

ESE ENTERTAINMENT INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended July 31, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited – Prepared by Management)

**NOTICE OF NO AUDITOR REVIEW OF THE
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company for the three and nine months ended July 31, 2022 have been prepared by and are the responsibility of the Company's management, and have not been reviewed by the Company's auditors.

ESE ENTERTAINMENT INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

For the three and nine months ended July 31, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited - Prepared by Management)

	For the three months ended		For the nine months ended	
	July 31,		July 31,	
	2022	2021	2022	2021
Revenue	\$ 15,934,352	\$ 4,234,984	\$ 38,962,722	\$ 5,143,783
Cost of sales	12,815,884	3,786,479	30,607,634	4,368,491
Gross profit	3,118,468	448,505	8,355,088	775,292
Expenses				
Advertising and event planning	541,026	143,575	1,558,659	450,628
Depreciation (Note 9)	140,955	15,324	321,925	20,505
Bank charges	11,107	6,210	30,105	22,522
Consulting fees (Note 18)	592,021	462,460	1,225,400	1,447,338
Commissions	49,792	25,647	126,612	30,351
Finder's fees paid for acquisitions (Note 4, 5, 6 and 7)	-	-	1,007,215	1,000,498
Office and miscellaneous	807,285	40,750	1,948,878	109,308
Professional fees (Note 18)	65,760	286,095	740,476	546,931
Rent	(16,591)	14,454	79,570	20,241
Share-based payments (Notes 15 and 18)	8,468,466	514,679	10,623,885	2,773,154
Transfer agent and filing fees	19,853	59,982	110,422	133,295
Travel and conferences	122,695	12,752	224,607	25,490
Investor relations	12,000	-	42,613	-
Wages and benefits	929,098	108,004	2,116,636	233,057
Website hosting and development	50,431	184	192,478	8,072
	11,793,898	1,690,116	20,349,481	6,821,390
Loss before other items	(8,675,430)	(1,241,611)	(11,994,393)	(6,046,098)
Other items:				
Other (expense) income	1,343	6,887	(10,705)	22,991
Interest expense	(90,050)	-	(145,300)	-
Accretion expense (Note 14)	(71,895)	-	(104,900)	-
Impairment of K1CK assets (Note 20)	-	-	-	(207,500)
Loss on derivative liability (Note 6)	(230,655)	-	(230,655)	-
Foreign exchange gain (loss)	56,379	(17,977)	83,230	3,925
	(334,878)	(11,090)	(408,330)	(180,584)
Net loss for the period before taxes	(9,010,308)	(1,252,701)	(12,402,723)	(6,226,682)
Provision for income taxes	(475,537)	(3,142)	(803,312)	(3,877)
Net loss for the period	(9,485,845)	(1,255,843)	(13,206,035)	(6,230,559)
Other comprehensive loss				
Loss on translation of foreign operations	(148,954)	(2,767)	(53,589)	(15,676)
Total comprehensive loss for the period	\$ (9,634,799)	\$ (1,258,610)	\$ (13,259,624)	\$ (6,246,235)
Net income (loss) attributable to:				
Shareholders of the Company	(9,317,008)	(1,242,011)	(13,090,899)	(6,583,161)
Non-controlling interests	(168,837)	(13,832)	(115,136)	352,602
Net loss for the period	(9,485,845)	(1,255,843)	(13,206,035)	(6,230,559)
Total comprehensive income (loss) attributable to:				
Shareholders of the Company	(9,465,962)	(1,244,778)	(13,144,488)	(6,598,837)
Non-controlling interests	(168,837)	(13,832)	(115,136)	352,602
Total comprehensive loss for the period	(9,634,799)	(1,258,610)	(13,259,624)	(6,246,235)
Basic and diluted loss per common share	\$ (0.13)	\$ (0.02)	\$ (0.20)	\$ (0.15)
Weighted average number of common shares outstanding	71,119,403	51,881,454	67,649,963	43,865,259

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

ESE ENTERTAINMENT INC.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the nine months ended July 31, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited - Prepared by Management)

	Number of Shares	Share Capital	Share subscriptions received	Commitment to issue shares	Contributed Surplus	Accumulated other comprehensive income (loss)	Deficit	Non- Controlling Interest	Total
Balance October 31, 2020	38,656,764	\$ 4,088,263	\$ -	\$ 50,000	\$ 305,416	\$ 5,983	\$ (3,986,034)	\$ -	\$ 463,628
Private placement	3,315,482	3,647,030	-	-	-	-	-	-	3,647,030
Share issue cost	-	(293,383)	-	-	88,400	-	-	-	(204,983)
Share subscriptions received	-	-	1,050	-	-	-	-	-	1,050
Bought Deal Public Offering	6,164,000	8,629,600	-	-	-	-	-	-	8,629,600
Bought Deal Public offering issue costs	-	(758,645)	-	-	-	-	-	-	(758,645)
Bought Deal Units issued to underwriter	154,100	-	-	-	-	-	-	-	-
Bought Deal warrants issued to underwriters	-	(491,900)	-	-	491,900	-	-	-	-
Exercise of stock options	1,020,037	1,197,600	-	-	(838,327)	-	-	-	359,273
Exercise of agent's warrants	348,006	105,883	-	-	(55,692)	-	-	-	50,191
Shares issued for acquisition of WPG	585,156	1,345,858	-	-	-	-	-	-	1,345,858
Shares issued to finders for acquisition of WPG	434,999	1,000,498	-	-	-	-	-	-	1,000,498
Deferred compensation shares issued to WPG	6,664,845	975,193	-	-	-	-	-	-	975,193
Non-controlling interest WPG	-	-	-	-	-	-	-	1,416,078	1,416,078
Investment in K1CK	350,000	87,500	-	-	-	-	-	-	87,500
Share-based payments	-	-	-	-	1,797,961	-	-	-	1,797,961
Loss and comprehensive loss for the period	-	-	-	-	-	(15,676)	(6,583,161)	352,602	(6,246,235)
Balance July 31, 2021	57,693,389	\$ 19,533,497	\$ 1,050	\$ 50,000	\$ 1,789,658	\$ (9,693)	\$ (10,569,195)	\$ 1,768,680	\$ 12,563,997
Balance October 31, 2021	60,768,449	\$ 28,707,147	\$ 1,050	\$ 4,755,754	\$ 2,388,107	\$ (107,129)	\$ (21,202,268)	\$ (31,600)	\$ 14,511,061
Exercise of stock options	457,500	446,475	-	-	(273,975)	-	-	-	172,500
Exercise of agent's warrants	2,038	3,241	-	-	(999)	-	-	-	2,242
Shares issued for acquisition of Frenzy	656,606	866,720	-	-	-	-	-	-	866,720
Shares issued to finder for acquisition of Frenzy	101,016	133,341	-	-	-	-	-	-	133,341
Shares issued for acquisition of GameAddik	879,184	1,213,274	-	1,115,880	-	-	-	-	2,329,154
Shares issued to finder for acquisition of GameAddik	368,858	509,024	-	-	-	-	-	-	509,024
Commitment to issue shares – Acquisition of Frenzy	-	-	-	388,660	-	-	-	-	388,660
Commitment to issue shares – Acquisition of DM	1,412,250	1,186,037	-	(1,186,037)	-	-	-	-	-
Deferred compensation shares issued to WPG	-	4,711,997	-	-	-	-	-	-	4,711,997
Deferred compensation shares issued to GameAddik	6,497,959	3,550,727	-	-	-	-	-	-	3,550,727
Value of warrants and convertible option on issuance of convertible note units	-	-	-	-	471,718	-	-	-	471,718
Share subscriptions received	-	-	16,842	-	-	-	-	-	16,842
Share-based payments	-	-	-	-	2,361,161	-	-	-	2,361,161
Loss and comprehensive loss for the period	-	-	-	-	-	(53,589)	(13,090,899)	(115,136)	(13,259,624)
Balance July 31, 2022	71,143,860	\$ 41,327,983	\$ 17,892	\$ 5,074,257	\$ 4,946,012	\$ (160,718)	\$ (34,293,167)	\$ (146,736)	\$ 16,765,523

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

ESE ENTERTAINMENT INC.

