

Form 51-102F4
Business Acquisition Report

Item 1 Identity of Company

1.1 Name and Address of Company

ESE Entertainment Inc. (the “**Company**” or “**ESE**”)
Suite 1000 – 409 Granville Street
Vancouver, BC
V6C 1T2

1.2 Executive Officer

The following executive officer of ESE is knowledgeable about the significant acquisition and this report:

Rob Kang
Chief Financial Officer
604 838 6014

Item 2 Details of Acquisition

2.1 Nature of Business Acquired

On September 14, 2021, the Company acquired 100% of the shares of Auto Simulation Limited T/A Digital Motorsports (“**Digital Motorsports**”), an Ireland-based provider of advanced simulation racing infrastructure, technology and support (the “**Transaction**”). The co-owners of Digital Motorsports have agreed to continue to run the operations of Digital Motorsports after Closing (defined below), to ensure continuous business operations and a smooth transfer of Digital Motorsports’ business to the Company.

2.2 Acquisition Date

September 14, 2021

2.3 Consideration

The purchase price consisted of: (i) CAD \$1,681,250 in cash paid on closing of the Transaction (the “**Closing**”); (ii) 941,500 common shares of the Company (each, a “**Common Share**”) issued on Closing; and (iii) up to 8,473,500 Common Shares to be released in six (6) equal installments every six (6) months, with the first installment being released on December 31,

2021, subject to achievement of certain post-Closing revenue-based milestones. The Company also agreed to make a capital contribution to Digital Motorsports in the amount of €250,000 to fund Digital Motorsports' working capital needs.

2.4 Effect on Financial Position

There are no current proposals or plans for material changes in the business affairs of Digital Motorsports or ESE which may have a significant effect on the results of operations and financial position of ESE, other than those resulting from the contribution of the results of operations of Digital Motorsports to the consolidated financial position of ESE for the reporting periods ending after the acquisition date.

2.5 Prior Valuations

There have been no valuation opinions obtained within the last 12 months by ESE of Digital Motorsports required by securities legislation or a Canadian exchange or market to support the consideration paid by the Company.

2.6 Parties to Transaction

The acquisition of Digital Motorsports was not with an informed person, associate, or affiliate of the Company.

2.7 Date of Report

November 29, 2021

Item 3 Financial Statements and Other Information

Pursuant to Part 8 of NI 51-102, the following financial statements are attached as schedules to this Business Acquisition Report and form part of this Business Acquisition Report:

Schedule A Financial statements of Auto Simulation Limited T/A Digital Motorsports for the years ended December 31, 2020 (audited) and December 31, 2019 (unaudited).

Schedule B Unaudited interim financial statements of Auto Simulation Limited T/A Digital Motorsports for the three and six month periods ended June 30, 2021 and 2020.

SCHEDULE A

[Attached]

AUTO SIMULATION LIMITED

(Trading as Digital-Motorsports.com)

FINANCIAL STATEMENTS

For the years ended December 31, 2020 and 2019

(Expressed in Euros)

Independent Auditor's Report

To the Directors of Auto Simulation Limited

Opinion

We have audited the financial statements of Auto Simulation Limited ("the Company"), which comprise the statement of financial position as at December 31, 2020 and the statements of income (loss) and comprehensive income (loss), changes in shareholders' equity (deficit) and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements which describes the material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

"Crowe MacKay LLP"

**Chartered Professional Accountants
Vancouver, Canada Canada
November 24, 2021**

AUTO SIMULATION LIMITED
(Trading as Digital-Motorsports.com)
Statements of Financial Position
As at December 31, 2020 and 2019
(Expressed in Euros)

	December 31, 2020 (audited)	December 31, 2019 (unaudited)
ASSETS		
Current assets		
Cash	€ 166,733	€ 2,815
Receivables	9,641	982
Prepaid expenses and deposits	36,062	-
Inventory (Note 3)	163,447	-
	<u>375,883</u>	<u>3,797</u>
Equipment (Note 5)	31,666	-
Total assets	<u>€ 407,549</u>	<u>€ 3,797</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	€ 236,213	€ 10,033
Corporate taxes payable	16,523	-
Deferred revenue	51,345	-
	<u>304,081</u>	<u>10,033</u>
SHAREHOLDERS' EQUITY (DEFICIT)		
Share capital (Note 6)	100	100
Retained Earnings (deficit)	103,368	(6,336)
	<u>103,468</u>	<u>(6,236)</u>
Total liabilities and shareholders' equity (deficit)	<u>€ 407,549</u>	<u>€ 3,797</u>

