16 per share have been issued for a period of two years from issuance date.

A summary of the Company’s warrants and the changes for the period are as follows:

	Number	**Weighted Average Exercise Price 2020**	Number	Weighted Average Exercise Price 2019
Outstanding at beginning of year	**-**	**$ -**	-	$ -
Granted	**612,500**	**0.14**	-	-
Exercised	**(25,000)**	**0.10**	-	-
Outstanding at end of year	**587,500**	**$ 0.14**	-	-

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

- The risk free interest rate is 1.34%.
- The expected life of the options is 2 years.
- The expected volatility is 67.5%.
- The expected forfeiture rate is 0%.
- The expected dividends yield is 0%.

The weighted average fair value of all warrants granted, using the Black Scholes option pricing model, during the year was $0.16 per option (2019 - $Nil). The weighted average remaining contractual life of outstanding warrants at December 31, 2020 was 1.07 (2019 - Nil) years.

18. 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.

19. SUPPLEMENTAL CASH FLOW INFORMATION

The following non-cash transactions occurred during the year:

- Shares issued on acquisition of LDRLY (note 4) of $8,830,000
- Shares and contributed surplus on reverse takeover (note 5) of $939,770

(Presented in Canadian dollars)

20. DUE TO RELATED PARTIES

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

	2020	2019
<u>Related party transactions</u>		
Eastside Games Inc.		
Entity with significant influences		
Game support services, included in Cost of sales and development costs	**$ 18,628,035**	$ -
Growthworks Inc.		
Entity with common directorship		
Accounting and administrative services	**$ 141,000**	$ 120,000
Key management personnel		
Management		
Compensation, including stock-based compensation	**$ 550,688**	$ -

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

	2020	2019
Trade payables to related party		
Eastside Games Inc.	**$ 7,461,400**	$ 124,850

The amounts due to related party are unsecured, non-interest bearing, and due on demand with no set repayment terms.

21. EVENTS AFTER THE REPORTING PERIOD

The following events occurred subsequent to the fiscal year end:

Issuance of securities

The Company completed its offering of subscription receipts on February 4, 2021, and the total funds raised were $23,000,000, less the agents' commissions and other related fees of $1,971,750, resulting in net proceeds of $21,028,250. A total of 102,222,222 shares and 6,133,333 compensation warrants were issued.

Acquisition of Eastside Games Inc.

On October 31, 2020, a conditional Share Purchase Agreement (the "SPA") was entered into between the Company and Eastside Games Inc. ("ESG"), and subsequently amended on November 26, 2020, whereby the Company will acquire all of ESG's issued and outstanding shares for the following consideration:

- $10,000,000 in cash consideration, plus a working capital adjustment of $9,325,968;
- 444,444,444 of Leaf's common shares; and
- contingent consideration of $40,000,000, subject to the "Earn Out" clauses as specified in the SPA, with the vendors' option to convert up to 50% of the earn out into the Company's common shares, at a set price of $0.225 per share.

On February 5, 2021, the Company obtained all necessary regulatory approvals and completed the transaction.

As part of the acquisition, a director of the Company granted a loan facility to the Company for an amount up to $10,000,000 commencing February 5, 2021, and bearing interest of 5.0% per annum. The loan facility expires on February 5, 2022.

The share consideration received by ESG has resulted in 58% of voting power of the Company being controlled by the existing shareholders of ESG. As a result, the transaction constitutes a reverse acquisition in accordance with IFRS 3, Business Combinations, with ESG being identified as the acquirer and the Company being the acquiree for accounting purposes. The fair value of the consideration was measured at the share price of $0.225 per share, the Company's quoted price on the date of the transaction.

(continues)

(Presented in Canadian dollars)

21. EVENTS AFTER THE REPORTING PERIOD *(continued)*

The preliminary purchase price allocation based on the reverse take over accounting is summarized as follows:

Preliminary consideration based on the number of Leaf shares outstanding		
213,441,250 shares at a fair value of $0.225 per share	$	48,024,281
Net assets acquired (preliminary allocation)		
Cash and cash equivalent	$	4,422,540
Trade and other receivables		6,091,431
Government assistance receivable		156,315
Prepaid expenses and deposits		99,388
Property and equipment		89,100
Trade and other payables		(9,461,056)
Deferred income taxes		(12,594,366)
Loss carry-forward		133,592
Brand		7,130,000
Developed game technology		11,470,000
Customer relationships		5,010,000
Goodwill		35,477,337
	$	48,024,281

Additional contingent consideration, as noted above, can also be earned by the ESG shareholders.

Stock options and warrants

On February 5, 2021, the Company granted 24,000,000 stock options to the Company's directors at an exercise price of $0.225 per option. 10% of these options vest immediately with the remainder vesting evenly every six months over four years.