

LEAF MOBILE INC.
Condensed Consolidated Interim Financial Statements
(Unaudited – Presented in Canadian Dollars)
For the Three And Six Month Periods Ended June 30, 2021 and 2020

NOTICE OF NO AUDITOR REVIEW OF THE CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021 AND
2020

The accompanying unaudited condensed consolidated interim financial statements of Leaf Mobile Inc. (the “Company”) for the three and six month periods ended June 30, 2021 and 2020 have been prepared by, and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of the Company’s unaudited condensed consolidated interim financial statements for the three month and six periods ended June 30, 2021 and 2020.

LEAF MOBILE INC.
Condensed Consolidated Interim Statement of Financial Position
(Unaudited - Presented in Canadian dollars)
As at June 30, 2021 and December 31, 2020

| | <i>Note</i> | 2021 <i>June 30</i> | 2020 <i>December 31</i> |
|---|-------------|------------------------|----------------------------|
| ASSETS | | | |
| CURRENT | | | |
| Cash and cash equivalents | 4 | \$ 12,279,099 | \$ 4,416,399 |
| Marketable securities | | - | 5,249,052 |
| Trade and other receivables | 7 | 6,745,747 | 12,731,190 |
| Government assistance receivable | 8 | 388,394 | 2,005,998 |
| Prepaid expenses and deposits | 9 | 1,347,810 | 627,445 |
| | | 20,761,050 | 25,030,084 |
| PROPERTY AND EQUIPMENT | 10 | 785,561 | 646,948 |
| INTANGIBLE ASSETS | 11 | 21,016,250 | - |
| GOODWILL | 4 | 30,952,496 | - |
| LONG TERM INVESTMENTS | 12 | 1,875,434 | 8,121,397 |
| PREPAID EXPENSES AND DEPOSIT | 9 | 1,531,958 | 1,531,958 |
| | | \$ 76,922,749 | \$ 35,330,387 |
| LIABILITIES | | | |
| CURRENT | | | |
| Trade and other payables | 15 | \$ 6,439,380 | \$ 4,277,777 |
| Income taxes payable | | 1,224,979 | 3,762,790 |
| Current portion of contingent liabilities | 4 | 19,260,640 | - |
| Current portion of lease obligation | 16 | 181,191 | 174,390 |
| | | 27,106,190 | 8,214,957 |
| LEASE OBLIGATION | 16 | 40,793 | 131,201 |
| CONTINGENT LIABILITIES | 4 | 18,792,738 | - |
| DEFERRED INCOME TAXES | 17 | 5,644,434 | 1,336,703 |
| | | \$ 51,584,155 | \$ 9,682,861 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 18 | 74,577,979 | 2,104,861 |
| Contributed surplus | 19 | 1,161,392 | 1,312,366 |
| Retained earnings (Deficit) | | (50,400,777) | 22,230,299 |
| | | 25,338,594 | 25,647,526 |
| | | \$ 76,922,749 | \$ 35,330,387 |
| COMMITMENT AND CONTINGENCIES | 23 | | |
| EVENTS OCCURRING AFTER THE REPORTING PERIOD | 24 | | |

APPROVED ON BEHALF OF THE BOARD

"Derek Lew" Director

"Mike Edwards" Director

LEAF MOBILE INC.
Condensed Consolidated Interim Statement of Income (Loss)
and Comprehensive Income (Loss)
(Unaudited - Presented in Canadian dollars)
For the Three and Six Month Periods Ended June 30, 2021 and 2020