Condensed Interim Consolidated Statements of Cash Flows

For the nine months ended July 31, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited - Prepared by Management)

	For the nine months ended July 31,	
	2022	2021
CASH FLOWS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Loss for the period	\$ (13,206,035)	\$ (6,230,559)
Items not affecting cash		
Accretion on convertible notes	104,900	-
Accretion on lease liabilities	63,230	1,383
Depreciation	321,925	20,505
Finder's fees for acquisitions paid by shares	642,365	1,000,498
Impairment of assets	-	207,500
Provision for income taxes	803,312	3,877
Share-based payments	10,623,885	2,773,154
Loss on derivative liability	230,655	-
Change in non-cash working capital item:		
Receivables	(664,691)	13,656
Inventory	(322,582)	-
Prepaid expenses and deposits	(94,277)	(301,072)
Deferred revenue	(27,181)	311,714
Accounts payable and accrued liabilities and income tax payable	1,019,069	111,042
Income tax payable	15,829	-
Net cash used in operating activities	(489,596)	(2,088,302)
INVESTING ACTIVITIES		
Cash paid to acquire WPG	-	(128,019)
Cash acquired on acquisition of WPG	-	69,823
Funds to WPG prior to acquisition	-	(290,000)
Cash paid to acquire KICK assets	-	(120,000)
Cash paid to acquire Frenzy	(1,603,419)	-
Cash acquired on acquisition of Frenzy	109,054	-
Cash paid to acquire GameAddik	(2,061,000)	-
Cash acquired on acquisition of GameAddik	123,895	-
Cash paid for deferred acquisition payment	(215,700)	-
Equipment	(356,656)	(14,067)
Net cash used in investing activities	(4,003,826)	(482,263)
FINANCING ACTIVITIES		
Repayment of lease liabilities	(234,807)	(10,900)
Repayment of loans and credit facilities	(190,290)	(509,086)
Convertible note units issued for cash	3,099,910	-
Interest payments	(94,641)	-
Loans received	395,000	-
Credit facility received	297,184	-
Shares issued for cash	174,742	12,686,094
Share issue cost	-	(963,628)
Share subscriptions received	16,842	1,050
Net cash provided by financing activities	3,463,940	11,203,530
Foreign exchange effect on cash	(129,265)	(14,907)
Change in cash for the period	(1,158,747)	8,618,058
Cash, beginning of period	4,825,072	550,011
Cash, end of period	\$ 3,666,325	\$ 9,168,069

Supplemental disclosures with respect to cash flows (Note 21)

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

ESE ENTERTAINMENT INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three and Nine Months Ended July 31, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited - Prepared by Management)

1 Nature and Continuance of Operations

ESE Entertainment Inc. (the “Company”, formerly Kepler Acquisition Corp. (“Kepler”)) is the parent company of ESE Entertainment Holdings Inc. (“ESE”). The Company is a global entertainment and technology company focused on gaming and esports. The Company provides a range of services to leading video game developers, publishers, and brands by providing technology, infrastructure, and fan engagement services internationally. ESE also operates its own ecommerce channels, esports teams, and gaming leagues. The Company’s registered office is at 6th Floor, 905 West Pender Street, Vancouver, British Columbia, V6C 1L6 and its head office is located at 1000-409 Granville Street, Vancouver, British Columbia, V6C 1T2.

On August 12, 2020, the Company completed the business combination with ESE by way of a plan of arrangement under the Business Corporations Act (British Columbia) (the “Arrangement”). Pursuant to the Arrangement, ESE was acquired by and became a wholly-owned subsidiary of Kepler for legal purposes. Upon closing of the transaction, the shareholders of ESE had control of the Company, and as a result, the transaction is considered a reverse acquisition (“RTO”) of Kepler by ESE. For accounting purposes, ESE is considered the acquirer and Kepler, the acquiree. Accordingly, the consolidated financial statements are a continuation of the financial statements of ESE.

On April 12, 2021, the Company acquired 51% of the business of World Phoning Group Inc, Encore Telecom Inc., and their two European operating subsidiaries, WPG Racing Solutions SRL and Foresight Resolution SRL (collectively, “WPGI”). Certain assets and liabilities of WPGI were rolled into a newly incorporated Canadian company, World Performance Group Ltd. (“WPG”), and, pursuant to a share purchase agreement dated February 15, 2021, ESE acquired 51% of the issued and outstanding shares of WPG (Note 4).

On September 15, 2021, the Company acquired 100% of the issued and outstanding shares of Auto Simulation Limited trading as Digital-Motorsports.com (“Digital Motorsports”) (Note 5).

On November 12, 2021, the Company acquired 100% of the issued and outstanding shares of Frenzy sp. Z.o.o (“Frenzy”) (Note 6).

On February 1, 2022, the Company acquired 100% of the issued and outstanding shares of 9327-7358 Quebec Inc. DBA GameAddik (“GameAddik”) (Note 7).

On June 6, 2022, the Company began trading on the OTCQX Best Market under the ticket symbol of “ENTEF”.

These condensed interim consolidated 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. At July 31, 2022, the Company has not achieved profitable operations, has accumulated losses of \$34,293,167 (October 31, 2021 - \$21,202,268) since inception and expects to incur further losses in the development of its business. The above material uncertainties cast significant 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 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 raising funds to continue operations, there is no assurance it will be able to do so in the future.

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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 Company's business financial condition and results of operations may be further negatively affected by economic and other consequences from Russia's military action against Ukraine and the sanctions imposed in response to that action in late February 2022. While the Company expects any direct impacts of the pandemic and the conflict in the Ukraine to the business to be limited, the indirect impacts on the economy could negatively affect the business and may make it more difficult for it to raise equity or debt financing. There can be no assurance that the Company will not be impacted by adverse consequences that may be brought about on its business, results of operations, financial position and cash flows in the future.

2 Basis of Preparation

Statement of Compliance

These condensed interim consolidated 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 condensed interim consolidated financial statements were authorized for issue by the Board of Directors on September 28, 2022.

3 Significant Accounting Policies

Basis of Measurement

These condensed interim consolidated 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 condensed interim consolidated financial statements are presented in Canadian dollars which is the Company's functional currency.

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited consolidated financial statements as at October 31, 2021.

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 condensed interim consolidated 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.

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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

The preparation of condensed interim consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts reported in the condensed interim consolidated financial statements and notes to the condensed interim consolidated 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. These estimates and judgments are further discussed below.

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

Functional currency

The analysis of the functional currency for each entity of the Company is a significant judgement. In concluding that the Canadian dollar ("CDN\$") is the functional currency of the parent, ESE, and GameAddik, the US dollar is the functional currency of WPG, the RON is the functional currency of WPG Racing Solutions SRL and Foresight Resolution SRL, the Polish Zloty ("PLN") is the functional currency of ESE Europe and Frenzy, and the Euro is the functional currency of Digital Motorsports, management considered the currency that mainly influences the costs of providing goods and services in each jurisdiction in which the entities operate.

