



**Condensed Interim Consolidated Financial  
Statements of  
POPREACH CORPORATION  
(Unaudited)**

**For the three and nine months ended September 30, 2021 and 2020**

**POPREACH CORPORATION**

**Condensed Interim Consolidated Statements of Financial Position**

As at September 30, 2021 and December 31, 2020 (unaudited - in US dollars, unless otherwise stated)

	September 30 2021	December 31 2020
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 11,582,698	\$ 18,097,649
Trade and other receivables (note 4)	1,797,190	1,167,123
Investment tax credits receivable	351,694	466,619
Investment in lease receivable (note 10)	55,640	50,552
Prepaid assets	343,248	297,258
	<u>14,130,470</u>	<u>20,079,201</u>
Property and equipment (note 5)	203,920	184,220
Intangible assets (notes 6 and 7)	9,635,887	5,116,926
Goodwill (notes 6 and 7)	2,605,933	6,084
Investment tax credits receivable	503,739	242,015
Right-of-use asset (note 9)	326,013	138,581
Deferred cost of sales (note 2)	256,608	-
Investment in lease receivable (note 10)	57,699	100,164
Deferred tax asset	68,006	67,340
	<u>27,788,275</u>	<u>25,934,531</u>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:		
Trade and other payables	1,214,557	869,081
Income taxes payable	75,432	43,062
Deferred revenue	2,491,754	912,475
Lease liabilities (note 9)	261,104	208,302
Borrowings (note 11)	1,213,931	1,200,418
Provisions (note 12)	-	100,000
Derivative financial instruments (note 13)	1,214,518	4,546,471
	<u>6,471,296</u>	<u>7,879,809</u>
Non-current liabilities:		
Deferred revenue	116,189	-
Lease liabilities (note 9)	199,958	113,264
Borrowings (note 11)	4,141,008	4,832,445
Provisions (note 12)	1,449,000	-
Employee benefit obligations (note 15)	408,510	588,855
	<u>12,785,961</u>	<u>13,414,373</u>
Shareholders' equity:		
Share capital (note 17)	24,644,738	24,575,987
Warrant reserve (note 18)	47,585	50,176
Share-based payment reserve (note 19)	1,378,051	1,170,499
Accumulated other comprehensive loss	(17,122)	(53,759)
Deficit	(11,050,938)	(13,222,745)
	<u>15,002,314</u>	<u>12,520,158</u>
	<u>27,788,275</u>	<u>25,934,531</u>

See accompanying notes to the condensed interim consolidated financial statements.

On behalf of the Board:

/s/ Mike Vorhaus Director

/s/ Christopher Locke Director

**POPREACH CORPORATION**

**Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)**

For the three and nine months ended September 30, 2021 and 2020 (unaudited - in US dollars, unless otherwise stated)

	Three months ended		Nine months ended	
	2021	2020	2021	2020
Revenue (notes 2 and 24):				
In-App purchases	\$ 3,978,677	\$ 4,185,045	\$ 12,095,166	\$ 13,342,779
Advertising and other	242,217	151,184	644,714	572,320
	4,220,894	4,336,229	12,739,880	13,915,099
Cost of sales (notes 2, 25 and 26)	1,493,670	1,654,638	4,585,489	6,061,451
Gross profit	2,727,224	2,681,591	8,154,391	7,853,648
Operating expenses:				
Research and development (note 25)	817,519	741,280	2,709,703	2,054,691
General and administrative (notes 25 and 26)	1,082,759	800,151	2,868,015	2,026,169
Marketing (note 26)	906,048	216,126	1,791,833	469,687
Interest and accretion expenses	213,749	207,941	497,623	939,065
Amortization	474,220	743,314	1,366,459	2,212,232
	3,494,295	2,708,812	9,233,633	7,701,844
Non-operating income (expenses):				
Fair value loss (gain) on financial liabilities (note 14)	(286,398)	(514,027)	3,314,998	(2,154,081)
Reverse takeover listing expense (note 27)	-	(28,115)	-	(1,008,834)
	(286,398)	(542,142)	3,314,998	(3,162,915)
Income (loss) before income taxes	(1,053,469)	(569,363)	2,235,756	(3,011,111)
Current tax expense (recovery)	24,000	(13,058)	77,329	45,125
Deferred tax recovery	(7,687)	(37,846)	(13,380)	(37,846)
Net income (loss)	(1,069,782)	(518,459)	2,171,807	(3,018,390)
Other comprehensive income:				
Employee benefit obligations actuarial earnings (loss), net of income tax (note 15)	9,472	33,228	36,637	47,959
Comprehensive income (loss)	(1,060,310)	(485,231)	2,208,444	(2,970,431)
Basic earnings (loss) per share (note 17)	(0.01)	(0.01)	0.03	(0.07)
Diluted earnings (loss) per share (note 17)	(0.01)	(0.01)	0.03	(0.07)

See accompanying notes to the condensed interim consolidated financial statements.

**POPREACH CORPORATION**

**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficit)**

For the nine months ended September 30, 2021 and 2020 (unaudited - in US dollars, unless otherwise stated)

	Number of shares	Share capital (note 17)	Warrant reserve (note 18)	Share-based payment reserve (note 19)	Accumulated other comprehensive income (loss)	Deficit	Total
January 1, 2021	73,048,686	24,575,987	50,176	1,170,499	(53,759)	(13,222,745)	12,520,158
Share-based compensation	-	-	-	207,552	-	-	207,552
Exercise of warrants – derivative liability	44,568	47,103	-	-	-	-	47,103
Exercise of warrants – equity	30,000	21,648	(2,591)	-	-	-	19,057
Comprehensive income	-	-	-	-	36,637	2,171,807	2,208,444
September 30, 2021	73,123,254	24,644,738	47,585	1,378,051	(17,122)	(11,050,938)	15,002,314
January 1, 2020	38,930,665	3,141,880	382,155	694,309	(30,404)	(6,921,521)	(2,733,581)
Share-based compensation	-	-	-	130,779	-	-	130,779
Warrants issued during the period	-	-	12,684	-	-	-	12,684
Conversion of convertible debentures	7,744,273	3,342,625	-	-	-	-	3,342,625
Exercise of warrants – equity	1,558,999	360,440	(360,425)	-	-	-	15
Exercise of share-based payments	250,031	85,036	-	(35,991)	-	-	49,045
Comprehensive income (loss)	-	-	-	-	47,959	(3,018,390)	(2,970,431)
Reverse takeover	3,750,000	1,981,215	34,303	75,915	-	-	2,091,433
September 30, 2020	52,233,968	8,911,196	68,717	865,012	17,555	(9,939,911)	(77,431)

See accompanying notes to the condensed interim consolidated financial statements.

**POPREACH CORPORATION**
**Condensed Interim Consolidated Statements of Cash Flows**

For the nine months ended September 30, 2021 and 2020 (unaudited - in US dollars, unless otherwise stated)

	Nine months ended	
	2021	2020
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 2,171,807	\$ (3,018,390)
Items not affecting cash:		
Deferred tax recovery	(13,380)	(37,846)
Gain on disposal of assets	(4,212)	6,750
Amortization	1,366,459	2,212,232
Amortization of deferred financing fees	-	93,620
Fair value loss (gain) on financial liabilities (note 14)	(3,314,998)	2,154,081
Share-based compensation expense	207,552	130,779
Finance income on investment in lease receivable	(14,048)	(17,102)
Unrealized foreign exchange losses (gains)	13,015	(79,681)
Accretion expense	201,054	269,812
Employee benefit obligations expensed	43,419	100,527
Changes in working capital (note 20)	(210,431)	(1,014,923)
Reverse Takeover listing expense (note 27)	-	681,438
Employee benefit obligations paid	(179,294)	-
Interest expense paid in financing activities	290,900	516,229
<b>Cash generated from operating activities</b>	<b>557,843</b>	<b>1,997,526</b>
<b>Cash flows used in investing activities:</b>		
Additions to property and equipment	(81,872)	(80,992)
Payments for game acquisitions (note 7)	(273,781)	(824,361)
Additions to intangible assets (note 7)	(333,261)	-
Payments for business acquisition (note 6)	(5,033,068)	-
Proceeds from lessee	51,275	47,472
<b>Cash used in investing activities</b>	<b>(5,670,707)</b>	<b>(857,881)</b>
<b>Cash flows used in financing activities:</b>		
Repayments of borrowings	(761,621)	(1,739,794)
Payment for provisions (note 12)	(100,000)	(1,219,957)
Payments of interest on borrowings	(290,900)	(516,229)
Payments for lease liabilities	(291,558)	(291,647)
Cash proceeds received on Reverse Takeover (note 27)	-	1,484,114
Cash proceeds from exercise of warrants (note 18)	49,205	15
Cash proceeds from convertible debentures (note 13)	-	1,864,735
Cash proceeds from exercise of share options	-	49,045
<b>Cash used in financing activities</b>	<b>(1,394,874)</b>	<b>(369,718)</b>
<b>Net cash inflow (outflow)</b>	<b>(6,507,738)</b>	<b>769,927</b>
Cash and cash equivalents, beginning of the period	18,097,649	1,126,160
Effects of foreign currency exchange rate on cash	(7,213)	18,882
<b>Cash and cash equivalents, end of the period</b>	<b>11,582,698</b>	<b>1,914,969</b>

Income taxes paid	44,959	119,497
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Acquisition of intangible asset by assumption of provision (note 7)	1,379,000	-
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See accompanying notes to the condensed interim consolidated financial statements.