Nature and continuance of operations – Note 1
Subsequent event – Note 12

APPROVED ON BEHALF OF THE BOARD:

“Niall Maher” Director
Niall Maher

“Rob King” Director
Rob King

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

AUTO SIMULATION LIMITED

(Trading as Digital-Motorsports.com)

Statements of Income (Loss) and Comprehensive Income (Loss)

For the years ended December 31, 2020 and 2019

(Expressed in Euros)

		2020		2019
		(audited)		(unaudited)
Revenue	€	1,656,798	€	69,747
Cost of sales (Note 4)		1,357,109		66,835
Gross Profit		299,689		2,912
Expenses				
Advertising and marketing		23,973		864
Depreciation (Note 5)		7,677		-
Management compensation (Note 9)		63,499		-
Merchant fees		41,250		-
Foreign exchange gain		(581)		(3)
Office and miscellaneous		21,892		5,731
Professional fees		15,752		2,251
		173,462		8,843
Net income (loss) for the year before taxes		126,227		(5,931)
Provision for income taxes (Note 11)		(16,523)		-
Net and comprehensive income (loss) for the year	€	109,704	€	(5,931)
Basic and diluted earnings (loss) per common share	€	1,097.04	€	(59.31)
Weighted average number of common shares outstanding		100		100

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

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Statements of Changes in Shareholders' Equity (Deficit)

For the years ended December 31, 2020 and 2019

(Expressed in Euros)

	Number of Shares		Share Capital		Retained Earnings (Deficit)		Total
Balance, December 31, 2018 (unaudited)	100	€	100	€	(405)	€	(305)
Net and comprehensive loss for the year (unaudited)	-		-		(5,931)		(5,931)
Balance December 31, 2019 (unaudited)	100		100		(6,336)		(6,236)
Net and comprehensive income for the year	-		-		109,704		109,704
Balance December 31, 2020	100	€	100	€	103,368	€	103,468

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

AUTO SIMULATION LIMITED

(Trading as Digital-Motorsports.com)

Statements of Cash Flows

For the years ended December 31, 2020 and 2019

(Expressed in Euros)

	2020		2019
	(audited)		(unaudited)
CASH FLOWS PROVIDED BY (USED IN)			
OPERATING ACTIVITIES			
Income (loss) for the year	€ 109,704	€	(5,931)
Items not affecting cash			
Depreciation	7,677		-
Change in non-cash working capital item:			
Receivables	(8,659)		(982)
Prepaid expenses and deposits	(36,062)		-
Inventory	(163,447)		-
Accounts payable and accrued liabilities	226,180		9,728
Corporate taxes payable	16,523		-
Deferred Revenue	51,345		-
Net cash provided by operating activities	203,261		2,815
INVESTING ACTIVITY			
Equipment expenditures	(39,343)		-
Net cash used in investing activity	(39,343)		-
Change in cash for the year	163,918		2,815
Cash, beginning of year	2,815		-
Cash, end of year	€ 166,733	€	2,815
Cash paid for interest during the year	€ 85	€	-
Cash paid for income taxes during the year	€ -	€	-

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

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(Trading as Digital-Motorsports.com)

Notes to the Financial Statements

For the years ended December 31, 2020 and 2019

(Expressed in Euros)

1 Nature and Continuance of Operations

Auto Simulation Limited (the “Company”) (trading as Digital-Motorsports.com) was incorporated in Ireland on October 28, 2018. The Company is one of the leading sim racing solutions providers in Europe, specializing in building bespoke simulators and offering turnkey simulator packages. The Company has key vendor distribution rights and partnerships in the industry. The Company’s registered office is 62 Levmosse Avenue, The Gallops, Dublin 18.

These financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company was not expected to continue operations for the foreseeable future. There was a global pandemic outbreak of COVID-19. The actual and threatened spread of the virus globally has had a material adverse effect on the global economy and, specifically, the regional economies in which the Company operates. The above material uncertainties cast doubt about the Company’s ability to continue as a going concern. The Company’s continuation as a going concern is dependent upon successful results from its operating activities, its ability to continue to attain profitable operations to generate funds and/or its ability to raise equity capital or borrowings sufficient to meet its current and future obligations. Although the Company has been successful in the past in attaining profitable operations, there is no assurance it will be able to do so in the future.

2 Basis of Preparation

Statement of Compliance

These financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The financial statements were authorized for issue by the Board of Directors on November 24, 2021.

3 Significant Accounting Policies

Basis of Measurement

These financial statements have been prepared on an accrual basis, except for cash flow information, and are based on historical costs except for certain financial instruments which are measured at fair value.

The accounting policies set out below have been applied consistently in the financial statements.

Functional Currency

The presentation currency and functional currency of the Company is the Euro.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the reporting period date. Gains and losses on translation of monetary items are recognized in the consolidated statements of loss.

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Notes to the Financial Statements

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Financial instruments

Financial Assets

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (“FVTPL”), the transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Financial assets are considered in the entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of financial assets depends on their classification. The classification depends on the Company’s business model for managing the financial assets and contractual terms of the cash flows. These are the measurement categories under which the Company classifies its financial assets:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- **Fair value through OCI (“FVOCI”):** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at FVOCI. Financial assets classified at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income (loss). When the financial instrument is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss.
- **FVTPL:** Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on an investment that is subsequently measured at FVTPL is recognized in profit or loss.

The Company’s cash and receivables are measured at amortized cost.

Impairment of Financial Assets at Amortized Cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the credit risk on the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of income (loss), as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Financial Liabilities

The Company classifies its financial liabilities into the following categories: financial liabilities at FVTPL and amortized cost.

A financial liability is classified as FVTPL if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. The fair value changes to financial liabilities at FVTPL are presented as follows: the amount of change in fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and the remaining amount of the change in the fair value is presented in profit or loss. The Company does not designate any financial liabilities at FVTPL.

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Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest rate method. The Company classifies its accounts payable and accrued liabilities as financial liabilities held at amortized cost.

Inventory

Finished products, work in process, in transit stock, and supplies inventories are valued at the lower of cost and net realizable value, with cost determined on a FIFO basis. The inventory at December 31, 2020 was comprised entirely of finished goods.

Equipment

Equipment is stated at cost less accumulated depreciation and impairment losses. The residual value, useful life and depreciation method are evaluated every reporting period and changes to the residual value, estimated useful life or depreciation method resulting from such review are accounted for prospectively. Depreciation is provided for using the declining-balance method at 20% per annum.

Impairment of non-financial assets

The carrying amount of the Company's assets is reviewed for an indication of impairment at the end of each reporting period. If an indication of impairment exists, the Company makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. The recoverable amount of an asset group is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

Income taxes

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred income tax is provided on all temporary differences at the Statement of Financial Position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income taxes are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each Statement of Financial Position date and recognized to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the Statement of Financial Position date.

Revenue

Revenue is recognized when control of the promised goods or services is transferred to the customers, in an amount that reflects the consideration receivable in exchange for those goods or services, net of discounts and sales taxes. Currently the Company generates revenue primarily by the sale of simulators and accessories, and additionally through esports leagues and corporate event services. There is one performance obligation to fulfil and revenue is recognized upon delivery of the product or upon completion of services. Generally, all payments are received in advance of delivery and satisfaction of the performance obligations.

Some contracts include multiple promised services, for which the contract revenue is allocated to each distinct performance obligation. For performance obligations which are satisfied over time, the Company recognizes the allocated revenue as the promised services are delivered to the clients. For the remaining performance obligations, the Company recognizes the allocated revenue when the promised services are performed, which is generally when the client has the ability to direct the use and/or obtain substantially all the benefits of the services received.

Basic and diluted earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net loss by the weighted average number of outstanding shares in issue during the reporting period. Diluted earnings (loss) per share is computed similar to basic loss except that the weighted average number of outstanding shares include additional shares for the assumed exercise of stock options

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and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. In a loss reporting period, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive.