| | 2021 | 2020 | 2021 | 2020 |
|--|--------------------------|--------------------------|------------------------|------------------------|
| Note | June 30 (three month) | June 30 (three month) | June 30 (six month) | June 30 (six month) |
| REVENUE | | | | |
| Gaming | 22 | \$ 16,473,671 | \$ 15,463,172 | \$ 34,853,902 |
| Advertising | | 6,065,128 | 2,107,034 | 4,639,540 |
| | | 22,538,799 | 17,570,206 | 45,543,785 |
| COST OF SALES | | | | |
| | | 8,525,928 | 5,449,043 | 16,494,242 |
| GROSS PROFIT | | | | |
| | | 14,012,871 | 12,121,163 | 29,049,543 |
| EXPENSES | | | | |
| Research and development | 8 | 3,305,631 | 2,292,806 | 5,840,806 |
| Sales and marketing | | 6,102,685 | 4,961,257 | 14,207,560 |
| General and administrative | | 2,652,917 | 1,828,310 | 6,909,924 |
| Transaction expenses | 4 | 167,815 | - | 1,378,190 |
| Depreciation of property and equipment and right-of use assets | | 85,568 | 67,595 | 166,324 |
| Depreciation of intangible assets | | 1,556,250 | - | 2,593,750 |
| | | 13,870,866 | 9,149,968 | 31,096,554 |
| INCOME (LOSS) BEFORE OTHER INCOME (EXPENSES) | | | | |
| AND INCOME TAXES | | | | |
| | | \$ 142,005 | \$ 2,971,195 | \$ (2,047,011) |
| OTHER INCOME (EXPENSES) | | | | |
| Gain on long term investment | 12 | - | 5,183,921 | 4,953,463 |
| Investment income (loss) | | 29,271 | (275,051) | 198,450 |
| Gain (loss) on foreign exchange | | (441,863) | 384,692 | (606,559) |
| Accretion expense | | (471,388) | - | (748,347) |
| Gain on disposal of property and equipment | | - | - | 2,115 |
| | | (883,980) | 5,293,562 | 3,797,007 |
| INCOME (LOSS) BEFORE INCOME TAXES | | | | |
| | | \$ (741,975) | \$ 8,264,757 | \$ 1,749,996 |
| INCOME TAXES | | | | |
| Current | | 542,903 | 477,291 | 2,967,638 |
| Deferred | 17 | (390,639) | - | (1,583,492) |
| | | 152,264 | 477,291 | 1,384,146 |
| NET AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD | | | | |
| | | \$ (894,239) | \$ 7,787,466 | \$ 365,851 |
| BASIC AND DILUTED NET INCOME (LOSS) PER COMMON SHARE | | | | |
| | | \$ (0.01) | \$ 0.19 | \$ 0.01 |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | | | | |
| | | 76,529,376 | 41,687,890 | 70,270,095 |

LEAF MOBILE INC.
Condensed Consolidated Interim Statement of Changes in Equity
(Unaudited - Presented in Canadian dollars)
For the Three and Six Month Periods Ended June 30, 2021 and 2020

| | <i>Note</i> | Number of shares | Share capital | Contributed surplus | Retained earnings (Deficit) | Total equity |
|--|-------------|-------------------|----------------------|---------------------|--------------------------------|----------------------|
| As at January 1, 2020 | | 41,455,959 | \$ 375,666 | 1,195,419 | \$ 10,152,870 | \$ 11,723,955 |
| Share issuance | | 458,820 | 976,824 | - | - | 976,824 |
| Stock based compensation | | - | - | 456,364 | - | 456,364 |
| Comprehensive loss for the period | | - | - | - | 6,144,779 | 6,144,779 |
| Dividends paid | | - | - | - | (1,014,325) | (1,014,325) |
| As at June 30, 2020 | | 41,914,779 | \$ 1,352,490 | \$ 1,651,783 | \$ 15,283,324 | \$ 18,287,597 |
| As at January 1, 2021 | | 44,444,444 | \$ 2,104,861 | \$ 1,312,366 | \$ 22,230,299 | \$ 25,647,526 |
| Adjustment to the issued common shares of the legal parent at the time of the reverse takeover | 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 | 18 | 426,883 | 960,486 | - | - | 960,486 |
| Stock option exchange | | - | - | (1,255,349) | - | (1,255,349) |
| Stock option exercised | | 118,322 | 442,033 | (195,727) | - | 246,306 |
| Warrants exercised | | 23,867 | 46,318 | (14,490) | - | 31,828 |
| Stock based compensation | 19 | - | - | 1,259,592 | - | 1,259,592 |
| Distribution to shareholders on Reverse Takeover | 4 | - | - | - | (57,733,545) | (57,733,545) |
| Cash dividends paid prior to Reverse Takeover | | - | - | - | (6,300,000) | (6,300,000) |
| Non-cash dividends paid prior to Reverse Takeover | 12, 21 | - | - | - | (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 income for the period | | - | - | - | 365,851 | 365,851 |
| As at June 30, 2021 | | 76,579,863 | \$ 74,577,979 | \$ 1,161,392 | \$ (50,400,777) | \$ 25,338,594 |

LEAF MOBILE INC.
Condensed Consolidated Interim Statement of Cash Flow
(Unaudited - Presented in Canadian dollars)
For the Three and Six Month Periods Ended June 30, 2021 and 2020