## 1. Nature of operations

PopReach Corporation (formerly Mithrandir Capital Corp.) (“the **Company**”), was incorporated September 25, 2018 pursuant to the provisions of the Business Corporations Act (Ontario).

The Company was carrying on business as a Capital Pool Corporation (“CPC”), as such term is defined in TSX Venture Exchange Inc. (the “**Exchange**”) Policy 2.4 – Capital Pool Companies. The Company’s principal purpose was the identification and evaluation of assets, properties or businesses with a view to acquisition or participation (the “**Qualifying Transaction**”) therein subject, in certain cases, to shareholder approval and acceptance by the Exchange. The Company completed its initial public offering on October 11, 2019. Upon completion, the Company’s shares were listed for trading on the Exchange under the symbol “GMER.P”.

On June 30, 2020, the Company incorporated a wholly owned subsidiary under the *Business Corporations Act* (Ontario), 2759344 Ontario Inc. (“**Subco**”), for the sole purpose of completing the proposed Qualifying Transaction.

The Qualifying Transaction was completed on June 30, 2020 by way of a three-corned amalgamation, pursuant to which Subco amalgamated with PopReach Incorporated (“**PopReach**”) and the Company, which now holds the assets of PopReach Incorporated as a wholly-owned subsidiary, changed its name to PopReach Corporation. Immediately prior to the close of the Qualifying Transaction, the Company consolidated its common shares on an 8 to 1 basis (the “**Share Consolidation**”). The Share Consolidation has been applied retrospectively in the consolidated financial statements, including a share exchange in connection with the Qualifying transaction of 7.62 post-consolidation shares of the Company for every one share of PopReach, and as a result, the common shares (the “**Common Shares**”), broker warrants and option amounts of the Company presented herein are stated in an adjusted post-share consolidation basis. Upon the close of the Qualifying Transaction, the Company successfully became listed on Tier 1 of the TSX Venture Exchange (see note 27) under the symbol “POPR”.

The Company is a free-to-play game publisher focused on acquiring and optimizing proven franchises, including to date Smurfs’ Village (IP under license), PAYDAY Crime War (IP under license), Peak – Brain Training, Kitchen Scramble, Gardens of Time, City Girl Life, War of Nations, and Kingdoms of Camelot. The Company drives growth through a combination of investment in existing franchises and new franchise acquisitions. The head office of the Company is located at 1 University Avenue, 3rd Floor, Toronto, ON, M5J 2P1.

The Company has a wholly owned subsidiary, PopReach, incorporated under the laws of the Province of Ontario, and PopReach’s accounts are consolidated into the Company’s condensed interim consolidated financial statements. As at September 30, 2021, PopReach employs 39 employees on a full-time basis between its offices in Toronto, Ontario and Vancouver, British Columbia. In addition, PopReach operates two wholly owned subsidiaries, PopReach Technologies Private Limited (“**PR Tech**”), in Bangalore, India, and PopReach UK Limited (“**PopReach UK**”), in London, UK. PR Tech is incorporated pursuant to the laws of India, and its accounts are consolidated into the Company’s condensed interim consolidated financial statements. PR Tech is a management company in charge of operating the Company’s developed technology, and employs 96 employees on a full-time basis. PopReach UK was incorporated on February 18, 2021, and its accounts are also consolidated into the Company’s condensed interim consolidated financial statements. PopReach UK was established in order to fund operating costs and payroll for the acquisition of the “Peak – Brain Training” app from Brainbow Limited (“**Peak**”) as discussed in Note 6, and employs 7 employees on a full-time basis.

## 2. Significant accounting policies

### Statements of compliance

The condensed interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS). These statements are condensed and prepared in accordance with IAS 34 – “Interim Financial Reporting” and should be read in conjunction with the annual audited financial statements.

These condensed interim consolidated financial statements were authorized for issue by the Company’s Board of Directors on November 28, 2021.

All accounting policies are consistent with the annual audited financial statements for the years ended December 31, 2020 and December 31, 2019 except for the following accounting standards which were adopted as a result of transactional activities during the nine months ended September 30, 2021.

### In-app purchases

In-app purchases include both player purchases for items or services in the Company’s games, and recurring periodic as well as lifetime subscriptions which provide periodic and perpetual rights to access features of certain of the Company’s games and apps. For the nine months ended September 30, 2021, the Company earned subscription-based in-app purchase revenue related to games on the digital platforms acquired in the business combination described in Note 6. For subscription periods with a definite expiration, the Company recognizes revenues evenly throughout the subscription period. Lifetime subscription revenues are recognized rateably over the estimated average playing period of payers for the applicable game.

### Deferred cost of sales and cost of sales

For the nine months ended September 30, 2021, the Company earned subscription-based in-app purchase revenue related to games on the digital platforms acquired in the business combination described in Note 6. As the related platform and payment processing fees are considered incremental costs in obtaining a contract, these fees are recognized as a contract cost on the condensed interim consolidated statements of financial position. For subscription periods with a definite expiration, the Company recognizes cost of sales evenly throughout the subscription period. Platform and processing fees related to incurring lifetime subscription revenues are recognized rateably over the estimated average playing period of payers for the applicable game. However, the Company has also chosen to elect to expense any contract costs if the amortization period is less than one year, and is recognized as cost of sales on the condensed interim consolidated statement of income (loss) and comprehensive income (loss).

### Research and development costs

The Company incurs costs associated with the design and development of new products. Expenditures during the research phase are expensed as incurred. Expenditures during the development phase are capitalized if the Company can demonstrate each of the following criteria: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale, (ii) its intention to complete the intangible asset and use or sell it, (iii) its ability to use or sell the intangible asset, (iv) how the intangible asset will generate probable future economic benefits, (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and (vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development; otherwise, they are expensed as incurred. Costs associated with maintaining the game development software or related programs are recognized as an expense as incurred. Internally generated software development costs recognized as intangible assets are carried at cost. These assets are expected to be amortized over the remaining term of the license beginning when the game is complete and is published. These assets are subject to an impairment test as described below.

### **3. Use of estimates and judgments**

The preparation of the condensed interim consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed interim consolidated financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the following:

#### **Identification of CGUs**

For the purpose of impairment testing, the recoverable amount is determined for an individual asset or are grouped together into a cash generating unit ("CGU"), which represents the smallest group of assets that generates independent cash inflows. If the carrying amount of the asset or CGU exceeds its recoverable amount, an impairment loss is recognized in the consolidated statements of loss and comprehensive loss as a reduction in the carrying amount of the asset to its recoverable amount. The recoverable amount of an asset or CGU is the higher of its fair value less cost to sell and its 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 the time value of money and the risks specific to the asset or CGU.

The Company has allocated its tangible assets, intangible assets and goodwill to the smallest identifiable group of assets that generate cash inflows and that are largely independent of the cash inflows from other assets. The determination of CGUs for the purpose of annual impairment testing requires judgment.