Recent accounting pronouncements and changes in accounting policies

The following new standards and interpretations are not yet effective and have not been applied in preparing these financial statements.

Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments to IAS 37 specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). These amendments are effective for reporting periods beginning on or after January 1, 2022.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

The amendments to IAS1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date. These amendments are effective for reporting periods beginning on or after January 1, 2023.

Significant accounting judgement, estimates and uncertainties

Critical accounting estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes to the financial statements. These estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognized in the period in which the estimates are revised.

Valuation of inventory

Management makes estimates of future customer demand for products when establishing appropriate provisions for inventory obsolescence. In making these estimates, management considers the shelf-life of inventory and profitability of recent sales.

Critical accounting judgments

Critical judgement exercised in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is as follows:

Revenue

Significant management judgements and estimates must be made in connection with determination of the revenue to be recognized in any accounting period. If management made different judgements or utilized different estimates for any period, material differences in the amount and timing of revenue recognized could result. Some contracts include multiple promised services or products, thus management applied judgement to determine whether promised services or products are capable

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of being distinct and distinct in the context of the contract. Where there are distinct performance obligations, management allocates the total consideration to the performance obligations using its best estimate of their relative fair values. Management also applied judgement to determine if the performance obligation is satisfied over time or at a point in time.

4 Cost of Sales

	2020		2019	
	(audited)		(unaudited)	
Product, material and software	€	1,237,654	€	66,835
Delivery and packaging		119,455		-
Total cost of sales	€	1,357,109	€	66,835

5 Equipment

	Office		Equipment		Total
Cost as at December 31, 2019	€	-	€	-	€ -
Additions		9,260		30,083	39,343
Cost as at December 31, 2020	€	9,260	€	30,083	€ 39,343
Accumulated depreciation as at December 31, 2019	€	-	€	-	€ -
Depreciation		1,661		6,016	7,677
Accumulated depreciation as at December 31, 2020	€	1,661	€	6,016	€ 7,677
Net Book Value as at December 31, 2020	€	7,599	€	24,067	€ 31,666

6 Share Capital

a) Authorized – 100,000 ordinary shares of € 1.00 each

b) Issued – 100 ordinary shares of € 1.00 each

7 Financial Instruments**Determination of Fair Value:**

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Fair Value Hierarchy:

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

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- Level 1 – Applies 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 fair value hierarchy level at which a fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The Company's financial instruments are exposed to certain financial risks which are in common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. The following note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them.

General Objectives, Policies and Processes

The Board of Directors have overall responsibility for the determination of the Company's risk management objectives and policies and have delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function. The Board of Directors are kept apprised on the process and would monitor the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility.

The Company's risk exposures and the impact on the Company's financial statements are summarized below.

Fair Value:

The carrying values of financial assets and liabilities approximate its fair value due to the short-term nature of these instruments.

Financial risk factors

The Company's risk exposures and the impact on the Company's financial statements are summarized below.

Credit risk

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash. The maximum exposure to credit risk is their carrying amounts on the statements of financial positions. The Company limits its exposure to credit loss by placing its cash with major financial institutions. Accounts receivable is not exposed to credit risk as it was collected shortly after the year-end.

Interest rate risk

The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to floating rate of interest. The interest rate risks on cash and on the Company's obligations are not considered significant.

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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 the management of its capital structure and financial leverage as outlined in the note.

The Company monitors its ability to meet its short-term administrative expenditures by matching income received to expenditures to be incurred. All of the Company's financial liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms.

As at December 31, 2020, the Company had a cash balance of €166,733 (2019 – €2,815 (unaudited)) and receivables of €9,641 (2019 – €982 (unaudited)) to settle accounts payable and accrued liabilities of €236,213 (2019 – €10,033 (unaudited)).

8 Capital Management

The Company's objective when managing capital is to safeguard its ability to continue as a going concern. The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital.

The Company reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company considers shareholders' equity and working capital as components of its capital base. The Company may access capital through the issuance of shares or the disposition of assets. The Company is not subject to externally imposed capital requirements and does not have exposure to asset-backed commercial paper or similar products. The Company believes it will be able to raise additional equity capital as required, but recognizes the uncertainty attached thereto. There is no change to the Company's approach to capital management during the years ended December 31, 2020 and 2019 (unaudited).