| <i>Note</i> | 2021 <i>June 30</i> | 2020 <i>June 30</i> |
|---|------------------------|------------------------|
| OPERATING ACTIVITIES | | |
| Net and comprehensive income (loss) | \$ 365,851 | \$ 6,144,779 |
| Items not affecting cash: | | |
| Depreciation of property and equipment and right-of-use asset | 166,324 | 134,302 |
| Depreciation of intangible assets | 2,593,750 | - |
| Deferred income tax recovery | (1,583,492) | - |
| Share based payments | 1,038,486 | - |
| Gain on disposal of marketable securities | (198,450) | - |
| Gain on long term investments | (4,895,791) | - |
| Gain on disposal of subsidiary | - | (5,183,921) |
| Unrealized loss on marketable securities | - | 144,843 |
| Accretion expense on contingent liabilities | 748,348 | - |
| Stock based compensation | 3,164,810 | 456,364 |
| Changes in non-cash working capital | | |
| Trade and other receivables | 4,598,983 | (2,236,613) |
| Government assistance receivable | 1,752,040 | (499,326) |
| Prepaid expenses | (620,977) | 2,120,522 |
| Trade and other payables | (917,641) | 3,747,016 |
| Income taxes payable | (2,537,811) | - |
| Cash flow from (used in) operating activities | <u>\$ 3,674,430</u> | <u>\$ 4,827,966</u> |
| INVESTING ACTIVITIES | | |
| Net proceeds from disposal of marketable securities | 5,447,502 | 2,124,908 |
| Purchase of equipment | (215,837) | (32,911) |
| Addition to long term investment | (1,275,434) | (389,455) |
| Cash flow from investing activities | <u>\$ 3,956,231</u> | <u>\$ 1,702,542</u> |
| FINANCING ACTIVITIES | | |
| Cash acquired from Reverse Takeover | 4,422,540 | - |
| 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 | - |
| Stock options exercised | 246,306 | 976,824 |
| Dividends paid | - | (1,014,325) |
| Advances to related parties | - | (2,330,591) |
| Warrants exercised | 31,828 | - |
| Refundable taxes paid | (1,818,171) | - |
| Refundable taxes recovered | 2,033,408 | - |
| Repayment of lease obligation | (83,607) | (71,429) |
| Cash flow used in financing activities | <u>\$ 232,039</u> | <u>\$ (2,439,521)</u> |
| INCREASE IN CASH | \$ 7,862,700 | \$ 4,090,987 |
| Cash - beginning of period | 4,416,399 | 2,030,226 |
| CASH - END OF PERIOD | \$ 12,279,099 | \$ 6,121,213 |

Supplemental cash flow information

21

LEAF MOBILE INC.
Notes to Condensed Consolidated Interim Financial Statements
(Presented in Canadian dollars)
For the Three and Six Month Periods Ended June 30, 2021 and 2020

1. NATURE AND CONTINUANCE OF OPERATIONS

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

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

These condensed consolidated interim 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 condensed consolidated interim 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.

LEAF MOBILE INC.
Notes to Condensed Consolidated Interim Financial Statements
(Presented in Canadian dollars)
For the Three and Six Month Periods Ended June 30, 2021 and 2020

2. BASIS OF PRESENTATION

Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, using accounting policies consistent 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").

These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements of Leaf and ESG for the years ended December 31, 2020 and 2019, which have been prepared in accordance with IFRS as issued by the IASB. The accounting policies followed in these condensed consolidated interim financial statements are consistent with those applied in the Company's financial statements for the years ended December 31, 2020 and 2019. The disclosures which follow do not include all disclosures required for the annual financial statements.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 16, 2021.

Basis of measurement

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

Basis of consolidation

The condensed consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiaries, Eastside Games Inc. ("ESG"), 1182533 B.C. Ltd. ("118Co"), LDRLY (Technologies) Inc. ("LDRLY") and Keh Kaw Games Inc. ("KKG"), all 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 condensed consolidated interim financial statements from the respective dates of acquisition or incorporation. All intercompany balances and transactions have been eliminated.

Comparative balances

The transaction as stated in Note 4 constituted a reverse takeover of Leaf by ESG. Accordingly, the condensed consolidated interim financial statements are a continuation of the financial statements of ESG. All prior period comparative amounts are those of ESG and the current year period includes the financial results of Leaf / LDRLY (the "acquiree") from February 5, 2021. The prior period share and stock option amounts for ESG were retrospectively restated to reflect the share exchange ratio in the merger between LEAF and ESG which was 9.48.

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

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LEAF MOBILE INC.
Notes to Condensed Consolidated Interim Financial Statements
(Presented in Canadian dollars)
For the Three and Six Month Periods Ended June 30, 2021 and 2020

2. BASIS OF PRESENTATION (*continued*)

Significant Judgments and estimates

The preparation of condensed consolidated interim 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 condensed consolidated interim 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

These condensed consolidated interim financial statements have been prepared following the same accounting policies used in the preparation of the audited consolidated financial statements of the Company and ESG for the years ended December 31, 2020 and 2019.