#### **Impairment of goodwill and long-lived assets**

Goodwill is tested for impairment annually or more frequently if there is an indication of impairment. The carrying value of property and equipment and intangible assets is reviewed each reporting period to determine whether indicators of impairment exist. The recoverable amounts attributed to CGUs reflect the higher of fair value less costs to sell (FVLCS) or value in use. The Company's determination of a CGU's recoverable amount, which could include an estimate of FVLCS, uses market information to estimate the amount the Company could obtain from disposing of the asset in an arm's length transaction, less the estimated cost of disposal. The Company estimates value in use by discounted estimated future cash flows for the CGU or asset to its present value using a pre-tax discount rate reflecting a current market assessment of the time value of money and certain risks specific to the CGU or asset. Estimated cash flows are based on management's assumptions and business plans which are supported by internal strategies, plans and external information. The estimate of the recoverable amount for an asset or CGU requires significant estimates such as future cash flows, growth rates, and terminal and discount rates. The Company has concluded that goodwill is tested at the consolidated level, since that represents the lowest identifiable group of assets that can generate cash inflows.

#### **Business combinations and asset acquisitions**

The Company uses the acquisition method to account for business combinations. This requires an entity to measure each identifiable asset and liability at fair value. The excess, if any, of the fair value of consideration over the fair value of the net identifiable assets acquired is recognized as goodwill. The purchase price allocation involves judgment with respect to the identification of intangible assets acquired and estimates of fair of fair value for assets acquired and liabilities assumed, including pre-acquisition contingencies and contingent consideration. Changes in any of the assumptions or estimates used to identify intangible assets acquired, determine the fair value of acquired assets and liabilities assumed, including pre-acquisition contingencies or contingent consideration, could affect the amounts assigned to assets, liabilities and goodwill in the purchase price allocation.

The Company considers certain acquisition of games to be asset acquisitions, on the assumption that there are no identifiable businesses acquired in the transaction. There is judgment involved in the determination of whether the acquisition involves assets or entire businesses. Direct transaction costs incurred by the acquirer in the acquisition of an asset or a group of assets generally are a component of the consideration transferred and, as such, are capitalized as a component of the cost of the assets acquired and liabilities assumed. Transaction costs incurred in a business combination are expensed.

The Company makes estimates, assumptions, and judgments when valuing goodwill and other intangible assets in connection with the initial purchase price allocation of an acquired entity, in addition to evaluating the recoverability of goodwill and other intangible assets on an ongoing basis. These estimates are based on a number of factors, including historical experience, market conditions, and information obtained from the management of acquired portfolios of games. Critical estimates in valuing certain intangible assets include, but are not limited to, projected marketing and user acquisition costs, expected customer growth both organic and those attributed to marketing activities, historical and projected attrition rates, discount rates, anticipated revenue growth/decline from acquired customers, acquired technology, expected changes in player life and the expected use of the acquired assets. These factors are also considered in determining the useful life of acquired intangible assets. The amounts and useful lives assigned to identified intangible assets also impacts the amount and timing of future amortization expense. Unanticipated events and circumstances may affect the accuracy or validity of such assumptions, estimates or actual results.

#### **Amortization of property and equipment and intangible assets**

Judgment is applied to determine an asset's useful life, and where applicable, estimated residual value, used in the computation of amortization. Accordingly, an asset's actual useful life and estimated residual value may differ significantly from these estimates.

#### **Fair value of derivative financial instruments**

The Company uses a Monte Carlo simulation to estimate the fair value of the conversion feature of the convertible debt and associated warrants both of which convert the instrument into one Common Share and one warrant. Upon completion of the reverse takeover transaction (note 27), the convertible debentures were converted into Common Shares. The Company subsequently switched to a Black-Scholes model in order to estimate the value of the warrant liabilities. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historical volatility adjusted for changes expected due to publicly available information of a comparable companies), weighted average expected life of the instruments, expected dividends, the risk-free interest rate (based on government bonds) and probabilities of certain events occurring. The inputs to the model are subject to estimate and changes in these inputs can materially impact the estimated fair value of derivative liabilities.

#### **Share-based payments and warrant reserves**

The Company uses the Black-Scholes option pricing model to estimate the fair value of share-based compensation and warrant reserves which require the use of several input variables. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historical volatility adjusted for changes expected due to publicly available information of a comparable companies), weighted average expected life of the instruments, expected dividends, and the risk-free interest rate (based on government bonds). The inputs to the model are subject to estimate and changes in these inputs can materially impact the estimated fair value of warrant liabilities.

**Provisions**

Due to the nature of provisions related to contingent consideration payable for the acquisition of certain games or businesses, there is a degree of uncertainty inherent in their measurement. Inputs used to arrive at the fair value of these provisions, such as discount rates and future revenues, are subject to estimate and changes in these inputs can materially impact the estimated fair value of the contingent consideration.

**Deferred revenue and revenue**

The Company uses judgment and estimates to determine the amount of revenue to defer for each reporting period. The Company expects that in future periods, there will be changes in estimates of the average playing period of payers and/or changes in the ability to make such estimates, based on changes to the Company's portfolio of game franchises. In particular, if the estimated average playing period of payers increases on average, the amount of revenue recognized in a current or future period may be reduced, perhaps materially. Conversely, if the estimated average playing period of payers decreases on average, the amount of revenue that is recognized in a current or future period may be accelerated, perhaps materially.

**Deferred cost of sales and cost of sales**

The Company uses judgment and estimates to determine the amount of cost of sales to defer for each reporting period. The Company expects that in future periods, there will be changes in estimates of the average playing period of payers and/or changes in the ability to make such estimates, based on changes to the Company's portfolio of game franchises. In particular, if the estimated average playing period of payers increases on average, the amount of cost of sales recognized in a current or future period may be reduced, perhaps materially. Conversely, if the estimated average playing period of payers decreases on average, the amount of cost of sales that is recognized in a current or future period may be accelerated, perhaps materially.

**Leases and investment in lease receivable**

The Company uses judgment to determine whether the expected period would be the contract term or a longer period such as the estimated life of the relationship, where renewal periods would be considered. The Company also uses judgment in estimating the incremental borrowing rate based on borrowing rates of similar companies. Changes in these inputs can materially impact the estimated fair value of the lease liability and the investment in lease receivable.

**Employee benefit obligations**

The Company uses judgment to determine the fair value of employee benefit obligations at the end of each reporting period, including regulatory requirements, an evaluation of relevant discount rates, expected long-term returns on plan liabilities, mortality, expected changes in wages and retirement benefits, analysis of current market conditions, and input from actuaries and other consultants. Changes in these inputs can materially impact the estimated fair value of the employee benefit obligations.

**Deferred taxes**

Significant estimates are required in determining the Company's income tax provision. Some estimates are based on interpretations of existing laws or regulations. Various internal and external factors may have favourable or unfavourable effects on the Company's future effective tax rate. These include, but are not limited to, changes in tax laws, regulations and/or rates, changing interpretations of existing tax laws or regulations, results of tax audits by tax authorities, changes in estimates of prior years' items and changes in overall levels of pre-tax earnings.

**Going concern**

Management has applied significant judgment in the assessment of the Company's ability to continue as a going concern when preparing its condensed interim consolidated financial statements for the three and nine months ended

September 30, 2021 and 2020. Management prepares the condensed interim consolidated financial statements on a going concern basis which assumes that the Company will be able to realize its assets, meet its obligations and continue its operations in the normal course of business.

**Expected credit losses**

The Company employs judgment and estimates include the determination of expected credit loss as described in Note 4.

**Seasonality of interim operations**

The operations of the Company are seasonal, and the results of operations for any interim period are not necessarily indicative of operations for the full fiscal year or any future period. Due to the COVID-19 pandemic, changes in player activity, quarter over quarter, may not be indicative of the financial and operating results in future periods. Given the level of continued volatility and uncertainty around the COVID-19 pandemic, there is the potential for a wider range of outcomes – both positive and negative – as it relates to our business results.

**COVID-19 pandemic**

Following the outbreak of the COVID-19 pandemic, the Company has modified its business practices to help minimize the risk of the virus to employees, business partners, and the communities in which the Company participates, which could negatively impact the business of the Company. In response to the outbreak, the Company has instituted operational and monitoring protocols to ensure the health and safety of its employees and stakeholders, which follow the advice of local governments and health authorities where it operates. The Company is closely monitoring the COVID-19 pandemic in India and, in particular, its impact on its employees in Bangalore, India. Management continues to see disruptions and delays to the live operations of its games as a result of the situation in India, but it does not currently expect growth game development to suffer materially as the work associated with growth initiatives is being led from other jurisdictions. The Company has adopted a work from home policy where possible. The Company will continue to monitor developments of the COVID-19 pandemic and continuously assess the COVID-19 pandemic's potential further impact on the Company's operations and business.