9 Related Party Transactions

Related party transactions are comprised of services rendered by directors and/or officers of the Company or by a company with a director and/or officer in common. Related party transactions are in the ordinary course of business and are measured at the exchange amount.

Key Management Compensation

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and include the Company's executive officers and members of the Board of Directors. Key management compensation consisted of the following:

During the year ended December 31, 2020, the Company paid salary of €39,689 for services rendered to directors (2019 – €nil (unaudited)) and €23,811 in consultancy fees to a director (2019 – €nil (unaudited)).

10 Segmented Information and Revenue disclosures

The Company operates in one industry segment of advanced simulation racing infrastructure, technology and support. The Company's assets are located in Ireland. The Company has determined that it has a single reportable segment as the Company's decision makers review information on a consolidated basis. All of the non-current assets as at December 31, 2020 and December 31, 2019 are located in Ireland. No individual customers accounted for more than 10% of revenue for the years ended December 31, 2020 and December 31, 2019 (unaudited).

AUTO SIMULATION LIMIETD

(Trading as Digital-Motorsports.com)

Notes to the Financial Statements

For the years ended December 31, 2020 and 2019

(Expressed in Euros)

Revenues are derived from the following sources during the years ended December 31, 2020 and December 31, 2019:

	2020 (audited)	2019 (unaudited)
Sales	€ 1,482,040	€ 69,747
Shipping	110,856	-
Corporate events and sponsorships	10,774	-
Event Sales	24,462	-
Solution Sales	28,666	-
Total revenue	€ 1,656,798	€ 69,747

The Company's revenues are allocated to geographic regions for the years ended December 31, 2020 and December 31, 2019 as follows:

	2020 (audited)	2019 (unaudited)
Ireland	€ 413,119	€ 55,951
United Kingdom	339,832	3,075
United States	351,299	3,976
Other	552,548	6,745
Total revenue	€ 1,656,798	€ 69,747

11 Income tax

Income tax expense varies from the amount that would be computed from applying the statutory income tax rate to income (loss) before taxes as follows:

	2020 (audited)	2019 (unaudited)
Income (loss) for the year before income tax	€ 126,227	€ (5,931)
Statutory corporate tax rate	12.50%	12.50%
Anticipated tax expense (recovery)	15,778	(741)
Change in tax rates resulting from:		
Change in unrecognized tax benefits	745	741
Income tax expense	€ 16,523	€ -

AUTO SIMULATION LIMITED

(Trading as Digital-Motorsports.com)

Notes to the Financial Statements

For the years ended December 31, 2020 and 2019

(Expressed in Euros)

12 Subsequent Event

On September 15, 2021, ESE Entertainment Inc. (“ESE”) acquired 100% of the shares of the Company. The purchase price consisted of (i) \$1,681,250 in cash paid on the closing of the transaction; (ii) 941,500 common shares of ESE issued on closing; and (iii) up to 8,473,500 common shares of ESE (the “Earn Out Shares”) to be released in six equal instalments every 6 months (each such instalment, an “Instalment”), with the first Instalment being released on December 31, 2021, subject to achievement of certain post-Closing revenue-based milestones. ESE has also agreed to make an investment of €250,000 in the Company on closing to fund the Company’s working capital needs.

SCHEDULE B

[Attached]

AUTO SIMULATION LIMITED

(Trading as Digital-Motorsports.com)

INTERIM FINANCIAL STATEMENTS

For the three and six months ended June 30, 2021 and 2020

(Unaudited – Expressed in Euros)

NOTICE OF NO AUDIT OR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these interim financial statements in accordance with standards established by the Chartered Professional Accountants Canada for a review of interim financial statements by an entity's auditor.