LEAF MOBILE INC.
Notes to Condensed Consolidated Interim Financial Statements
(Presented in Canadian dollars)
For the Three and Six Month Periods Ended June 30, 2021 and 2020

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:

- Cash consideration of \$10,000,000, plus a working capital adjustment of \$10,428,514, with \$1,100,000 being held in escrow for a period of 12 months;
- Share consideration of 44,444,444 Leaf shares; and
- \$40,000,000 in contingent consideration, with a present value of \$37,305,031, upon the Company reaching certain milestones. At the option of the vendors, the contingent consideration 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 consideration becomes payable based on the following:
 - \$20,000,000 if Leaf achieves \$100,000,000 in gross revenue in the first 12 months following transaction close date; and
 - \$20,000,000 if Leaf achieves \$125,000,000 in gross revenue in the second 12 months following transaction close date. The Company estimates that the contingent consideration will be paid and has accrued the present value of the expected payments as contingent liabilities. However, if the above targets are not achieved no additional payments will be made to the vendors.

The cash consideration, working capital adjustment and estimated contingent consideration totalling \$57,733,545 are payments from Leaf to its shareholders and have been included as part of dividends and distributions to shareholders in the condensed consolidated interim statement of changes in equity.

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 acquirer 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 condensed consolidated interim 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 June 30, 2021, cash of \$1,100,000 remains held in escrow pursuant to the share purchase agreement. This restricted amount is included in the total cash and cash equivalents on the statement of financial position.

Transaction costs for the reverse acquisition were \$1,210,375 and were expensed during the period.

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LEAF MOBILE INC.
Notes to Condensed Consolidated Interim Financial Statements
(Presented in Canadian dollars)
For the Three and Six Month Periods Ended June 30, 2021 and 2020

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

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

Consideration

| | |
|---|---------------|
| 31,566,347 Leaf shares at a price of \$2.25 per share | \$ 71,024,281 |
| 44,000 stock options | 55,000 |
| | \$ 71,079,281 |

Net assets acquired

| | |
|----------------------------------|---------------|
| Cash | \$ 4,422,540 |
| Trade and other receivables | 6,091,431 |
| Subscription proceeds receivable | 21,028,250 |
| Government assistance receivable | 134,436 |
| Prepaid expenses and deposits | 99,388 |
| Property and equipment | 89,100 |
| Trade and other payables | (9,457,136) |
| Deferred income taxes | (5,891,224) |
| Brand | 7,130,000 |
| Developed game technology | 11,470,000 |
| Customer relationships | 5,010,000 |
| Goodwill | 30,952,496 |
| | \$ 71,079,281 |

LEAF MOBILE INC.
Notes to Condensed Consolidated Interim Financial Statements
(Presented in Canadian dollars)
For the Three and Six Month Periods Ended June 30, 2021 and 2020

5. 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 period from February 5, 2021 to June 30, 2021

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

| | |
|----------|---------------|
| Revenue | \$ 20,175,016 |
| Net loss | \$ 4,188,332 |

Leaf Mobile Inc. Statement of Loss for the six month period ended June 30, 2021

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

| | |
|----------|---------------|
| Revenue | \$ 25,978,204 |
| Net loss | \$ 5,432,278 |

LEAF MOBILE INC.
Notes to Condensed Consolidated Interim Financial Statements
(Presented in Canadian dollars)
For the Three and Six Month Periods Ended June 30, 2021 and 2020

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 | June 30, 2021 | December 31, 2020 |
|-----------------------------|-----------------|----------------------|--------------------------|
| Cash and cash equivalents | FVTPL | 12,279,099 | 4,416,399 |
| Marketable securities | FVTPL | - | 5,249,052 |
| Trade and other receivables | Amortized Cost | 6,745,747 | 12,731,190 |
| Trade and other payables | Amortized Cost | 6,439,380 | 4,277,777 |
| Contingent liabilities | Amortized Cost | 38,053,378 | - |

Fair value

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

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

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

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

The carrying values of trade and other receivables, trade and other payables, and contingent liabilities 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 June 30, 2021, 80% (December 31, 2020 - 64%) 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.

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LEAF MOBILE INC.
Notes to Condensed Consolidated Interim Financial Statements
(Presented in Canadian dollars)
For the Three and Six Month Periods Ended June 30, 2021 and 2020

6. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk

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

Currency risk

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

At June 30, 2021, 1 Canadian Dollar was equal to \$0.8184 US Dollar (December 31, 2020 - \$0.7854).

| | June 30, 2021 | | December 31, 2020 | |
|-----------------------------|---------------|----------------|-------------------|----------------|
| | US Dollar | CDN Equivalent | US Dollar | CDN Equivalent |
| Cash | 6,695,000 | 8,810,620 | 1,536,544 | 1,956,384 |
| Marketable securities | - | - | 2,260,201 | 2,877,771 |
| Trade and other receivables | 3,892,711 | 4,756,503 | 2,941,181 | 3,744,819 |
| Trade and other payables | (1,319,779) | (1,612,638) | (1,123,091) | (1,429,961) |

Based on the net exposures as of June 30, 2021 and assuming that all other variables remain constant, a 10% fluctuation on the Canadian Dollar against the US Dollar would result in a change to the Company's net income by approximately \$1,029,499 (December 31, 2020 - \$561,484).