**Notes to the Condensed Interim Consolidated Financial Statements**

For the three and nine months ended September 30, 2021 and 2020 (unaudited - in US dollars, unless otherwise stated)

**4. Trade and other receivables**

	September 30 2021	December 31 2020
Trade receivables	\$ 1,661,159	\$ 1,086,617
Less expected credit losses	-	-
Trade receivables, net	1,661,159	1,086,617
Other receivables	100,111	52,649
Government remittances receivables	35,920	27,857
	<u>1,797,190</u>	<u>1,167,123</u>

**Classification as trade receivables**

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current. Trade receivables are recognized initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognized at fair value. The group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. The maximum credit risk exposure associated with the trade receivables is the carrying value of \$1,797,190 (December 31, 2020 - \$1,167,123).

As at September 30, 2021 and December 31, 2020, the Company concludes there to be nil credit losses. Historically, there have been no bad debts, and the majority of trade receivables are related to the platform partners that remit within 30 to 60 days.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2021 and 2020 (unaudited - in US dollars, unless otherwise stated)

## 5. Property and equipment

The following represents property and equipment, net by class:

	Computer Equipment	Furniture and Fixtures	Computer Software	Leasehold Improvements	Total Value
<b>Cost</b>					
<b>Balance at January 1, 2021</b>	\$ 233,588	\$ 74,232	\$ 10,205	\$ 19,321	\$ 337,346
Additions	77,734	4,109	29	-	81,872
Additions due to business combination (note 6)	9,500	-	-	-	9,500
Disposals	(1,614)	(1,312)	( 664)	-	(3,590)
<b>Balance at September 30, 2021</b>	<b>319,208</b>	<b>77,029</b>	<b>9,570</b>	<b>19,321</b>	<b>425,128</b>
<b>Accumulated amortization and impairment</b>					
<b>Balance at January 1, 2021</b>	\$ 85,053	\$ 56,676	\$ 6,265	\$ 5,132	\$ 153,126
Amortization	61,291	7,139	1,793	1,449	71,672
Disposals	(1,614)	(1,312)	( 664)	-	(3,590)
<b>Balance at September 30, 2021</b>	<b>144,730</b>	<b>62,503</b>	<b>7,394</b>	<b>6,581</b>	<b>221,208</b>
Carrying amounts					
<b>Balance at December 31, 2020</b>	<b>148,535</b>	<b>17,556</b>	<b>3,940</b>	<b>14,189</b>	<b>184,220</b>
<b>Balance at September 30, 2021</b>	<b>174,478</b>	<b>14,526</b>	<b>2,176</b>	<b>12,740</b>	<b>203,920</b>

The property and equipment broken down by geographic location is as follows:

	September 30 2021	December 31 2020
Canada	\$ 99,943	\$ 104,650
India	98,197	79,570
United Kingdom	5,780	-
<b>Total property and equipment, net</b>	<b>203,920</b>	<b>184,220</b>

For the three and nine-month periods ending September 30, 2021 and 2020, there were no indicators of impairment noted for property and equipment.

## 6. Business combinations

## Peak

On March 18, 2021, the Company acquired substantially all of the assets relating to Peak from Brainbow Limited. On March 18, 2021, the Company made a \$3,033,068 cash payment to Brainbow Limited, with an additional \$2,000,000 paid on May 18, 2021 upon successful completion of certain post-closing transitional matters. In connection with the acquisition, the Company incorporated PopReach UK Limited, a wholly-owned subsidiary of PopReach Incorporated.

**Notes to the Condensed Interim Consolidated Financial Statements**

For the three and nine months ended September 30, 2021 and 2020 (unaudited - in US dollars, unless otherwise stated)

The following table summarizes the preliminary purchase price allocation and estimated fair value of the assets acquired and liabilities assumed at the date of the acquisition:

<b>Assets</b>		
Prepaid expenses	\$	49,407
Intangible assets – Subscriber base		344,000
Intangible assets – Technology		2,325,000
Intangible assets – Brand		959,000
Property and equipment		9,500
Goodwill		2,599,849
<b>Total enterprise value</b>		6,286,756
Less: Deferred revenue assumed		(1,237,349)
Less: Other liabilities assumed		(16,339)
<b>Aggregate purchase price</b>		5,033,068

The total consideration on the acquisition date is broken down as follows:

Cash	\$	3,033,068
Game acquisition payable		2,000,000
<b>Aggregate purchase price</b>		5,033,068

The useful lives of the intangible assets are listed below:

Subscriber base	4 years
Technology	6 years
Brand	7 years

The goodwill acquired is associated with the workforce and expected synergies associated with the acquisition and is expected to be deductible for tax purposes.

The allocation of the purchase price to the intangible assets and goodwill is preliminary and subject to adjustment. Management will finalize the accounting for the acquisition no later than one year from the date of the acquisition. Differences from these provisional estimates and the final accounting could be material.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2021 and 2020 (unaudited - in US dollars, unless otherwise stated)

## 7. Goodwill and intangible assets

## Intangible assets

Intangible assets include costs to acquire certain portfolios of games. The movements of the Company's intangibles are summarized as follows:

	Subscriber base	Technology Based	Brand/ License Based	Total Value
<b>Cost</b>				
<b>Balance at January 1, 2021</b>	\$ -	\$ 9,083,124	\$ 3,069,902	\$ 12,153,026
Additions due to business combination (note 6)	344,000	2,325,000	959,000	3,628,000
Additions arising from game acquisition	-	-	1,652,781	1,652,781
Capitalized research and development costs	-	333,261	-	333,261
<b>Balance at September 30, 2021</b>	344,000	11,741,385	5,681,683	17,767,068
<b>Accumulated amortization</b>				
<b>Balance at January 1, 2021</b>	-	5,580,947	1,455,153	7,036,100
Amortization	-	535,159	231,696	766,855
Amortization – business combination	46,237	208,333	73,656	328,226
<b>Balance at September 30, 2021</b>	46,237	6,324,439	1,760,505	8,131,181
Carrying amounts				
<b>Balance at December 31, 2020</b>	-	3,502,177	1,614,749	5,116,926
<b>Balance at September 30, 2021</b>	297,763	5,416,946	3,921,178	9,635,887

## Goodwill

Goodwill includes costs to acquire certain portfolios of games and represents acquired workforce and other synergies. The movements of the Company's goodwill is summarized as follows:

<b>Goodwill at January 1, 2021</b>	\$ 6,084
Goodwill arising from business combination (note 6)	2,599,849
<b>Goodwill at September 30, 2021</b>	2,605,933

For the three and nine-month periods ending September 30, 2021 and 2020, there were no indicators of impairment noted for goodwill and intangible assets.

### PAYDAY

On April 13, 2021, the Company signed an asset purchase agreement and licensing agreement with New Starbreeze Publishing AB (“**Starbreeze**”) for the re-launch of mobile title PAYDAY Crime War. Under the terms of the asset purchase agreement, the Company paid Starbreeze \$250,000 in exchange for all rights and title to the existing PAYDAY Crime War source code and game assets. Concurrently, the parties entered into a five year licensing agreement granting the Company the right to publish PAYDAY Crime War worldwide, and access to assets from the PAYDAY 2 PC game for use in PAYDAY Crime War. PopReach will be responsible for completing development, marketing, live operations and user acquisition for PAYDAY Crime War. Starbreeze will receive tiered royalties on PAYDAY Crime War net sales, and retains all IP rights to the PAYDAY franchise. The transition of these assets was successfully completed in Q2 2021.

The costs that have been capitalized to intangible assets are as follows:

Purchase price	\$	1,629,000
Legal fees attributable to the acquisition		23,781
		1,652,781

The consideration to acquire the above intangible assets consisted of the following:

Cash	\$	273,781
Provisions (note 13)		1,379,000
		1,652,781

Subsequent to the asset acquisition on April 13, 2021, salaries and benefits have been capitalized to the technology based intangible asset above as part of the development phase of the project, as such costs have met the criteria for capitalization in accordance with IAS 38.

## 8. Commitments

The Company and its subsidiaries are subject to routine legal proceedings and tax audits. The Company does not believe that the outcome of any of these matters, individually or in aggregate, would have a material adverse effect on its condensed interim consolidated statements of income (loss) and comprehensive income (loss), cash flows or financial position.

## 9. Leases

### Short Term Leases

The Company and its subsidiaries are parties to various rent costs. For leases in which the lease has a term less than 12 months on the commencement date, all commitments are on a month-to-month basis and can be cancelled at any time within a 30 to 60 day notice period.