AUTO SIMULATION LIMITED
(Trading as Digital-Motorsports.com)
Interim Statements of Financial Position
As at June 30, 2021 and December 31, 2020
(Unaudited – Expressed in Euros)

	June 30, 2021	December 31, 2020
ASSETS		
Current assets		
Cash	€ 19,188	€ 166,733
Receivables	110,053	9,641
Prepaid expenses and deposits	78,911	36,062
Inventory	249,317	163,447
	<u>457,469</u>	<u>375,883</u>
Property and equipment (Note 4)	115,224	31,666
Total assets	€ 572,693	€ 407,549
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	€ 309,067	€ 236,213
Corporate taxes payable	23,161	16,523
Current portion of lease liability (Note 5)	20,480	-
Deferred revenue	11,196	51,345
	<u>363,904</u>	<u>304,081</u>
Lease liability (Note 5)	61,685	-
	<u>425,589</u>	<u>304,081</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	100	100
Retained earnings	147,004	103,368
	<u>147,104</u>	<u>103,468</u>
Total liabilities and shareholders' equity	€ 572,693	€ 407,549

Nature and continuance of operations – Note 1
Subsequent event – Note 9

APPROVED ON BEHALF OF THE BOARD:

“Niall Maher” Director
Niall Maher

“Rob King” Director
Rob King

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

AUTO SIMULATION LIMITED

(Trading as Digital-Motorsports.com)

Interim Statements of Income and Comprehensive Income

For the three and six months ended June 30, 2021 and 2020

(Unaudited – Expressed in Euros)

	Three months ended				Six months ended			
	June 30,				June 30			
	2021		2020		2021		2020	
Revenue	€	971,383	€	448,563	€	1,649,446	€	665,779
Cost of sales		814,397		374,172		1,414,455		552,158
Gross profit		156,986		74,391		234,991		113,621
Expenses								
Advertising and marketing		14,849		703		24,228		9,604
Depreciation (Note 4)		6,775		1,871		9,050		2,433
Interest (Note 5)		1,673		-		1,673		-
Management compensation (Note 7)		39,042		17,882		60,042		25,689
Merchant fees		27,289		10,940		46,820		14,222
Foreign exchange gain		-		-		(430)		(581)
Office and miscellaneous		14,437		2,103		29,486		8,877
Professional fees		9,993		214		13,848		10,027
		114,058		33,713		184,717		70,271
Net income for the period before taxes		42,928		40,678		50,274		43,350
Provision for income taxes		(5,617)		(4,741)		(6,638)		(4,741)
Net and comprehensive income for the period	€	37,311	€	35,937	€	43,636	€	38,609
Basic and diluted income per common share	€	373.11	€	359.37	€	436.36	€	386.09
Weighted average number of common shares outstanding		100		100		100		100

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

AUTO SIMULATION LIMITED

(Trading as Digital-Motorsports.com)

Interim Statements of Changes in Shareholders' Equity (Deficit)

For the six months ended June 30, 2021 and 2020

(Unaudited – Expressed in Euros)

	Number of Shares		Share Capital		Retained Earnings (Deficit)		Total
Balance December 31, 2019	100	€	100	€	(6,336)	€	(6,236)
Net and comprehensive income for the period	-		-		38,609		38,609
Balance June 30, 2020	100	€	100	€	32,273	€	32,373
Balance December 31, 2020	100	€	100	€	103,368	€	103,468
Net and comprehensive income for the period	-		-		43,636		43,636
Balance June 30, 2021	100	€	100	€	147,004	€	147,104

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

AUTO SIMULATION LIMITED
(Trading as Digital-Motorsports.com)
Interim Statements of Cash Flows
For the six months ended June 30, 2021 and 2020
(Unaudited – Expressed in Euros)

	2021	2020
CASH FLOWS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Income for the period	€ 43,636	€ 38,611
Items not affecting cash		
Depreciation	9,050	2,433
Accretion	1,673	-
Change in non-cash working capital item:		
Receivables	(100,412)	(38,165)
Prepaid expenses and deposits	(42,849)	982
Inventory	(85,870)	(85,234)
Accounts payable and accrued liabilities	72,854	170,394
Corporate taxes payable	6,638	6,611
Deferred revenue	(40,149)	22,532
Net cash provided by (used in) operating activities	(135,429)	118,164
INVESTING ACTIVITY		
Equipment expenditures	(7,126)	(24,328)
Net cash used in investing activity	(7,126)	(24,328)
FINANCING ACTIVITY		
Lease payments	(4,990)	-
Net cash used in investing activity	(4,990)	-
Change in cash for the period	(147,545)	93,836
Cash, beginning of period	166,733	2,815
Cash, end of period	€ 19,188	€ 96,651
Cash paid for interest during the period	€ 164	€ -
Cash paid for income taxes during the period	€ -	€ -