Acquisition of KICK assets

Judgement was applied to determine if the acquisition of KICK assets represented a business combination or an asset purchase in accordance with IFRS 3, Business Combinations. The transaction was accounted for as an asset acquisition, whereby all of the assets acquired and liabilities assumed would be assigned a carrying amount based on relative fair values. The Company's application of the recognition principle may also result in recognizing some assets (often intangible) and liabilities that the acquiree had not previously recognized as assets and liabilities in its financial statements, which require management judgement. (Note 20)

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment are as follows:

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.

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Valuation of receivables

Management monitors the financial stability of its customers and the environment in which they operate to make estimates regarding the likelihood that the individual trade balances will be paid. Credit risks for outstanding customer receivables are regularly assessed and allowances are recorded for estimated losses, if required.

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 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.

Purchase price allocation

The acquisition of WPG on April 12, 2021, the acquisition of Digital Motorsports on September 15, 2021, the acquisition of Frenzy on November 12, 2021 and the acquisition of GameAddik on February 1, 2022 were accounted for as business combinations at fair value in accordance with IFRS 3, Business Combinations. The acquired assets and assumed liabilities will be adjusted to their fair values assigned through completion of a purchase price allocation, as described below. The purchase price allocation process resulting from a business combination requires management to estimate the fair value of the consideration paid, and the fair value of the identifiable assets acquired, including intangible assets, and liabilities assumed. The Company relies on work performed by third-party valuation specialists. These valuations are closely linked to the assumptions used by management on the future performance of the related assets and the discount rates applied. As at July 31, 2022 the valuation related to the Digital Motorsports, Frenzy and GameAddik acquisitions have not yet been finalized.

4 Acquisition of WPG

On April 12, 2021, the Company acquired 51% of the issued and outstanding shares of WPG. The acquisition of WPG was an important step to build infrastructure, as customer service is expected to be an important part of gaming and esports moving forward. WPG has the framework that can support esports and gaming events in the future. The purchase price consisted of (i) \$10,000 refundable deposit (paid), (ii) \$128,019 in cash on closing of the transaction (the "Closing") (paid), and (iii) issuance of 585,156 common shares of the Company (issued). The Company is also required to (i) issue 6,664,845 common shares (the "Deferred Compensation Shares"), vesting over three years, and (ii) advance \$750,000 to WPG (the "Working Capital Amount"). The Deferred Compensation Shares are considered a post-combination expense (Note 15b). Pursuant to the agreement, WPG is not required to repay or reimburse the Company all or any portion of the Working Capital Amount.

The transaction was accounted for as a business combination, as the operations of WPG meet the definition of a business. As the transaction was accounted for as a business combination, transaction costs were expensed.

The fair value of the 585,156 common shares issued (\$1,345,858) was determined based on the share price of the Company on the acquisition date. The consideration was allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The purchase price was allocated as follows:

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Cash	\$	128,019
585,156 common shares of the Company		1,345,858
Fair value of consideration		1,473,877
Allocated to the fair value of net assets acquired (liabilities assumed):		
Cash		69,823
Receivables		501,275
Prepaid expenses		34,593
Equipment and right-of-use asset		136,239
Accounts payable and accrued liabilities		(437,125)
Lease liabilities		(104,693)
Income tax payable		(5,059)
Funds from the Company prior to the acquisition		(290,000)
Loans and credit facilities (Note 13)		(509,086)
Deferred revenue		(54,325)
Total net liabilities assumed		(658,358)
Non-Controlling interest		(1,416,078)
Unallocated purchase price	\$	3,548,313

The Company relied on the work of third-party valuation specialists and the initial assessment did not support the recognition of intangible assets that would meet the recognition criteria under IAS 38. Therefore the unallocated purchase price of \$3,548,313 has been recorded as an impairment loss during the year ended October 31, 2021. The Company also issued 434,999 common shares to consultants for a total value of \$1,000,498 for providing M&A advisory services in connection with the acquisition of WPG.

The Company has the option to acquire the remaining 49% of the issued and outstanding shares of WPG (the “Minority Interest”) at any time within 34 months following the closing by: (i) paying \$624,613 in cash; and (ii) issuing 2,500,000 common shares. WPGI also has the right to sell the Minority Interest to the Company at any time within 34 months following the closing upon the occurrence of a change of control event in exchange for the Company: (i) paying \$780,767 in cash; and (ii) issuing 3,125,000 common shares.

The operating results for WPG have been recognized in the consolidated statement of loss and comprehensive loss beginning on April 12, 2021, the effective date of obtaining control. During the three and nine months ended July 31, 2022 the Company recorded revenues of \$7,328,263 and \$18,352,119 and net loss of \$344,565 and \$234,970 related to WPG.

5 Acquisition of Digital Motorsports

On September 15, 2021, the Company acquired 100% of the issued and outstanding shares of Digital Motorsports. The acquisition is intended to build on ESE’s position in the sim racing market, and bring it one step closer to becoming a significant gaming and esports company. The purchase price consisted of (i) \$1,681,250 in cash on closing of the transaction (the “Closing”) (paid), (ii) issuance of 941,500 common shares of the Company (issued), and (iii) up to 8,473,500 contingent earn-out common shares (the “DMS Contingent Shares”) to be issued in six equal installments, with the first and second installments being issued on October 14, 2021 and April 14, 2022 respectively, subject to DMS generating revenue (as defined) greater than €2,587,005 for the prior four quarters, assessed every six months between Closing and January 1, 2027. The Company will also advance €250,000 to Digital Motorsports (the “DMS Working Capital Amount”). Pursuant to the agreement, Digital Motorsports is not required to repay or reimburse the Company all or any portion of the DMS Working Capital Amount.

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The transaction was accounted for as a business combination, as the operations of Digital Motorsports meet the definition of a business. As the transaction was accounted for as a business combination, transaction costs were expensed. The goodwill resulting from the allocation of the purchase price to the total fair value of net assets will represent the sales and growth potential of Digital Motorsports.

The fair value of the consideration transferred was determined on a preliminary basis. The fair value of the 941,500 common shares issued (\$950,915) was determined based on the share price of the Company on the date of acquisition. For the DMS Contingent Shares, the Company is evaluating several valuation models which will best incorporate the probability of whether, and when, the revenue threshold would be met, amongst other variability in the outcomes. Due to the timing of the transaction and the complexity of the contingent arrangement, the estimated fair value of the 8,473,500 DMS Contingent Shares (\$6,182,127) was determined on a preliminary basis based on the share price of the Company on the date of acquisition adjusted using the average strike put-option model to account for the timing of the future share issuances. The fair value of the consideration will be revised by the Company once it has finalized the appropriate valuation model for the contingent consideration.

The consideration was allocated to the assets acquired and liabilities assumed on a preliminary basis based on their estimated fair values at the date of acquisition. Due to the timing of the acquisition, the Company will require additional information to determine the final fair value of consideration and to allocate the fair values to the net assets (liabilities) acquired, particularly to any intangibles and goodwill acquired. The determination of the fair value of the net assets (liabilities) will be revised by the Company as additional information is received. The purchase price was allocated as follows:

Cash	\$	1,681,250
941,500 common shares of the Company		950,915
8,473,500 contingent earn-out common shares of the Company to be issued		6,182,127
Fair value of consideration		8,814,292
Allocated to the fair value of net assets acquired:		
Cash		138,761
Receivables		79,812
Prepaid expenses		325,315
Inventory		235,736
Equipment and right-of-use asset		235,303
Accounts payable and accrued liabilities		(607,336)
Shareholder loans		(112,088)
Deferred revenue		(98,555)
Lease liabilities		(119,724)
Income tax payable		(24,694)
Total net assets acquired		52,530
Unallocated purchase price	\$	8,761,762

The Company also issued 470,750 common shares to consultants for a total value of \$475,458 and paid cash of \$84,062 for providing M&A advisory services in connection with the acquisition of Digital Motorsports. The Company also paid \$109,905 in stamp taxes on Closing.