In December 2019, the Company signed a short-term lease for an office space in Toronto, Ontario, with the intention to utilize the office space for less than 12 months. This lease was renewed in August 2020, and again in January 2021, for additional periods of less than 12 months. In September 2020, the Company signed a short-term lease for an office space in Vancouver, British Columbia, with the intention to utilize the office space for less than 12 months. This lease was renewed in January 2021 for an additional period of 12 months. The amount of rent expensed during the three and nine months ended September 30, 2021 was \$20,529 and \$57,644 (2020 – \$20,824 and \$62,032) and was recorded as a general and administrative expense in the condensed interim consolidated statement of income (loss) and comprehensive income (loss).

Effective October 2021, the Company signed a long-term lease for the office space in Vancouver, British Columbia for 16 months. As the intent is to lease the space for a period of longer than 12 months, the Company will capitalize the right-of-use asset and the lease liability on the consolidated statements of financial position. Total lease payments over the term are \$361,217.

The following is a summary of the right-of-use asset and lease liabilities as reported on the condensed interim consolidated statements of financial position:

	September 30 2021	December 31 2020
<b>Right-of-use assets</b>		
Buildings – Cost	\$ 411,806	\$ 554,327
Buildings – Accumulated Amortization	(85,793)	(415,746)
	326,013	138,581
<b>Lease liabilities</b>		
Current	261,104	208,302
Non-current	199,958	113,264
	461,062	321,566

In May 2021, PR Tech had signed a new lease for a period of 2 years ending in May 2023. The associated right-of-use asset and lease liabilities were capitalized to the condensed interim consolidated statements of financial position, and the prior lease was disposed of, with the gain on disposal being recorded in general and administrative expenses in the condensed interim consolidated statements of income (loss) and comprehensive income (loss).

**Notes to the Condensed Interim Consolidated Financial Statements**

For the three and nine months ended September 30, 2021 and 2020 (unaudited - in US dollars, unless otherwise stated)

During the three and nine months ended September 30, 2021, the Company recognized \$51,476 and \$201,277 of depreciation expense related to right-of-use assets (three and nine months ended September 30, 2020 - \$69,291 and \$207,873) and \$19,951 and \$47,357 of interest expense related to lease liabilities (three and nine months ended September 30, 2020 - \$16,358 and \$60,114).

Below is a summary of the maturity of the lease liabilities as at September 30, 2021:

Year	Payments	Finance income	Total
2021	\$ 84,530	\$ 23,315	\$ 61,215
2022	314,201	41,868	272,333
2023	131,267	3,753	127,514
	529,998	68,936	461,062

The weighted average incremental borrowing rate for the lease liabilities was estimated to be 17% (2020 – 16%).

Right-of-use assets for PR Tech are amortized over the expected lease term of 2 years.

**10. Investment in lease receivable**

On December 1, 2019, the Company entered into a sublease agreement for its former Toronto office with a lessee, expiring on August 1, 2023.

The following is a summary of lease receivable as recorded in the condensed interim consolidated statements of financial position:

	September 30 2021	December 31 2020
Current	\$ 55,640	\$ 50,552
Non-current	57,699	100,164
	113,339	150,716

Below is a summary of the maturity of the investment in lease receivable as at September 30, 2021:

Year	Payments	Finance income	Total
2021	\$ 22,364	\$ 9,118	\$ 13,246
2022	67,092	9,631	57,461
2023	44,729	2,097	42,632
	134,185	20,846	113,339

The incremental borrowing rate for the investment in lease receivable was estimated to be 13% (2020 – 13%)

## 11. Borrowings

### Bank credit facility

On October 2, 2020, PopReach entered into a new non-revolving term facility of \$6,500,000 with the Bank of Nova Scotia in order to refinance its prior credit facility and entered into an operating line of credit of \$1,000,000 with the same lender (collectively, the “New Facility”). The interest rate charged on the non-revolving term facility is equal to the US Base Lending Rate plus 3.50% per annum, and the interest rate charged on the operating line of credit is equal to the US Base Lending Rate plus 2.00% per annum. The New Facility matures 24 months from the closing date. PopReach, as borrower, and the Company, as guarantor, have agreed to secure all of PopReach’s obligations under the New Facility by granting the lender a first ranking security interest on all of their respective assets.

On October 2, 2020, in conjunction with the closing of the New Facility, the Company retired its prior bank credit facility by paying down the entire outstanding principal of \$6,134,832 plus applicable interest, premium and legal expenses, and all remaining deferred financing fees related to the prior bank credit facility were expensed to interest and accretion expenses.

On October 29, 2021, the Company entered into an amendment to the New Facility with certain terms amended to add back one-time fees and expenses of the Company in connection with the proposed transaction with Federated Foundry (see note 28) and the Company’s acquisition transactions, as well as to account for the Company’s available cash. The New Facility otherwise remains unamended, including as to the available amount, the term, applicable interest rates, and ongoing reporting obligations.

The Company is in full compliance with the financial covenants at September 30, 2021.

Below is a summary of the borrowings owing by the Company:

	September 30 2021	December 31 2020
Bank credit facility	\$ 5,354,939	\$ 6,032,863
<b>Total borrowings</b>	<b>5,354,939</b>	<b>6,032,863</b>
Current	1,213,931	1,200,418
Non-current	4,141,008	4,832,445
<b>Total borrowings</b>	<b>5,354,939</b>	<b>6,032,863</b>

## 12. Provisions and game acquisition payable

Provisions are related to the present value of contingent consideration payable to entities for the purchase of certain portfolios of games or businesses. As there is judgment involved in estimating the discount rate of the contingent consideration and the future cash flows of which the consideration is calculated based on, it is separated out from

**Notes to the Condensed Interim Consolidated Financial Statements**

For the three and nine months ended September 30, 2021 and 2020 (unaudited - in US dollars, unless otherwise stated)

the fixed portion of consideration classified as “Game acquisition payable” in the condensed interim consolidated statements of financial position.

**Provisions**

For the asset acquisition of the Smurfs portfolio of games, the discount rate used to estimate the fair value of the provision as at September 30, 2021 and December 31, 2020 was 25%.

For the asset acquisition of PAYDAY (note 7), Starbreeze will receive tiered royalties on net sales of PAYDAY Crime War, and retains all IP rights to the PAYDAY franchise. The Company has recorded the estimated consideration consisting of the expected royalty payments to Starbreeze as a provision using a discount rate of 19.3%. The Company will reevaluate the provision in future periods and any adjustments to the provision will be recorded in the condensed interim consolidated statements of income (loss) and comprehensive income (loss) during the periods in which the re-measurements occur.

Below is a summary of the contingent consideration provisions as at the end of the period:

	Total Value
<b>Balance at January 1, 2021</b>	\$ 100,000
Cash consideration paid	(100,000)
Contingent consideration arising from game acquisition (note 7)	1,379,000
Accretion expense	70,000
<b>Balance at September 30, 2021</b>	<b>1,449,000</b>

**13. Derivative financial instruments and convertible debentures**

Derivative financial instruments consist of warrant liabilities arising from the conversion of convertible debentures and accrued interest to common shares and warrants during the nine months ended September 30, 2021. During the nine months ended September 30, 2020, derivative financial instruments consisted of the conversion feature of the convertible debentures before the reverse takeover transaction discussed in Note 27.

The September 30, 2021 and December 31, 2020 derivative liability balances are related to the warrants which do not meet the fixed-for-fixed condition, and therefore are classified as a current liability on the statement of financial position until the exercise or expiration of the warrants. As at September 30, 2021, there are 7,699,705 warrants outstanding which are classified as a current liability. Changes in the inputs to the Black Scholes model can materially change the fair value of the warrants. A 10% increase in the volatility would increase the fair value of the liability by \$126,196, while a 10% decrease in the volatility would decrease the fair value of the liability by \$118,681.