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

AUTO SIMULATION LIMITED

(Trading as Digital-Motorsports.com)

Notes to the Interim Financial Statements

For the three and six months ended June 30, 2021 and 2020

(Unaudited – Expressed in Euros)

1 Nature and Continuance of Operations

Auto Simulation Limited (the “Company”) (trading as Digital-Motorsports.com) was incorporated in Ireland on October 28, 2018. The Company is one of the leading sim racing solutions providers in Europe, specializing in building bespoke simulators and offering turnkey simulator packages. The Company has key vendor distribution rights and partnerships in the industry. The Company’s registered office is 62 Levmosse Avenue, The Gallops, Dublin 18.

These interim financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company was not expected to continue operations for the foreseeable future. There was a global pandemic outbreak of COVID-19. The actual and threatened spread of the virus globally has had a material adverse effect on the global economy and, specifically, the regional economies in which the Company operates. The above material uncertainties cast doubt about the Company’s ability to continue as a going concern. The Company’s continuation as a going concern is dependent upon successful results from its operating activities, its ability to continue to attain profitable operations to generate funds and/or its ability to raise equity capital or borrowings sufficient to meet its current and future obligations. Although the Company has been successful in the past in attaining profitable operations, there is no assurance it will be able to do so in the future.

2 Basis of Preparation

Statement of Compliance

These interim financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) and in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting.

The interim financial statements were authorized for issue by the Board of Directors on November 26, 2021.

3 Significant Accounting Policies

Basis of Measurement

These financial statements have been prepared on an accrual basis, except for cash flow information, and are based on historical costs except for certain financial instruments which are measured at fair value.

The accounting policies set out below have been applied consistently in the financial statements.

Functional Currency

The presentation currency and functional currency of the Company is the Euro.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the reporting period date. Gains and losses on translation of monetary items are recognized in profit or loss.

AUTO SIMULATION LIMITED

(Trading as Digital-Motorsports.com)

Notes to the Interim Financial Statements

For the three and six months ended June 30, 2021 and 2020

(Unaudited – Expressed in Euros)

Recent accounting pronouncements and changes in accounting policies

The following new standards and interpretations are not yet effective and have not been applied in preparing these financial statements.

Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments to IAS 37 specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). These amendments are effective for reporting periods beginning on or after January 1, 2022.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

The amendments to IAS1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date. These amendments are effective for reporting periods beginning on or after January 1, 2023.

Significant accounting judgement, estimates and uncertainties

Critical accounting estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes to the financial statements. These estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognized in the period in which the estimates are revised.

Valuation of inventory

Management makes estimates of future customer demand for products when establishing appropriate provisions for inventory obsolescence. In making these estimates, management considers the shelf-life of inventory and profitability of recent sales.

Critical accounting judgments

Critical judgement exercised in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is as follows:

Revenue

Significant management judgements and estimates must be made in connection with determination of the revenue to be recognized in any accounting period. If management made different judgements or utilized different estimates for any period, material differences in the amount and timing of revenue recognized could result. Some contracts include multiple promised services or products, thus management applied judgement to determine whether promised services or products are capable of being distinct and distinct in the context of the contract. Where there are distinct performance obligations, management allocates the total consideration to the performance obligations using its best estimate of their relative fair values. Management also applied judgement to determine if the performance obligation is satisfied over time or at a point in time.

4 Property and Equipment

	Office		Equipment		Right of Use Asset		Total
Cost as at December 31, 2019	€	-	€	-	€	-	-
Additions		9,260		30,083		-	39,343
Cost as at December 31, 2020	€	9,260	€	30,083	€	-	€ 39,343
Additions		-		7,126		85,482	92,608
Cost as at June 30, 2021	€	9,260	€	37,209	€	85,482	€ 131,951
Accumulated depreciation as at December 31, 2019	€	-	€	-	€	-	-
Depreciation		1,661		6,016		-	7,677
Accumulated depreciation as at December 31, 2020	€	1,661	€	6,016	€	-	€ 7,677
Depreciation		830		3,721		4,499	9,050
Accumulated depreciation as at June 30, 2021	€	2,491	€	9,737	€	4,499	€ 16,727
Net carrying amount as at December 31, 2020	€	7,599	€	24,067	€	-	€ 31,666
Net carrying amount as at June 30, 2021	€	6,769	€	27,472	€	80,983	€ 115,224