The operating results for Digital Motorsports have been recognized in the consolidated statement of loss and comprehensive loss beginning on September 15, 2021, the effective date of obtaining control. During the three

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and nine months ended July 31, 2022, the Company recorded revenues of \$1,402,237 and \$4,361,474 and net loss of \$134,188 and \$179,131 related to Digital Motorsports.

6 Acquisition of Frenzy

On November 12, 2021, the Company completed the acquisition of 100% of the issued and outstanding shares of Frenzy, a European esports media and technology company. The acquisition of Frenzy is a key addition to ESE's ability to produce, host, and execute esports and gaming events and content. The acquisition included key equipment, operators, and distribution channels that allow ESE to expand its service offerings and capacity for new media business.

The purchase price consisted of (i) \$1,484,665 in cash paid on the closing of the transaction which includes a working capital adjustment (paid); (ii) \$1,183,123 in cash payable six months following closing; (iii) 656,606 common shares of the Company issued on closing (issued); and (iv) a minimum of 1,363,720 common shares (the "Frenzy Earn Out Shares") to be issued in four equal installments, subject to Frenzy generating revenue (as defined) greater than PLN7,460,950 for the prior four quarters, assessed every six months following closing. The Company has also agreed to discharge a loan owed by Frenzy in the amount of \$118,754 concurrently with closing.

The transaction was accounted for as a business combination, as the operations of Frenzy meet the definition of a business. As the transaction was accounted for as a business combination, transaction costs were expensed. The goodwill resulting from the allocation of the purchase price to the total fair value of net liabilities will represent the sales and growth potential of Frenzy.

The fair value of the consideration transferred was determined on a preliminary basis. The fair value of the 656,606 common shares issued (\$866,720) was determined based on the share price of the Company on the date of acquisition. For the Frenzy Earn Out Shares, the Company is evaluating several valuation models which will best incorporate the probability of whether, and when, the revenue threshold would be met, amongst other variability in the outcomes. Due to the timing of the transaction and the complexity of the contingent arrangement, the estimated fair value of the 1,363,720 Frenzy Earn Out Shares (\$1,314,136) was determined on a preliminary basis based on the share price of the Company on the date of acquisition adjusted using the average strike put-option model to account for the timing of the future share issuances. As the number of the Frenzy Earn Out Shares to be issued is contingent on the share prices of the Company on the earn out dates, the Frenzy Earn Out Shares meet the definition of a derivative liability and is recorded as such revalued on each subsequent reporting date with the changes in the fair value recorded in profit and loss.

The consideration was allocated to the assets acquired and liabilities assumed on a preliminary basis based on their estimated fair values at the date of acquisition. Due to the timing of the acquisition, the Company will require additional information to determine the final fair value of consideration and to allocate the fair values to the net assets (liabilities) acquired, particularly to any intangibles and goodwill acquired. The determination of the fair value of the net assets (liabilities) will be revised by the Company as additional information is received. The purchase price was allocated as follows:

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Cash	\$ 1,484,665
Cash – loan discharge	118,754
Deferred cash payment	1,183,123
656,606 common shares of the Company	866,720
Frenzy Earn Out Shares of the Company to be issued	1,314,136
Fair value of consideration	4,967,398
Allocated to the fair value of net assets acquired (liabilities assumed):	
Cash	109,054
Receivables	718,480
Equipment	256,433
Intangibles	1,033
Investment	373
Other non-current assets	932
Accounts payable and accrued liabilities	(444,408)
Loans and credit facilities (Note 13)	(583,718)
Income tax payable	(107,018)
Total net liabilities assumed	(48,839)
Unallocated purchase price	\$ 5,016,237

The Company also issued 101,016 common shares to consultants for a total value of \$133,341 and paid cash of \$124,250 for providing advisory services in connection with the acquisition of Frenzy. These amounts have been recorded as finder's fees in the condensed interim consolidated statement of loss and comprehensive loss.

The operating results for Frenzy have been recognized in the condensed interim consolidated statement of loss and comprehensive loss beginning on November 12, 2021, the effective date of obtaining control. For the three months ended July 31, 2022 and from the acquisition date of November 12, 2021 to July 31, 2022, the Company recorded revenues of \$1,075,518 and \$2,380,597 and net loss of \$4,933 and \$318,264 related to Frenzy.

The changes in the derivative liability during the nine months ended July 31, 2022 are as follows:

Balance, October 31, 2021	\$ -
Fair value of Frenzy Earn Out Shares to be issued	1,314,136
First tranche of Frenzy Earn Out Shares to be issued	(388,660)
Loss on derivative liability	230,655
Balance, July 31, 2022	1,156,131
Less: Current portion	(929,643)
Non-current portion	\$ 226,488

7 Acquisition of GameAddik

On January 31, 2022, the Company completed the acquisition of 100% of the issued and outstanding shares of GameAddik, a Canadian technology company focused on gaming and esports. The acquisition of GameAddik allows ESE to bring a new revenue channel of video game advertising to expand its service offerings.

The purchase price consisted of: (i) \$2,061,000 in cash to be paid on closing or within 5 days of closing (paid); (ii) \$2,751,000 in cash to be paid 6 months from closing, subject to adjustment based on the working capital of GameAddik on closing; and (iii) 7,377,143 common shares of ESE (the "Consideration Shares") (issued). The

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Company will have the right to repurchase 6,497,959 of the Consideration Shares for nominal consideration if revenues of GameAddik do not reach \$5,000,000 for 2022 and \$6,250,000 for the 2023 and 2024 fiscal years. 5,378,887 of the Consideration Shares are considered a post-combination expense (Note 15b).

The transaction was accounted for as a business combination, as the operations of GameAddik meet the definition of a business. As the transaction was accounted for as a business combination, transaction costs were expensed. The goodwill resulting from the allocation of the purchase price to the total fair value of net liabilities will represent the sales and growth potential of GameAddik.

The fair value of the consideration transferred was determined on a preliminary basis. The fair value of the 879,184 common shares issued (\$1,213,274) was determined based on the share price of the Company on the date of acquisition. For the Consideration Shares, the Company is evaluating several valuation models which will best incorporate the probability of whether, and when, the revenue threshold would be met, amongst other variability in the outcomes. Due to the timing of the transaction and the complexity of the contingent arrangement, the estimated fair value of the 1,119,072 Consideration Shares (\$1,115,880) was determined on a preliminary basis based on the share price of the Company on the date of acquisition adjusted using the average strike put-option model to account for the timing of the future share issuances. The fair value of the consideration will be revised by the Company once it has finalized the appropriate valuation model for the Consideration Shares.