**Inputs for measurement of issuance date fair values**

As there is uncertainty in the dollar amount of conversion, these do not meet the fixed-for-fixed condition. The fair value of the warrants was estimated using the Black-Scholes option pricing model and the assumptions at the revaluation were as follows:

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2021 and 2020 (unaudited - in US dollars, unless otherwise stated)

*Revaluation date – September 30, 2021*

Risk-free interest rate: 0.25%

Expected volatility: 47.90%

Stock price (expressed in Canadian \$): \$0.80

Expected life: 0.75 years

Expected dividends: \$nil

The summary of the warrant liabilities are as follows:

	Total Value
<b>Balance at January 1, 2021</b>	\$ 4,546,471
Effect of foreign exchange rates	13,013
Change in fair value of warrants	(3,328,011)
Warrants exercised during the period	(16,955)
<b>Balance at September 30, 2021</b>	<b>1,214,518</b>

**14. Fair value (gain) loss on financial liabilities**

The summary of the fair value (gain) loss on financial liabilities is as follows:

	Three months ended		Nine months ended	
	2021	2020	2021	2020
Change in fair value of contingent consideration (note 12)	\$ -	\$ (100,000)	\$ -	\$ (16,993)
Change in fair value of conversion feature and warrant liability (note 13)	358,191	614,027	(3,328,011)	2,171,074
Foreign exchange (gains) losses on warrant liability (note 13)	(71,793)	-	13,013	-
<b>Balance at September 30, 2021</b>	<b>286,398</b>	<b>514,027</b>	<b>(3,314,998)</b>	<b>2,154,081</b>

**15. Employee benefit obligations**

The Company has a statutory defined benefit obligation related to payment of gratuity and leave encashment pursuant to regulations in India. This obligation covers only the employees based in India. The liability recognized in the condensed interim consolidated statements of financial position in respect of the defined benefit gratuity plan and the leave encashment plan is the present value of defined benefit obligations at the end of the reporting period. The defined benefit obligation is calculated through an actuarial valuation using the projected unit credit method. The benefits are based on years of service and last drawn salary.

The most recent actuarial valuation of the benefit plans for accounting purposes was as of September 30, 2021.

**Notes to the Condensed Interim Consolidated Financial Statements**

For the three and nine months ended September 30, 2021 and 2020 (unaudited - in US dollars, unless otherwise stated)

Below is a summary of the change in employee benefit obligations from January 1, 2021 to September 30, 2021, and the year ended December 31, 2020:

	Nine months ended September 30 2021	Year ended December 31 2020 (annual)
<b>Change in benefit obligations</b>		
Beginning benefit obligation	\$ 588,855	\$ 538,217
Service cost	51,757	100,281
Interest cost	20,603	33,579
Actuarial gains to profit and loss	(16,745)	(33,127)
Actuarial losses (gains) to other comprehensive income	(48,833)	31,211
Benefits paid	(179,294)	(70,143)
Foreign currency translation adjustments	(7,833)	(11,163)
<b>Ending benefit obligation</b>	<b>408,510</b>	<b>588,855</b>

The actuarial losses to other comprehensive income during the nine months ended September 30, 2021 were shown on the condensed interim consolidated statement of income (loss) and comprehensive income (loss) net of income taxes of \$12,196 (year ended December 31, 2020 – income taxes of \$7,856).

The key assumptions for the gratuity and leave encashment plans at September 30, 2021 are as follows:

Discount rate: 6.30%

Salary escalation: 10%

Attrition rate: 2-16%

Indian Assured Lives mortality rate (ages 20-60): 0.0698% – 2.4058%

## 16. Financial risks

### Currency risk

The Company is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. In the normal course of business, the Company has revenue and purchases that are denominated in a currency other than the functional currency of the Company, being the US dollar. These transactions are primarily denominated in Canadian dollars (CAD), Indian rupees (INR), and British pound sterling (GBP). The Company does not currently enter into forward contracts to mitigate this risk. Other than transactions denominated in GBP due to the Peak acquisition discussed in Note 6, there have been no other changes in the risk exposure from the year ended December 31, 2020.

**Notes to the Condensed Interim Consolidated Financial Statements**

For the three and nine months ended September 30, 2021 and 2020 (unaudited - in US dollars, unless otherwise stated)

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through ongoing review of accounts receivable balances; following up on amounts past due, if any; and management of cash including the ability to raise additional debt and equity capital as and when required.

The Company continues to take advantage of government assistance programs which promote interactive digital media development in the Canadian economy as investment tax credits available from qualifying research and development expenditures.

These condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business. The following tables outline the Company's remaining contractual maturities for its non-derivative financial liabilities, at their undiscounted value, based on the earliest date the Company is required to make payment on these amounts:

	September 30, 2021			
	Total	Less than 1 year	Payments due	
			1-3 years	After 3 years
Trade payables and accrued liabilities	\$ 1,214,557	\$ 1,214,557	\$ -	\$ -
Provisions	2,593,069	83,827	1,220,125	1,289,117
Borrowings – principal	5,354,939	1,305,636	4,049,303	-
Borrowings – interest	587,149	340,904	246,245	-
Lease payments – principal	529,998	340,385	189,613	-
Lease payments – interest	68,936	64,090	4,846	-

**Credit risk**

Credit risk is that a counterparty will not meet its obligation under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities primarily from cash and trade and other receivables as amounts are owing primarily from three customers. As at September 30, 2021 and December 31, 2020, the trade and other receivables were within normal repayment terms and the Company had recorded no expected credit losses.

**Interest rate risk**

The Company's New Facility has a variable interest rate based on US Base Lending Rate plus 3.50% for the term loan, and US Base Lending Rate plus 2.00% for the operating line of credit. As a result, the Company is exposed to interest rate risk due to fluctuations in the US Base Lending Rate. Interest expense has been recorded in the condensed interim consolidated statement of income (loss) and comprehensive income (loss).

**Notes to the Condensed Interim Consolidated Financial Statements**

For the three and nine months ended September 30, 2021 and 2020 (unaudited - in US dollars, unless otherwise stated)

**17. Share capital****Authorized and issued**

The Company's authorized share capital consists of an unlimited number of common shares with no par value.

Below is a summary of the movement in share capital during the nine months ended September 30, 2021:

	Number of Shares	Total Value
<b>Balance at January 1, 2021</b>	73,048,686	\$ 24,575,987
Exercise of warrants (note 18)	74,568	68,751
<b>Balance at September 30, 2021</b>	73,123,254	24,644,738

Below is the calculation of the diluted earnings per share and diluted weighted average number of shares for the three and nine months ended September 30, 2021:

	Three months ended September 30 2021	Nine months ended September 30 2021
Weighted average number of ordinary shares outstanding	73,120,947	73,097,684
Dilutive effect of share-based payments	-	3,992,889
Dilutive effect of warrants – equity	-	61,840
<b>Fully diluted weighted average number of shares outstanding</b>	73,120,947	77,152,413
<b>Diluted earnings (loss) per share</b>	(0.01)	\$ 0.03

For the three months ended September 30, 2021, the Company incurred a net loss, with anti-dilutive securities including warrants as described in Note 18 and share-based payments in Note 19. For the nine months ended September 30, 2021, the warrants classified as a liability were determined to be anti-dilutive owing to the numerator adjustment required to remove the fair value gain on those securities which would then result in the net earnings for the period to be a loss. As such, they were excluded from the calculation above. For the three and nine months ended September 30, 2020, the Company incurred a net loss, with anti-dilutive securities including convertible debentures and associated derivatives described in Note 13, warrants in Note 18 and share-based payments in Note 19.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2021 and 2020 (unaudited - in US dollars, unless otherwise stated)

**18. Warrant reserve**

No warrants expired during the nine months ended September 30, 2021. Below is a summary of the outstanding warrants classified as equity instruments.

	Number of Warrants	Weighted average exercise price (in Canadian dollars)	Remaining contractual life (years)	Total Value (equity)
<b>Balance at January 1, 2021</b>	307,084	\$ 0.74	0.84	\$ 50,176
Warrants exercised during the period	(30,000)	0.80	-	(2,591)
<b>Balance at September 30, 2021</b>	277,084	0.72	0.09	47,585

Below is a summary of the outstanding warrants classified as current liabilities:

	Number of Warrants	Weighted average exercise price (in Canadian dollars)	Remaining contractual life (years)	Total Value (liability)
<b>Balance at January 1, 2021</b>	7,744,273	\$ 0.71	1.50	\$ 4,546,471
Effect of foreign exchange rates	-	-	-	13,013
Change in fair value of warrant liability	-	-	-	(3,328,011)
Warrants exercised during the period (note 13)	(44,568)	0.86	-	(16,955)
<b>Balance at September 30, 2021</b>	7,699,705	0.71	0.75	1,214,518

During the three months ended March 31, 2021, certain warrants classified as current liabilities were exercised by investors for aggregate cash proceeds of \$30,148 (2020 – nil).