7. TRADE AND OTHER RECEIVABLES

| | 2021 <i>June 30</i> | 2020 <i>December 31</i> |
|-------------------------------------|------------------------|----------------------------|
| | Trade receivable | \$ 5,962,281 |
| Trade receivable from related party | - | 7,470,805 |
| Goods and services tax recoverable | 783,466 | - |
| | \$ 6,745,747 | \$ 12,731,190 |

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

LEAF MOBILE INC.
Notes to Condensed Consolidated Interim Financial Statements
(Presented in Canadian dollars)
For the Three and Six Month Periods Ended June 30, 2021 and 2020

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 Interactive Digital Media Tax Credits (“BC IDMTC”). As at June 30, 2021, the Company has an amount receivable from these government assistance programs of \$388,394 (December 31, 2020 - \$2,005,998).

During the period, the Company claimed SR&ED ITC of \$101,622 (2020 - \$Nil) and BC IDMTC of \$152,336 (2020 - \$Nil), which are offset against research and development expenses.

9. 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. The Company is also committed to pay royalties over and above prepaid minimum guarantees on these games in the future based on a percentage of sales less certain eligible costs.

| | 2021 | 2020 |
|---------------------------------|---------------------|--------------------|
| | <i>June 30</i> | <i>December 31</i> |
| Prepaid royalties - current | \$ 672,529 | \$ 233,543 |
| Other prepaid expenses | 639,325 | 359,058 |
| Security deposits | 35,957 | 34,844 |
| Prepaid expenses and deposits | \$ 1,347,810 | \$ 627,445 |
| Prepaid royalties - non-current | 1,531,958 | 1,531,958 |
| | \$ 2,879,768 | \$ 2,159,403 |

LEAF MOBILE INC.
Notes to Condensed Consolidated Interim Financial Statements
(Presented in Canadian dollars)
For the Three and Six Months Period Ended June 30, 2021 and 2020

10. PROPERTY AND EQUIPMENT

| | Computer equipment | Computer software | Furniture and fixture | Right-of-use asset | Total |
|---------------------------------|-------------------------------|------------------------------|----------------------------------|-------------------------------|--------------|
| Cost | | | | | |
| Balance at January 1, 2020 | \$ 616,382 | \$ 227,561 | \$ 62,576 | \$ 581,874 | \$ 1,488,393 |
| Additions | 114,244 | 8,961 | - | - | 123,205 |
| Disposals | - | - | - | - | - |
| Balance at December 31, 2020 | \$ 730,626 | \$ 236,522 | \$ 62,576 | \$ 581,874 | \$ 1,611,598 |
| Additions | 339,512 | 30,076 | - | - | 369,589 |
| Disposals | - | - | - | - | - |
| Balance at June 30, 2021 | \$ 1,070,138 | \$ 266,598 | \$ 62,576 | \$ 581,874 | \$ 1,981,187 |
| Accumulated depreciation | | | | | |
| Balance at January 1, 2020 | \$ 364,976 | \$ 78,391 | \$ 62,576 | \$ 158,693 | \$ 664,636 |
| Depreciation for the year | 109,695 | 31,626 | - | 158,693 | 300,014 |
| Disposals | - | - | - | - | - |
| Balance at December 31, 2020 | \$ 474,671 | \$ 110,017 | \$ 62,576 | \$ 317,386 | \$ 964,650 |
| Depreciation for the period | 125,040 | 26,589 | - | 79,346 | 230,976 |
| Disposals | - | - | - | - | - |
| Balance at June 30, 2021 | \$ 599,711 | \$ 136,606 | \$ 62,576 | \$ 396,732 | \$ 1,195,626 |
| Carrying value | | | | | |
| At December 31, 2020 | \$ 255,955 | \$ 126,505 | \$ - | \$ 264,488 | \$ 646,948 |
| At June 30, 2021 | \$ 470,427 | \$ 129,992 | \$ - | \$ 185,142 | \$ 785,561 |

LEAF MOBILE INC.
Notes to Condensed Consolidated Interim Financial Statements
(Presented in Canadian dollars)
For the Three and Six Months Period Ended June 30, 2021 and 2020