The consideration was allocated to the assets acquired and liabilities assumed on a preliminary basis based on their estimated fair values at the date of acquisition. Due to the timing of the acquisition, the Company will require additional information to determine the final fair value of consideration and to allocate the fair values to the net assets (liabilities) acquired, particularly to any intangibles and goodwill acquired. The determination of the fair value of the net assets (liabilities) will be revised by the Company as additional information is received. The purchase price was allocated as follows:

Cash	\$	2,061,000
Deferred cash payment		2,751,000
Working capital adjustment		2,378,394
879,184 common shares of the Company		1,213,274
1,119,072 Consideration Shares		1,115,880
Fair value of consideration		9,519,548
Allocated to the fair value of net assets acquired (liabilities assumed):		
Cash		123,895
Receivables		3,681,883
Prepaid expenses and deposits		24,649
Equipment		1,557,120
Other non-current assets		13,045
Lease liability		(973,880)
Accounts payable and accrued liabilities		(1,101,467)
Total net assets acquired		3,325,245
Unallocated purchase price	\$	6,194,303

The Company also issued 368,858 common shares to consultants for a total value of \$509,024 and paid cash of \$240,600 for providing advisory services in connection with the acquisition of GameAddik. These amounts have been recorded as finder's fees in the condensed interim consolidated statement of loss and comprehensive loss.

The operating results for GameAddik have been recognized in the condensed interim consolidated statement of loss and comprehensive loss beginning on February 1, 2022, the effective date of obtaining control. For the three

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months ended July 31, 2022 and from the acquisition date of February 1, 2022 to July 31, 2022, the Company recorded revenues of \$5,956,582 and \$13,118,631 and net income of \$728,003 and \$2,095,557 related to GameAddik.

8 Receivables

	July 31, 2022	October 31, 2021
VAT Receivable	\$ 55,264	\$ 32,635
GST Receivable	321,577	185,204
Due from WPGI	31,668	38,363
Refundable WPG acquisition deposit due from WPG	-	10,000
Trade accounts receivable	5,513,738	577,946
Receivables	\$ 5,922,247	\$ 844,148

9 Property and Equipment

	Equipment	Right of Use Asset	Total
Cost as at October 31, 2021	\$ 171,401	\$ 215,123	\$ 386,524
Acquired pursuant to acquisition of Frenzy	256,433	-	256,433
Acquired pursuant to acquisition of GameAddik	583,240	973,880	1,557,120
Additions	356,656	309,022	665,678
Foreign exchange	9,229	(3,608)	5,621
Cost as at July 31, 2022	\$ 1,376,959	\$ 1,494,417	\$ 2,871,376
Accumulated depreciation as at October 31, 2021	\$ 16,602	\$ 22,927	\$ 39,529
Depreciation	122,818	199,107	321,925
Foreign exchange	(21,846)	6,296	(15,550)
Accumulated depreciation as at July 31, 2022	\$ 117,574	\$ 228,330	\$ 345,904
Net Book Value as at October 31, 2021	\$ 154,799	\$ 192,196	\$ 346,995
Net Book Value as at July 31, 2022	\$ 1,259,385	\$ 1,266,087	\$ 2,525,472

10 Deposit

Deposit consists of funds advanced to GR Games SP. Z O.O. (“GR Games”), a private entity in Poland, for the purchase of 50,000 “Series B” shares in GR Games. The shares will be issued upon registration with the Polish National Court Register.

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11 Accounts Payable and Accrued Liabilities

	July 31, 2022	October 31, 2021
Trade payables	\$ 3,281,844	\$ 882,804
Accrued liabilities	296,262	117,981
Accounts payable and accrued liabilities	\$ 3,578,106	\$ 1,000,785

12 Lease Liabilities

Balance, October 31, 2021	\$ 198,125
Cash flows	
Principal payments	(171,577)
Interest payments	(63,230)
Non-cash changes	
Additions	1,282,901
Interest expense	63,230
Foreign exchange	(7,587)
Balance, July 31, 2022	1,301,862
Less: Current portion	(378,565)
Non-current portion	\$ 923,297

The Company has the following lease liabilities:

- A premise lease entered into by WPG in February 2021. This lease expires in January 2024, has 34 monthly payments of \$3,634 due at the beginning of each month with an interest rate of 5.45%. The lease includes two rent free months (January 2023 and January 2024). As at July 31, 2022, the net carrying amount of the right-of-use asset from the WPG premise lease is \$50,485.
- A premise lease entered into by Digital Motorsports 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 July 31, 2022, the net carrying amount of the right-of-use asset from the Digital Motorsports premise lease is \$80,376.
- A premise lease entered into by ESE Holdings in November 2021. This lease expires in October 2024, has 36 monthly payments of \$9,546 due at the beginning of each month with an interest rate of 7.45%. As at July 31, 2022, the net carrying amount of the right-of-use asset from the ESE Holdings premise lease is \$231,767.
- A premise lease entered into by GameAddik in October 2020. This lease expires in September 2026, has 72 monthly payments of \$3,988, increasing by 3% each year, due at the beginning of each month with an interest rate of 8.45%. As at July 31, 2022, the net carrying amount of the right-of-use asset from the GameAddik premise lease is \$180,915.

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- A premise lease entered into by GameAddik in January 2020. This lease expires in January 2030, has 120 monthly payments of \$11,667 due at the beginning of each month with an interest rate of 9.95%. As at July 31, 2022, the net carrying amount of the right-of-use asset from the GameAddik premise lease is \$722,544.

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

	\$
1 year	361,376
2 year	361,050
3-5 years	629,387
5-10 years	338,333
Total minimum lease payments	1,690,146
Add: net exchange difference	1,204
Less: imputed interest	(389,488)
Total present value of minimum lease payments	1,301,862
Less: Current portion	(378,565)
Non-current portion	923,297

13 Loans and Credit Facilities

	July 31, 2022	October 31, 2021
Loans assumed upon acquisition of WPG (Note 4)	\$ -	\$ 509,086
Loans assumed upon acquisition of Frenzy (Note 6)	583,718	-
Repayment of loans	(190,290)	(509,086)
Loans received	395,000	-
Credit facility received	297,184	-
Net exchange difference	(30,857)	-
Loans and Credit Facilities	\$ 1,054,755	\$ -

14 Convertible Notes

Balance, October 31, 2021	\$ -
Additions, net of issuance costs and transaction fees	2,628,192
Accretion expense	104,900
Balance, July 31, 2022	\$ 2,773,092

On February 16, 2022, the Company raised gross proceeds of \$1,575,000 through the issuance of 1,575 convertible note units at a price of \$1,000 per unit. Each unit consists of \$1,000 in principal amount of an unsecured convertible note and 250 common share purchase warrants of the Company. The convertible note will mature on February 16, 2024 and bears interest at a simple rate of 10% per annum. Interest is payable quarterly on the last business day of each quarter, commencing on March 31, 2022. The entire principal amount of the convertible note may be converted at the election of the holder into common shares of the Company at a

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conversion price of \$1.60 per share at any time prior to the maturity date. The accrued but unpaid interest may also be converted into common shares at a conversion price equal to the greater of (i) \$1.60 and (ii) the market price of the Company's common shares on the conversion date.

Each warrant is exercisable into one common share of the Company at a price of \$1.60 per share expiring two years from closing.

The Company paid cash finders' fees of \$37,560 and issued 23,100 Agents' warrants. Each Agents' warrant is exercisable at \$1.60 per share expiring two years from closing. The Agents' warrants were fair valued at \$12,871 using the Black-Scholes option valuation model with the following assumptions: Share price at the time of issuance \$1.21; risk-free interest rate of 1.53%; expected life of two years; dividend rate – 0%; forfeiture rate – 0% and annualized volatility of 100%. Since the Company does not have enough history of trading prices, the Company utilized annualized volatility of comparable startup companies.