During the three months ended June 30, 2021, certain warrants classified as equity instruments were exercised by investors for aggregate cash proceeds of \$19,057. During the three months ended June 30, 2020, the Company's previous creditor exercised all 1,558,999 of its broker warrants associated with the financing of the acquisition of the RockYou portfolio of games.

**Notes to the Condensed Interim Consolidated Financial Statements**

For the three and nine months ended September 30, 2021 and 2020 (unaudited - in US dollars, unless otherwise stated)

The total number of warrants issued and their classification are as follows:

	Number of warrants
Warrants – equity	277,084
Warrants – liability (note 13)	7,699,705
	<b>7,976,789</b>

## 19. Share-based payments

### Description of the share-based payment arrangements with employees

The Company has a share option plan with the objective of attracting, retaining and motivating employees, officers and directors in long-term success of the Company. In accordance with this plan, options are exercisable at the exercise price of each option, as determined on the grant date. Each share option expires on the date that is the earlier of 5 years from the date of grant or such earlier date as may be set out in the participant's award agreement.

In April 2021, the Company awarded an independent director 45,000 share options, all vesting on the first anniversary of the grant. All options expire on the 5<sup>th</sup> anniversary from the date of the grant.

In September 2021, the Company awarded certain employees 389,200 share options. 25% of the options granted to each employee vest after 12 months, and 6.25% vest each quarter thereafter. All options expire on the 5<sup>th</sup> anniversary from the date of the grant.

In September 2021, the Company awarded independent directors 260,000 share options, all vesting on the first anniversary of the grant. All options expire on the 5<sup>th</sup> anniversary from the date of the grant.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2021 and 2020 (unaudited - in US dollars, unless otherwise stated)

The following is a summary of the share options for nine months ended September 30, 2021 and 2020:

	Nine months ended			
	2021		2020	
	Average exercise price per share option	Number of options	Average exercise price per share option	Number of options
<b>As at January 1</b>	C\$0.39	6,845,414	C\$0.22	5,351,114
Granted during the period	C\$0.80-\$0.85	694,200	C\$0.72-\$1.00	1,382,200
Share options issued on reverse takeover	-	-	C\$0.80	375,000
Share options forfeited	C\$0.85	(100,000)	C\$0.32	(92,869)
Share options expired	C\$0.80	(165,000)	C\$0.16-\$0.31	(250,031)
<b>As at September 30</b>	<b>C\$0.42</b>	<b>7,274,614</b>	<b>C\$0.38</b>	<b>6,765,414</b>
<b>Vested and exercisable at September 30</b>	<b>C\$0.34</b>	<b>5,493,933</b>	<b>C\$0.28</b>	<b>3,433,455</b>

165,000 options expired during the nine months ended September 30, 2021 (2020 – 250,031), and 100,000 share options were forfeited due to employee departures during the nine months ended September 30, 2021 (2020 – 92,869).

Share options outstanding at the end of the period have the following expiry dates and exercise prices:

Grant date	Expiry date	Exercise price	Share options September 30, 2021	Share options September 30, 2020
Jan 2017 – Oct 2017	Jan 2022 – Oct 2022	C\$0.16	3,369,914	3,369,914
Jan 2018	Jan 2023	C\$0.31	190,500	190,500
Jan 2019 – Oct 2019	Jan 2024 – Oct 2024	C\$0.31	1,447,800	1,447,800
Apr 2020	Apr 2025	C\$0.72	457,200	457,200
From Qualifying Transaction	Aug 2022	C\$0.80	210,000	375,000
Jul 2020 – Aug 2020	Aug 2022 – Aug 2025	C\$0.85 – C\$1.00	825,000	925,000
Nov 2020	Nov 2022 – Nov 2025	C\$1.40	80,000	-
Apr 2021	Apr 2026	C\$0.85	45,000	-
Sep 2021	Sep 2026	C\$0.80	649,200	-
<b>Total</b>			<b>7,274,614</b>	<b>6,765,414</b>
Weighted average remaining contractual life of options outstanding at end of period (in years)			1.96	2.92

**Notes to the Condensed Interim Consolidated Financial Statements**

For the three and nine months ended September 30, 2021 and 2020 (unaudited - in US dollars, unless otherwise stated)

During the three and nine months ended September 30, 2021, the Company incurred share-based payment expenses to employees and directors of the Company in the amount of \$60,144 and \$207,552 (three and nine months ended September 30, 2020 - \$59,692 and \$130,779) in relation to its share option programs. These costs are included in research and development and general and administrative expenses in the condensed interim consolidated statements of income (loss) and comprehensive income (loss).

**Inputs for measurement of grant date fair values**

The grant date fair value of stock options was estimated using the Black-Scholes option pricing model and the assumptions at grant dates.

The Company observed similar public companies in order to estimate volatility over the estimated life of the option. Changes in these variables can materially impact the estimated fair value of share-based compensation and consequently, the related amount recognized to general and administrative expenses in the condensed interim consolidated statements of income (loss) and comprehensive income (loss).

**20. Supplementary cash flow information****Change in working capital**

	Nine months ended	
	2021	2020
Trade and other receivables	\$ (630,067)	\$ 55,090
Prepaid assets	3,417	(42,323)
Investment tax credits receivable	(146,799)	38,187
Deferred cost of sales	(256,608)	-
Trade payables and accrued liabilities	329,137	(741,129)
Taxes payable	32,370	(72,439)
Taxes receivable	-	(1,933)
Deferred revenue	458,119	(250,376)
<b>Total change in working capital</b>	<b>(210,431)</b>	<b>(1,014,923)</b>

**21. Related party transactions****Convertible debentures**

There were no related party transactions identified in the first nine months of 2021. In the first nine months of 2020, of the C\$2,536,870 of convertible debentures issued (US\$1,847,889), C\$660,000 (US\$480,753) was issued to key management personnel and Directors of the Company.

**Notes to the Condensed Interim Consolidated Financial Statements**

For the three and nine months ended September 30, 2021 and 2020 (unaudited - in US dollars, unless otherwise stated)

**22. Key management compensation**

Compensation for key management personnel, including the Company's officers and Board of Directors, and private companies controlled by the Company's Officers and Board of Directors, was as follows:

	Three months ended		Nine months ended	
	2021	2020	2021	2020
Management salaries, bonuses and other benefits	\$ 164,139	\$ 209,879	\$ 662,683	\$ 554,938
Director fees	12,349	24,600	71,897	24,600
Share-based payments - management	7,632	18,722	25,076	64,547
Share-based payments - directors	35,862	17,280	127,147	20,345
<b>Total key management compensation</b>	<b>219,982</b>	<b>270,481</b>	<b>886,803</b>	<b>664,430</b>

**23. Management of capital**

The Company's capital management objectives are to safeguard its ability to continue as a going concern and to preserve its capital through adapting its strategic efforts and working to optimize revenues from its game production and operations. The Company also attempts to raise additional funds through the issuance of debt or equity.

In the management of capital, the Company's definition of capital includes shareholders' equity and interest bearing debt, which as at September 30, 2021, totalled \$20,357,253 (December 31, 2020 - \$18,553,021), which was comprised of shareholders' equity of \$15,002,314 (December 31, 2020 - \$12,520,158) and interest-bearing debt of \$5,354,939 (December 31, 2020 - \$6,032,863).

**24. Revenue from contracts with customers**

The following table presents our revenue disaggregated based on the geographic location of our paying players. All of the geographic locations presented below represent at least 10% of total revenues in either the three and nine months ended September 30, 2021 or September 30, 2020:

	Three months ended		Nine months ended	
	2021	2020	2021	2020
North America	\$ 2,752,297	\$ 3,208,961	\$ 8,590,623	\$ 10,774,917
Europe	929,421	628,238	2,706,139	1,844,912
Other	539,176	499,020	1,443,118	1,295,260
<b>Total revenue</b>	<b>4,220,894</b>	<b>4,336,229</b>	<b>12,739,880</b>	<b>13,915,099</b>

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2021 and 2020 (unaudited - in US dollars, unless otherwise stated)

The following table presents our in-app purchases disaggregated based on each platform partner:

	Three months ended		Nine months ended	
	2021	2020	2021	2020
Apple	\$ 2,168,829	\$ 1,726,046	\$ 6,189,280	\$ 5,753,619
Facebook	841,434	1,571,540	2,913,654	4,875,401
Google	870,704	846,861	2,705,159	2,524,664
Amazon	54,135	40,598	173,288	189,095
Other mobile	43,575	-	113,785	-
<b>Total in-app purchases</b>	<b>3,978,677</b>	<b>4,185,045</b>	<b>12,095,166</b>	<b>13,342,779</b>

During the three and nine months ended September 30, 2021 and September 30, 2020, there was no significant impact from discontinued games or from changes in our estimated average playing period of payers that required adjusting the recognition period of deferred revenue generated in prior periods.