11. INTANGIBLE ASSETS

| | Brand | Developed game technologies | Customer relationships | Total |
|---------------------------------|---------------------|--|-----------------------------------|----------------------|
| Cost | | | | |
| Balance at January 1, 2021 | \$ - | \$ - | \$ - | \$ - |
| Additions | 7,130,000 | 11,470,000 | 5,010,000 | 23,610,000 |
| Disposals | - | - | - | - |
| Balance at June 30, 2021 | \$ 7,130,000 | \$ 11,470,000 | \$ 5,010,000 | \$ 23,610,000 |
| Accumulated depreciation | | | | |
| Balance at January 1, 2021 | \$ - | \$ - | \$ - | \$ - |
| Depreciation for the period | 594,167 | 955,833 | 1,043,750 | 2,593,750 |
| Disposals | - | - | - | - |
| Balance at June 30, 2021 | \$ 594,167 | \$ 955,833 | \$ 1,043,750 | \$ 2,593,750 |
| Carrying value | | | | |
| At December 31, 2020 | \$ - | \$ - | \$ - | \$ - |
| At June 30, 2021 | \$ 6,535,833 | \$ 10,514,167 | \$ 3,966,250 | \$ 21,016,250 |

LEAF MOBILE INC.
Notes to Condensed Consolidated Interim Financial Statements
(Presented in Canadian dollars)
For the Three and Six Months Period Ended June 30, 2021 and 2020

12. LONG TERM INVESTMENTS

| | 2021 | 2020 |
|--|----------------|--------------------|
| | <i>June 30</i> | <i>December 31</i> |
| Leaf Mobile (i) | \$ - | \$ 7,521,397 |
| Creative Labs Limited Partnership (ii) | 500,000 | 500,000 |
| Night Garden Studio Inc. (iii) | 100,000 | 100,000 |
| Truly Social Games Inc. (iv) | 1,275,434 | - |
| | \$ 1,875,434 | \$ 8,121,397 |

- i. The 5,518,750 Leaf shares were adjusted to their fair value and distributed to option holders and shareholders of ESG upon the reverse acquisition of Leaf and a gain of \$4,953,463 was recognized and a stock based charge of \$1,905,217 was recorded in general and administrative expenses for this stock option exchange.
 - ii. The Company entered into a subscription agreement Creative Labs L.P. on December 5, 2016 and committed to subscribe for 500,000 units of the partnership and enter the partnership as a limited partner. As at March 31, 2021, 500,000 (December 31, 2020 – 500,000) of the committed units have been funded. The investment has been accounted for using the cost method.
 - iii. The Company entered into a Share Purchase Agreement with Night Garden Studio Inc. (“Night Garden”) on November 15, 2020 to purchase 37,500 common shares of Night Garden for a purchase price of \$100,000. This transaction has resulted in 25% ownership in Night Garden and has been accounted for using the equity method.
 - iv. The Company entered into a Definitive Agreement to acquire Truly Social Games Inc. (“TSG”) on June 22, 2021. The Company initially acquired 20% of TSG in July 2021 in exchange for an initial investment of up to \$3,000,000 which will be used by TSG to develop new game titles. The Company is committed to increasing its ownership position if certain performance targets are met. The remaining 80% ownership position would be purchased for \$19,000,000, to be paid in LEAF shares on the achievement of defined revenue targets by June 2024. The Company is also committed to a \$15,000,000 payment to TSG, also in LEAF shares, on the achievement of TSG achieving defined revenue targets by June 2027. The \$1,275,434 categorized as a long term investment at June 30, 2021 represents an advance made by the Company towards the \$3,000,000 commitment noted above.
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LEAF MOBILE INC.
Notes to Condensed Consolidated Interim Financial Statements
(Presented in Canadian dollars)
For the Three and Six Months Period Ended June 30, 2021 and 2020

13. DISPOSAL OF SUBSIDIARY

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

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

The gain on sale of LDRLY is calculated as follows:

| | |
|--------------------------------|-------------------------|
| Consideration received | |
| Cash | \$ 1,250,000 |
| Share consideration | 8,830,000 |
| | <u>10,080,000</u> |
| Net assets disposed of | <u>(482,229)</u> |
| Gain of sale of subsidiary | <u>\$ 9,597,771</u> |

LEAF MOBILE INC.
Notes to Condensed Consolidated Interim Financial Statements
(Presented in Canadian dollars)
For the Three and Six Months Period Ended June 30, 2021 and 2020

14. BANK INDEBTEDNESS

The Company has an authorized \$13,500,000 operating line of credit, bearing interest up to 5%. No amounts have been drawn as at June 30, 2021.