The fair value of the liability component of the convertible note on inception was estimated at \$1,351,947 based on an estimated 20% market discount rate less \$43,289 pro-rata portion of the \$50,431 transaction costs. The residual value of \$223,053 and \$7,142 of transaction costs was allocated to the equity components as below.

Based on a proportional allocation of the residual value after fair valuing the common share purchase warrants and conversion feature using the Black-Scholes option valuation model, \$61,689 was allocated to the warrants and \$154,222 was allocated to the conversion feature on recognition. The common share purchase warrants and the conversion feature were fair valued using the Black-Scholes option valuation model with the following assumptions: Share price at the time of issuance \$1.21; risk-free interest rate of 1.53%; expected life of two years; dividend rate – 0%; forfeiture rate – 0% and annualized volatility of 100%. Since the Company does not have enough history of trading prices, the Company utilized annualized volatility of comparable startup companies.

On April 8, 2022, April 14, 2022 and April 21, 2022, the Company raised gross proceeds of \$1,680,000 through the issuance of 1,680 convertible note units at a price of \$1,000 per unit. Each unit consists of \$1,000 in principal amount of an unsecured convertible note and 313 common share purchase warrants of the Company. The convertible note will mature on April 7, 2024, April 13, 2022 and April 20, 2022, respectively, and bears interest at a simple rate of 10% per annum. Interest is payable quarterly on the last business day of each quarter, commencing on June 30, 2022. The entire principal amount of the convertible note may be converted at the election of the holder into common shares of the Company at a conversion price of \$1.60 per share at any time prior to the maturity date. The accrued but unpaid interest may also be converted into common shares at a conversion price equal to the greater of (i) \$1.60 and (ii) the market price of the Company's common shares on the conversion date.

The Company paid cash finders' fees of \$117,530 and issued 73,457 Agents' warrants. Each Agents' warrant is exercisable at \$1.60 per share expiring two years from closing. The Agents' warrants were fair valued at \$25,260 using the Black-Scholes option valuation model with the following assumptions: Average share price at the time of issuance \$0.88; average risk-free interest rate of 2.43%; expected life of two years; dividend rate – 0%; forfeiture rate – 0% and annualized volatility of 100%. Since the Company does not have enough history of trading prices, the Company utilized annualized volatility of comparable startup companies.

The fair value of the liability component of the convertible notes on inception was estimated at \$1,442,104 based on an estimated 20% market discount rate less \$122,570 pro-rata portion of the \$142,790 transaction costs. The residual value of \$237,896 and \$20,220 of transaction costs was allocated to the equity components as below.

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Based on a proportional allocation of the residual value after fair valuing the common share purchase warrants and conversion feature using the Black-Scholes option valuation model, \$72,636 was allocated to the warrants and \$145,040 was allocated to the conversion feature on recognition. The common share purchase warrants and the conversion feature were fair valued using the Black-Scholes option valuation model with the following assumptions: Weighted average share price at the time of issuance \$0.88; weighted average risk-free interest rate of 2.43%; expected life of two years; dividend rate – 0%; forfeiture rate – 0% and annualized volatility of 100%. Since the Company does not have enough history of trading prices, the Company utilized annualized volatility of comparable startup companies.

During the three and nine months ended July 31, 2022, \$71,895 and \$104,900 (2021 - \$nil and \$nil) of accretion was recorded on the convertible notes.

15 Share Capital

a) Authorized

Unlimited common shares, without par value.

b) Issued

During the nine months ended July 31, 2022:

On November 12, 2021, the Company acquired 100% of Frenzy by issuing 656,606 common shares for a fair value of \$866,720 and by committing to issue a minimum of 1,363,720 Frenzy Earn Out Shares for a fair value of \$1,314,136. The first tranche of the Frenzy Earn Out Shares to be issued on the first earn out date is determined to be \$388,660. The Company also issued 101,016 common shares to consultants for a total value of \$133,341.

On February 1, 2022, the Company acquired 100% of GameAddik by issuing 7,377,143 Consideration Shares. The Company also issued 368,858 common shares to consultants for a total value of \$509,024. The Company will have the right to repurchase 6,497,959 of the Consideration Shares for nominal consideration if revenues of GameAddik do not reach \$5,000,000 for 2022 and \$6,250,000 for the 2023 and 2024 fiscal years. 5,378,887 of the Consideration Shares are considered a post-combination expense. During the nine months ended July 31, 2022, the fair value of the Consideration Shares recorded in share capital and share-based payments was \$3,550,727. The fair value was determined based on the share price of the Company on the date of issuance adjusted using the average strike put-option model to account for the timing of the future share issuances.

1,412,250 DMS Contingent Shares were issued in February 2022 (Note 5).

During the nine months ended July 31, 2022, 457,500 stock options were exercised for total proceeds of \$172,500. The Company also transferred \$273,975 from contributed surplus. The weighted average share price on the date of exercise was \$1.07 per share.

During the nine months ended July 31, 2022, 2,038 agent's warrants were exercised for total proceeds of \$2,242. The Company also transferred \$999 from contributed surplus. The share price on the date of exercise was \$1.49 per share.

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During the nine months ended July 31, 2022, the fair value of the Deferred Compensation Shares to WPG recorded in share capital and share-based payments was \$4,711,997. The fair value was determined based on the share price of the Company on the date of issuance adjusted for the reverse vesting terms.

During the year ended October 31, 2021:

On December 24, 2020, the Company completed a non-brokered private placement of 3,315,482 units at a price of \$1.10 per unit for total proceeds of \$3,647,030. Each unit consisted of one common share and one-half of one common share purchase warrant, each whole warrant is exercisable into one common share of the Company at a price of \$1.50 per share expiring two years from closing. All of the proceeds were allocated to share capital. In connection with the private placement, the Company paid cash finders' fees of \$204,983 and issued 180,346 Agents' warrants. Each Agents' warrant is exercisable at \$1.10 per share expiring two years from closing. The Agents' warrants were fair valued at \$88,400 using the Black-Scholes option valuation mode with the following assumptions: Share price at the time of issuance \$1.10; risk-free interest rate of 0.20%; Expected life of two years; Dividend rate – 0%; Forfeiture rate – 0% and annualized volatility of 100%. Since the Company does not have enough history of trading prices, the Company utilized annualized volatility of comparable startup companies.

On February 1, 2021, the Company issued 350,000 common shares at a fair value of \$0.25 per share to the owner of K1CK Esports Club in exchange for certain assets (Note 20).

On April 12, 2021, the Company acquired 51% of WPG by issuing 585,156 common shares to WPGI for a total fair value of \$1,345,858.

On April 12, 2021, the Company issued the Deferred Compensation Shares to WPGI with a fair value of \$2.30 per share, determined based on the share price on the issuance date. The Deferred Compensation Shares are subject to a Reverse Vesting Agreement under which the Company has the right, following the occurrence of the triggering event to repurchase at a nominal price all Deferred Compensation Shares that have not been released from the Repurchase Right at the time of the occurrence of the triggering event. The Deferred Compensation Shares will be released from the Repurchase Right in 35 equal tranches of 185,134 common shares followed by a final release of 185,155 common shares. The first tranche was released from the Repurchase Right on May 12, 2021, and each subsequent tranche will be released from the Repurchase Right at the end of each month thereafter with the final release occurring on April 12, 2024. The following events are considered a triggering event under the Reverse Vesting Agreement if they occur prior to April 12, 2024: i) if Wayne Silver voluntarily resigns as an officer and employee of WPG, ii) if Wayne Silver otherwise voluntarily ceases providing services to WPG for reasons other than death, illness or disability or iii) if Wayne Silver is terminated for reasons of willful misconduct or fraud, pursuant to the terms of the share purchase agreement dated February 15, 2021. During the year ended October 31, 2021, the fair value of the Deferred Compensation Shares recorded in share capital and share-based payments was \$7,222,025. The fair value was determined based on the share price of the Company on the date of issuance adjusted for the reverse vesting terms.