## 25. Breakdown of employee compensation

	Three months ended		Nine months ended	
	2021	2020	2021	2020
Salaries and benefits	\$ 1,180,798	\$ 1,099,125	\$ 3,930,485	\$ 2,921,209
Employee benefits expenses	29,914	28,584	55,615	100,527
Share-based compensation expense	60,144	59,692	207,552	130,779
	<b>1,270,856</b>	<b>1,187,401</b>	<b>4,193,652</b>	<b>3,152,515</b>

Presented as follows:

Cost of sales	80,327	35,898	196,144	105,271
Research and development	814,413	666,280	2,699,441	1,979,691
General and administrative	354,697	485,223	1,276,648	1,067,553
Marketing	21,419	-	21,419	-
	<b>1,270,856</b>	<b>1,187,401</b>	<b>4,193,652</b>	<b>3,152,515</b>

## 26. Change in comparative information

Certain figures in the condensed interim consolidated statements of income (loss) and comprehensive income (loss) have been reclassified from cost of sales and general and administrative expenses to marketing expenses. Below is the summary of the reclassification during the prior reporting periods:

For the nine months ended September 30, 2020	As previously reported	Reclassification	As adjusted
Marketing	\$ -	\$ 469,687	\$ 469,687
Cost of sales	6,478,572	(417,121)	6,061,451
General and administrative	2,078,735	(52,566)	2,026,169
	8,557,307	-	8,557,307

  

For the year ended December 31, 2020	As previously reported	Reclassification	As adjusted
Marketing	\$ 609,573	\$ 101,164	\$ 710,737
General and administrative	2,874,601	(101,164)	2,773,437
	3,484,174	-	3,484,174

The reclassification changes had no impact to the condensed interim consolidated statements of financial position, net income (loss) and comprehensive income (loss), earnings (loss) per share and the condensed interim consolidated statements of cash flows.

## 27. Reverse takeover transaction

On November 11, 2019, the Company signed a letter of intent with PopReach, where the Company would acquire PopReach, by way of a three-corner amalgamation, share exchange, plan of arrangement or other similar form of transaction as agreed by the parties. On June 26, 2020, the Company and PopReach entered into the Definitive Agreement, which supersedes the prior binding letter of intent, pursuant to which the parties agreed to complete the Qualifying Transaction (the "Transaction") on the terms set out therein. The Transaction was completed on June 30, 2020 and resulted in a reverse take-over of the Company by PopReach and constitutes the Qualifying Transaction of the Company in compliance with the CPC Policy. Pursuant to the terms of the Definitive Agreement, the Company acquired 100% of PopReach and the Company changed its name to PopReach Corporation.

Pursuant to the Transaction, each PopReach shareholder received 7.62 post-Consolidation Common Shares in the capital of the Company for each PopReach common share held by them, for a total issuance by the Company from treasury of 48,233,937 post-Share Consolidation Common Shares. In addition, each convertible, exchangeable, or exercisable security of PopReach was exchanged for a convertible, exchangeable or exercisable security, as applicable, of the Company on substantially the same economic terms and conditions as the original convertible, exchangeable, or exercisable security of PopReach (with their exercise prices being divided by 7.62) resulting in the issuance of 7,744,273 warrants in respect of outstanding PopReach warrants, 5,808,314 options in respect of

**Notes to the Condensed Interim Consolidated Financial Statements**

For the three and nine months ended September 30, 2021 and 2020 (unaudited - in US dollars, unless otherwise stated)

outstanding PopReach options and 99,584 broker warrants in respect of outstanding PopReach broker warrants, all of which have been retroactively adjusted in the Consolidated Financial Statements (see Note 1).

Following completion of the Transaction as at June 30, 2020, the Company had 51,983,937 Common Shares issued and outstanding. Assuming the conversion of all outstanding options, warrants and stock options, 66,288,882 Common Shares would be outstanding on a fully diluted basis. Common shares of the Company began trading on the TSX Venture Exchange under the symbol "POPR" on July 8, 2020. The fair value of consideration for the Transaction is \$2,091,433. After deducting net assets of the Company before the closing of the Transaction of \$1,409,995, the non-cash listing expense of \$681,438 was expensed in the post acquisition year as a cost associated with obtaining a public stock listing. Based on the Company's consolidated statements of financial position immediately prior to the closing of the Transaction as at June 30, 2020, the net assets at fair value that were acquired by PopReach are as follows:

	Total Value
<b>Purchase consideration</b>	
Share capital	\$ 1,981,215
Share-based payment reserve	75,915
Warrant reserve	34,303
<b>Fair value of consideration</b>	<b>2,091,433</b>
	Total Value
<b>Identifiable assets acquired</b>	
Cash and cash equivalents	\$ 1,484,114
Accounts payable and accrued liabilities	74,119
Net assets acquired	1,409,995
Non-cash listing expense	681,438
Add: Professional fees associated with reverse takeover	327,396
<b>Reverse takeover listing expense</b>	<b>1,008,834</b>

## 28. Significant events

On August 16, 2021, as announced in a press release dated August 17, 2021, the Company entered into a letter of intent (“**LOI**”) with 2810735 Ontario Inc. d/b/a Federated Foundry (“**Federated**”), an acquirer and operator of digital technology companies, pursuant to which the Company and Federated (together with the Company, the “**Parties**”, and each, a “**Party**”) will combine to form a leading, publicly-listed Canadian technology and media enterprise (the “**Transaction**”) through a reverse takeover of the Company by Federated and its shareholders.

As required by the policies of the TSX Venture Exchange (the “**TSXV**”), trading in the common shares of PopReach (“**PopReach Shares**”) will remain halted until, among other things, PopReach completes certain regulatory filings in connection with the Transaction and the TSXV has completed certain matters it considers necessary or advisable; trading of PopReach Shares may remain halted until the completion of the Transaction.

On October 18, 2021, the Company announced that the Parties had entered into a definitive transaction agreement (the “**Transaction Agreement**”) settling the terms and conditions of the Transaction. Pursuant to the Transaction Agreement, PopReach will acquire all of the issued and outstanding shares of Federated (“**Federated Shares**”) on a fully-diluted basis (including all common shares issued or issuable on any exercise of the outstanding options, warrants and other securities convertible, exercisable or exchangeable for Federated Shares, collectively, the “**Purchased Shares**”) for an aggregate purchase price of up to C\$160 million. The Transaction is expected to be effected by way of a three-way amalgamation amongst Federated, PopReach, and a new, wholly-owned subsidiary of PopReach, with the purchase price payable by the issuance by PopReach pursuant to such amalgamation of an aggregate number of PopReach Shares based on the deemed price per PopReach Share of C\$0.80, representing a premium of 27% over the PopReach Share closing price, and a premium of 32.9% over the PopReach Share 20-day VWAP, as at August 16, 2021, the last trading day immediately prior to the initial announcement of the proposed Transaction.

The aggregate purchase price is subject to adjustments for assumed debt, working capital and other customary terms and conditions set out in the Transaction Agreement. The Transaction Agreement provides that, on the closing date, PopReach will issue, pursuant to the above-noted three-way amalgamation, to holders of Federated Shares that number of PopReach shares calculated based on the C\$160 million purchase price, less the amount of assumed debt and less the amount of net working capital less than C\$5 million. Upon completion of the Transaction, the current shareholders of Federated will own more than 50% of the shares of the resulting issuer (the “**Resulting Issuer**”) on a non-diluted basis.

The Transaction will, pursuant to the policies of the TSXV, require approval of the shareholders of PopReach. PopReach will seek approval of its shareholders at an annual general and special meeting of shareholders as soon as reasonably practicable (the “**PopReach Shareholders Meeting**”), and will prepare an information circular for the PopReach Shareholders Meeting, which will contain details regarding the Transaction, PopReach, Federated and the Resulting Issuer. The information circular and other materials for the PopReach Shareholders Meeting will be mailed to shareholders of PopReach and available on SEDAR at [www.sedar.com](http://www.sedar.com).