15. TRADE AND OTHER PAYABLES

| | 2021 | 2020 |
|--------------------------------|---------------------|---------------------|
| | <i>June 30</i> | <i>December 31</i> |
| Trade payables | \$ 5,719,540 | \$ 3,941,678 |
| Wages and vacation payable | 719,841 | 154,386 |
| Goods and services tax payable | - | 181,713 |
| | \$ 6,439,380 | \$ 4,277,777 |

16. LEASE OBLIGATION

The lease obligation has been measured by discounting future lease payments using the Company's incremental borrowing rate at January 1, 2020. The weighted-average rate applied is 12%. Rates implicit in the leases were not readily determinable. Interest expense on lease obligations for the three months period ended June 30, 2021 was \$25,524 (December 31, 2020 - \$46,625) and is included in general and administrative expenses.

| | 2021 | 2020 |
|--|------------------|--------------------|
| | <i>June 30</i> | <i>December 31</i> |
| Opening balance | \$ 305,591 | \$ 454,821 |
| Lease payments, net of interest recognized | (83,607) | (149,230) |
| | 221,984 | 305,591 |
| Current portion of lease obligation | 181,191 | 174,390 |
| | \$ 40,793 | \$ 131,201 |

LEAF MOBILE INC.
Notes to Condensed Consolidated Interim Financial Statements
(Presented in Canadian dollars)
For the Three and Six Months Period Ended June 30, 2021 and 2020

17. DEFERRED INCOME TAXES

The following components of deferred income taxes are calculated based on a current period enacted rate of 27% (December 31, 2020 - 27%). The change in deferred income taxes is \$1,583,492 (2020 - \$Nil) and is represented as a deferred income tax recovery on the condensed consolidated interim statement of income (loss) and comprehensive income (loss). The deferred income tax assets and liabilities recognized as at June 30, 2021 are as follows:

| | 2021 | 2020 |
|---|-----------------------|-----------------------|
| | <i>June 30</i> | <i>December 31</i> |
| Marketable securities | \$ - | \$ (74,855) |
| Long term investments | - | (895,436) |
| Property and equipment | 52,504 | 92,490 |
| Right-of-use assets and lease obligations | 9,947 | 11,098 |
| Intangible assets | (5,674,388) | - |
| Loss carryforwards | 36,070 | - |
| Government tax credits | (68,569) | (470,000) |
| | \$ (5,644,434) | \$ (1,336,703) |

LEAF MOBILE INC.
Notes to Condensed Consolidated Interim Financial Statements
(Presented in Canadian dollars)
For the Three and Six Months Period Ended June 30, 2021 and 2020

18. SHARE CAPITAL

Authorized:

Unlimited common shares of Leaf without par value

Share transactions during the period

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

For the six month period ended June 30, 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 426,882 shares as advisory fees, valued at \$960,486.
- During the period, 118,322 warrants were exercised and 23,867 options were exercised.

Escrow shares

Pursuant to the IPO Escrow Agreement from Leaf, 350,000 common shares issued are held in escrow pursuant to an escrow agreement dated May 31, 2019. In connection with the graduation to the TSX, the Company qualifies as a Tier 1 issuer and has made application to be designated as such which automatically adjusts the escrow release schedule. If approved, an additional 122,500 common shares will be released from escrow upon approval, with the remaining 87,500 common shares to be released on October 17, 2021.

In aggregate 12,238,750 common shares were placed in escrow pursuant to a “surplus shares” escrow agreement dated April 17, 2020. The shares are released in various percentages over a three year period. In aggregate 4,283,562 common shares have been released from such escrow and 7,955,187 common shares remain subject to such escrow. As noted above, if Tier 1 issuer status is approved, an additional 4,895,500 common shares will be released from escrow upon approval, with the remaining 3,059,687 common shares to be released on October 17, 2021.

An additional 4,300,000 shares were placed in escrow pursuant to a “value” escrow agreement dated April 17, 2020. Under this agreement 25% were released upon completion of the Qualifying Transaction and an additional 25% will be released every six months over a period of three years. Accordingly, in aggregate 1,720,000 common shares have been released from such escrow and in aggregate 2,580,000 common shares remain subject to such escrow. As noted above, if Tier 1 issuer status is approved, an additional 1,505,000 common shares will be released from escrow upon approval, with the remaining 1,075,000 common shares to be released on October 17, 2021.

As at June 30, 2021, a total of 10,745,187 shares remain in escrow as a result of the above regulatory requirements.

Former ESG shareholders have 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.