On July 19, 2021, the Company completed a bought deal public offering of 6,164,000 units a price of \$1.40 per unit for total proceeds of \$8,629,600. Each unit consisted of one common share and one common share purchase warrant. Each common share purchase warrant is exercisable to acquire one common share at a price of \$1.95 at any time before July 19, 2023. All of the proceeds were allocated to share capital. In connection with the bought deal public offering, the Company paid cash financing fees of \$758,645 and issued 431,480 Agents' warrants units. Each Agents' warrant unit is exercisable at \$1.40 per unit expiring two years from closing. Each Agents' warrant unit consists of one common share and one Agents' warrant, with each Agents' warrant being exercisable to acquire one common share at a price of \$1.95 at any time before July 19, 2023. The Agents'

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warrants units were fair valued at \$491,900 using the Black-Scholes option valuation mode with the following assumptions: Share price at the time of issuance \$1.40; weighted average exercise price of \$1.68; risk-free interest rate of 0.47%; expected life of two years; dividend rate – 0%; forfeiture rate – 0% and annualized volatility of 100%. Additionally, the company issued 154,100 units to the lead underwriter as a corporate finance fee. The Company recognized additions to share capital and recorded share issuance costs of \$215,740.

On September 14, 2021, the 200,000 common shares that represent the commitment to issue shares recorded as at October 31, 2020 were issued.

On September 15, 2021, the Company acquired 100% of Digital Motorsports by issuing 941,500 common shares for a fair value of \$950,915 and by committing to issue up to 8,473,500 common shares (the “DMS Contingent Shares”) to former shareholders of Digital Motorsports for a fair value of \$6,182,127.

1,412,250 DMS Contingent Shares were issued in October 2021 (Note 5).

During the year ended October 31, 2021, 1,070,037 stock options were exercised for total proceeds of \$371,752. The Company also transferred \$849,827 from contributed surplus. The weighted average share price on the date of exercise was \$1.45 per share.

During the year ended October 31, 2021, 348,566 agent’s warrants were exercised for total proceeds of \$50,211. The Company also transferred \$55,765 from contributed surplus. The weighted average share price on the date of exercise was \$1.70 per share.

c) Stock Options

The Company adopted a stock option plan under which it is authorized to grant options to officers, directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. The options can be granted for a maximum of ten years and vest as determined by the Board of Directors. The exercise price of each option granted may not be less than the fair market value of the common shares.

On April 1, 2022, the Company granted 500,000 stock options to a consultant of the Company. The stock options entitle the holders thereof the right to purchase one common share for each option at \$0.95 per share expiring on April 1, 2027. The stock option vest in four equal tranches on July 1, 2022, October 1, 2022, January 1, 2023, and April 1, 2023. The fair value of the stock options of \$355,000 was determined using the Black Scholes option valuation model with the following assumptions – share price on date of grant of \$0.95; risk-free interest rate of 2.46%; dividend yield of 0%; expected life of 5 years; forfeiture rate of 0% and expected volatility of 100%. Since the Company does not have enough history of trading prices, the Company utilized annualized volatility of comparable start-up companies. During the three and nine months ended July 31, 2022, the Company recorded \$38,820 and \$94,268 (2021 - \$nil and \$nil) in share-based compensation.

On March 16, 2022, the Company granted 2,098,000 stock options to directors, officers and consultants of the Company. The stock options entitle the holders thereof the right to purchase one common share for each option at \$0.91 per share expiring on March 16, 2027. The stock option vested immediately. The fair value of the stock options of \$1,489,580 was determined using the Black Scholes option valuation model with the following assumptions – share price on date of grant of \$0.94; risk-free interest rate of 2.02%; dividend yield of 0%; expected life of 5 years; forfeiture rate of 0% and expected volatility of 100%. Since the Company does not have enough history of trading prices, the Company utilized annualized volatility of comparable start-up companies. During the three and nine months ended July 31, 2022, the Company recorded \$nil and \$1,489,580 (2021 - \$nil and \$nil) in share-based compensation.

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On May 6, 2021, the Company granted 1,500,000 stock options to directors, officers and consultants of the Company. The stock options entitle the holders thereof the right to purchase one common share for each option at \$1.70 per share expiring on May 6, 2024. The stock option vest at 25% every six months with the first vesting on November 6, 2021. The fair value of the stock options of \$1,560,000 was determined using the Black Scholes option valuation model with the following assumptions – share price on date of grant of \$1.69; risk-free interest rate of 0.50%; dividend yield of 0%; expected life of 3 years; forfeiture rate of 0% and expected volatility of 100%. Since the Company does not have enough history of trading prices, the Company utilized annualized volatility of comparable start-up companies. During the three and nine months ended July 31, 2022, the Company recorded \$120,917 and \$552,309 (2021 - \$381,211 and \$381,211) in share-based compensation.

On February 16, 2021, the Company granted 100,000 stock options to a non-employee of the Company. The stock options entitle the holders thereof the right to purchase one common share for each option at \$1.76 per share expiring on February 16, 2023. The stock option vest at 25% every three months with the first vesting on May 16, 2021. The grant date fair value of the stock options of \$165,000 was determined using the Black Scholes option valuation model with the following assumptions – share price on date of grant of \$1.76; risk-free interest rate of 0.23%; dividend yield of 0%; expected life of 2 years; forfeiture rate of 0% and expected volatility of 100%. Since the Company does not have enough history of trading prices, the Company utilized annualized volatility of comparable start-up companies. During the three and nine months ended July 31, 2022, the Company recorded \$nil and (\$11,360) (2021 – \$1,973 and \$42,133) in share-based compensation.

On January 25, 2021, the Company granted 750,000 stock options to a consultant of the Company. The stock options entitle the holders thereof the right to purchase one common share for each option at \$1.24 per share expiring on January 25, 2024. The stock option vest in 24 equal monthly tranches on the first day of each calendar month with the first such tranche vesting on February 1, 2021. The fair value of the stock options of \$585,000 was determined using the Black Scholes option valuation model with the following assumptions – share price on date of grant of \$1.26; risk-free interest rate of 0.20%; dividend yield of 0%; expected life of 3 years; forfeiture rate of 0% and expected volatility of 100%. Since the Company does not have enough history of trading prices, the Company utilized annualized volatility of comparable start-up companies. During the three and nine months ended July 31, 2022, the Company recorded \$26,055 and \$124,406 (2021 - \$121,092 and \$359,819) in share-based compensation.

On December 7, 2020, the Company granted 750,000 stock options to a consultant of the Company. The stock options entitle the holders thereof the right to purchase one common share for each option at \$0.56 per share expiring on December 7, 2022. The stock option vest in four equal tranches on December 7, 2020, March 7, 2021, June 7, 2021, and December 7, 2021. The grant date fair value of the stock options of \$337,500 was determined using the Black Scholes option valuation model with the following assumptions – share price on date of grant of \$0.56; risk-free interest rate of 0.20%; dividend yield of 0%; expected life of 2 years; forfeiture rate of 0% and expected volatility of 100%. Since the Company does not have enough history of trading prices, the Company utilized annualized volatility of comparable start-up companies. During the three and nine months ended July 31, 2022, the Company recorded \$nil and \$40,012 (2021 – (\$36,491) and \$837,611) in share-based compensation.