5 Lease Liability

The Company has one lease liability which is a warehouse lease, entered into in April 2021. The lease expires in December 2025. The monthly lease payments are €1,500 for the first 12 months and €2,000 for the remainder of the term with an interest rate of 12%. An estate management fee of € 980 is also due each year. As at June, 2021 the net carrying amount of the right-of-use asset from the warehouse lease is \$80,983 (Note 4).

The following is a schedule of the Company's future minimum lease payments related to the warehouse lease obligation:

1 year	€ 20,480
2 year	24,980
3 year	24,980
4 year	24,980
5 year	12,490
Total minimum lease payments	107,910
Less: Imputed interest	(25,745)
Total present value of minimum lease payments	82,165
Less: Current portion	(20,480)
Non-current portion	€ 61,685

AUTO SIMULATION LIMITED

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Notes to the Interim Financial Statements

For the three and six months ended June 30, 2021 and 2020

(Unaudited – Expressed in Euros)

The following is a lease liability continuity schedule:

Balance as at December 31, 2020 and 2019	€ -
Cash flows:	
Principal payments	(4,990)
Interest payments	-
Non-cash changes	
Additions	85,482
Accretion	1,673
Balance as at June 30, 2021	€ 82,165

6 Share Capital

- a) Authorized – 100,000 ordinary shares of € 1.00 each
- b) Issued – 100 ordinary shares of € 1.00 each

7 Related Party Transactions

Related party transactions are comprised of services rendered by directors and/or officers of the Company or by a company with a director and/or officer in common. Related party transactions are in the ordinary course of business and are measured at the exchange amount.

Key Management Compensation

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and include the Company's executive officers and members of the Board of Directors. Key management compensation consisted of the following:

During the three and six months ended June 30, 2021, the Company paid fees of €35,000 and €60,042 for services rendered to directors (2020 - €17,882 and €25,689).

8 Segmented Information and Revenue Disclosures

The Company operates in one industry segment of advanced simulation racing infrastructure, technology and support. The Company's assets are located in Ireland. The Company has determined that it has a single reportable segment as the Company's decision makers review information on a consolidated basis. All of the non-current assets as at June 30, 2021 and December 31, 2020 are located in Ireland. No individual customers accounted for more than 10% of revenue for the six months ended June 30, 2021 and June 30, 2020.

AUTO SIMULATION LIMITED

(Trading as Digital-Motorsports.com)

Notes to the Interim Financial Statements

For the three and six months ended June 30, 2021 and 2020

(Unaudited – Expressed in Euros)

Revenues are derived from the following sources during the six months ended June 30, 2021 and June 30, 2020:

	Six months ended June 30,	
	2021	2020
Sales	€ 1,472,924	€ 594,529
Shipping	112,904	45,572
Corporate events and sponsorships	10,726	4,329
Event Sales	24,353	9,830
Solution Sales	28,539	11,519
Total revenue	€ 1,649,446	€ 665,779

The Company's revenues are allocated to geographic regions for the six months ended June 30, 2021 and June 30, 2020 as follows:

	Six months ended June 30,	
	2021	2020
Ireland	€ 201,397	€ 167,776
United Kingdom	758,745	164,115
United States	313,395	107,523
Other	375,909	226,365
Total revenue	€ 1,649,446	€ 665,779

9 Subsequent Event

On September 15, 2021, ESE Entertainment Inc. ("ESE") acquired 100% of the shares of the Company. The purchase price consisted of (i) \$1,681,250 in cash paid on the closing of the transaction; (ii) 941,500 common shares of ESE issued on closing; and (iii) up to 8,473,500 common shares of ESE (the "Earn Out Shares") to be released in six equal instalments every 6 months (each such instalment, an "Instalment"), with the first Instalment being released on December 31, 2021, subject to achievement of certain post-Closing revenue-based milestones. ESE has also agreed to make an investment of €250,000 in the Company on closing to fund the Company's working capital needs.