LEAF MOBILE INC.
Notes to Condensed Consolidated Interim Financial Statements
(Presented in Canadian dollars)
For the Three and Six Months Period Ended June 30, 2021 and 2020

19. STOCK OPTIONS AND WARRANTS

Stock options

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

Details of the stock options, reflecting ESG options in 2020 updated for the share exchange ratio of 9.48 on reverse takeover and the 10-for-1 share consolidation, are as follows:

| | Number | Weighted Average Exercise Price 2021 <i>June 30</i> | Number | Weighted Average Exercise Price 2020 <i>December 31</i> |
|-------------------------------------|------------------|---|-------------|---|
| Outstanding at beginning of period | 2,372,351 | \$ 0.80 | 7,735,218 | \$ 0.40 |
| Previously issued from legal parent | 680,568 | 2.50 | - | - |
| Granted | 2,459,302 | 2.30 | 408,625 | 1.20 |
| Exercised | (118,322) | 1.00 | (4,996,658) | 0.30 |
| Exchanged | (2,372,351) | 0.80 | - | - |
| Forfeited | (601) | 2.50 | (774,834) | 0.80 |
| Outstanding at end of period | 3,020,947 | \$ 2.32 | 2,372,351 | \$ 0.80 |

(continues)

LEAF MOBILE INC.
Notes to Condensed Consolidated Interim Financial Statements
(Presented in Canadian dollars)
For the Three and Six Months Period Ended June 30, 2021 and 2020

19. 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% - 0.48%.
- 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 period, the Company recognized stock-based compensation expense of \$1,038,486 (2020 - \$456,364).

The weighted average fair value of all share options granted, using the Black Scholes option pricing model, during the period was \$1.20 per option (2020 - \$1.20). The weighted average remaining contractual life of outstanding share options at June 30, 2021 was 4.49 years (2020 – 0.80 years).

(continues)

LEAF MOBILE INC.
Notes to Condensed Consolidated Interim Financial Statements
(Presented in Canadian dollars)
For the Three and Six Months Period Ended June 30, 2021 and 2020

19. STOCK OPTIONS AND WARRANTS *(continued)*

Warrants

Details of the warrants issued are as follows:

| | Number | Weighted Average Exercise Price 2021 <i>June 30</i> | Number | Weighted Average Exercise Price 2020 <i>December 31</i> |
|-------------------------------------|-----------------|---|--------|---|
| Outstanding at beginning of period | - | \$ - | - | \$ - |
| Previously issued from legal parent | 672,083 | 2.20 | - | - |
| Exercised | (23,867) | 1.33 | - | - |
| Forfeited | - | - | - | - |
| Outstanding at end of period | 648,216 | \$ 2.25 | - | \$ - |

Of the total warrants previously issued from legal parent, 613,333 warrants were issued as part of the share issuance in February 2021. These warrants are exercisable at \$2.25 per warrant for a period of two years from the issuance date of February 5, 2021.

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

- The risk-free interest rate ranges from 0.20% - 1.34%.
- The expected life of the warrants is 2 years.
- The expected volatility is 67.5%.
- The expected forfeiture rate is 0%.
- The expected dividends yield is 0%.

The weighted average fair value of all warrants granted, using the Black Scholes option pricing model, during the year was \$2.20 per warrant (2020 - \$Nil). The weighted average remaining contractual life of outstanding warrants at June 30, 2021 was 1.55 years (2020 - Nil years)

LEAF MOBILE INC.
Notes to Condensed Consolidated Interim Financial Statements
(Presented in Canadian dollars)
For the Three and Six Months Period Ended June 30, 2021 and 2020

20. 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.

21. SUPPLEMENTAL CASH FLOW INFORMATION

The following non-cash transaction occurred during the period:

- Shares and contributed surplus on reverse takeover (Note 4) of \$71,024,281 and \$55,000, respectively;
 - Non-cash dividends of \$9,178,619; and
 - Non-cash stock option exchange of \$3,160,569.
-

LEAF MOBILE INC.
Notes to Condensed Consolidated Interim Financial Statements
(Presented in Canadian dollars)
For the Three and Six Months Period Ended June 30, 2021 and 2020

22. RELATED PARTIES

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

| | 2021 | 2020 |
|---|-----------------------|--------------------|
| | <i>June 30</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 | \$ 3,539,918 | \$18,628,035 |
| Haymarket Investments Inc. <i>Entity with common directorship</i> | | |
| Advisory services | \$ 960,486 | \$ - |
| Growthworks Capital Ltd. <i>Entity with common directorship</i> | | |
| Accounting and administrative services | \$ 169,900 | \$ - |

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.

23. COMMITMENTS AND CONTINGENCIES

See note 4 for contingent consideration related to the acquisition of ESG.

See note 12 for commitments related to the investment in Truly Social.

The Company has minimum guarantees of approximately \$1.1 million for certain intellectual property rights.

24. EVENTS OCCURRING AFTER THE REPORTING PERIOD

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