On August 17, 2020, the Company granted 2,050,000 stock options to directors, officers and consultants of the Company. The stock options entitle the holders thereof the right to purchase one common share for each option at \$0.25 per share expiring on August 17, 2025. 375,000 stock options vested on the date of grant with the remaining 1/6 every 6 months thereafter. The fair value of the stock options of \$471,500 was determined using the Black Scholes option valuation model with the following assumptions – share price on date of grant of \$0.30; risk-free interest rate of 0.41%; dividend yield of 0%; expected life of 5 years; forfeiture rate of 0% and expected volatility of 100%. Since the Company does not have enough history of trading prices, the Company utilized

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annualized volatility of comparable start-up companies. During the three and nine months ended July 31, 2022, the Company recorded \$19,950 and \$71,946 (2021 - \$46,494 and \$177,187) in share-based compensation.

The following table summarized the continuity of the Company's stock options:

	Number of Stock Options Outstanding	Weighted Average Exercise Price
Balance, October 31, 2020	2,432,537	\$ 0.22
Granted	3,100,000	1.31
Exercised	(1,070,037)	0.35
Balance, October 31, 2021	4,462,500	0.95
Granted	2,598,000	0.92
Cancelled	(100,000)	1.76
Exercised	(457,500)	0.38
Balance, July 31, 2022	6,503,000	\$ 0.97

As at July 31, 2022, the Company had stock options outstanding enabling holders to acquire the following:

Number of Options Outstanding	Number of Options Vested	Exercise price per option	Expiry date
1,655,000	955,000	\$0.25	August 17, 2025
750,000	562,500	\$1.24	January 25, 2024
1,500,000	750,000	\$1.70	May 6, 2024
2,098,000	2,098,000	\$0.91	March 16, 2027
500,000	125,000	\$0.95	April 1, 2027
6,503,000	4,490,500		

d) Share Purchase Warrants

The following table summarized the continuity of the Company's share purchase warrants:

	Number of Share Purchase Warrants	Weighted Average Exercise Price
Balance, October 31, 2020	-	\$ -
Issued	7,975,830	\$1.86
Balance, October 31, 2021	7,975,830	\$1.86
Granted	919,590	\$1.60
Balance, July 31, 2022	8,895,420	\$1.83

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As at July 31, 2022, the Company had share purchase warrants outstanding enabling holders to acquire the following:

Number of Share Purchase Warrants	Exercise price per warrant	Expiry date
1,657,730	\$1.50	December 24, 2022
6,318,100	\$1.95	July 19, 2023
393,750	\$1.60	February 16, 2024
289,838	\$1.60	April 8, 2024
212,527	\$1.60	April 16, 2024
23,475	\$1.60	April 21, 2024
8,895,420		

e) Agent's Warrants

The following table summarized the continuity of the Company's Agent's Warrants:

	Number of Agent's Warrants	Weighted Average Exercise Price
Balance, October 31, 2020	457,410	\$0.13
Issued	611,826	\$1.31
Expired	(82,053)	\$0.07
Exercised	(348,566)	\$0.14
Balance, October 31, 2021	638,617	\$1.26
Granted	96,557	\$1.60
Exercised	(2,038)	\$1.10
Balance, July 31, 2022	733,136	\$1.31

As at July 31, 2022, the Company had agent's warrants outstanding enabling holders to acquire the following:

Number of Agent's Warrants	Exercise price per warrant	Expiry date
28,544	\$0.25	August 12, 2022
176,555	\$1.10	December 24, 2022
431,480	\$1.40	July 19, 2023
23,100	\$1.60	February 16, 2024
40,469	\$1.60	April 8, 2024
29,707	\$1.60	April 16, 2024
3,281	\$1.60	April 21, 2024
733,136		

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f) Escrow Agreement

25,000,000 shares were placed into escrow. Under the escrow agreement, 10% of the shares were released on the issuance of the final exchange bulletin (the TSXV's acceptance of the reverse acquisition of Kepler by ESE) and an additional 15% will be released on each of the dates which are 6 months, 12 months, 18 months, 24 months, 30 months and 36 months following the initial release. As at July 31, 2022, 11,250,000 shares were in escrow (October 31, 2021 - 15,000,000 shares were in escrow).

16 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:

- 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.

Fair Value:

As at July 31, 2022, the Company believes that the carrying values of cash, receivables, accounts payable and accrued liabilities, Frenzy and GameAddik acquisition payment commitment, loans and credit facilities approximate their fair values because of their nature and relatively short maturity dates or durations. The fair values of derivative liability and convertible notes are based on level 1 inputs of the fair value hierarchy. The derivative liability and convertible notes are measured at fair value with reference to level 3 within the fair value hierarchy, with the convertible notes being subsequently measured at amortized costs using the effective interest method.

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.

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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 condensed interim consolidated financial statements are summarized below.

Financial risk factors

The Company's risk exposures and the impact on the Company's consolidated 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 and trade accounts receivable. The Company limits its exposure to credit loss by placing its cash with major financial institutions. Receivable balances are monitored on an ongoing basis. The Company applied the simplified model and determined the lifetime expected credit losses as at July 31, 2022 was \$nil (October 31, 2021 – \$nil), with the result that the Company's exposure to bad debts is insignificant. While the Company is exposed to credit losses due to the non-performance of its counterparties, there are no significant concentrations of credit risk, and as such Management does not consider this to be a material risk.

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 Company pays interest on its convertible notes at a fixed rate of 10% per annum. The Company does not have any material variable interest rates and is not exposed to any material interest rate risk on its cash and debt instruments.

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 investment income received to expenditures to be incurred. All of the Company's accounts payable and accrued liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms.

On October 7, 2019, the Company obtained a credit facility of \$50,000 which bears interest at prime rate plus 3% which is secured by the CEO of the Company. As at July 31, 2022 and October 31, 2021, the Company had not utilized any of the credit facility.

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During the year ended October 31, 2021, WPG obtained a revolving demand credit facility of \$400,000 which bears interest at Royal Bank Prime plus 2% for loans made in Canadian currency, and at Royal Bank US Base Rate plus 2% for loans made in US Currency. The facility is secured by a general security agreement in all personal property of WPG, a first ranking security interest in all accounts receivable of WPG, and a guarantee and postponement of claim in the amount of \$300,000 signed by the Company. As at July 31, 2022, the amount drawn from the credit facility is \$297,184 (October 31, 2021 - \$nil).

As at July 31, 2022, the Company had a cash balance of \$3,666,325 and receivables of \$5,922,247 to settle accounts payable and accrued liabilities of \$3,578,106 and deferred acquisition payments of \$6,096,817.

Foreign currency risk

The Company may be exposed to foreign currency risk on fluctuations related to cash, trade accounts receivable, accounts payable and accrued liabilities, loans, and lease liabilities that are denominated in a foreign currency.

As at July 31, 2022, the Company held cash denominated in Polish Zloty of PLN1,204,505 (October 31, 2021 – PLN412,886), trade accounts receivable of PLN2,652,548 (October 31, 2021 – PLN252,877) and accounts payable, accrued liabilities of PLN3,048,492 (October 31, 2021 – PLN358,885) and loans of PLN1,311,205 (October 31, 2021 – PLNNil) translated at PLN1 for every CDN\$0.28. These factors expose the Company to foreign currency exchange rate risk, which could have a material adverse effect on the profitability of the Company. A 10% change in the exchange rate would change other comprehensive income/loss by approximately \$13,900.

As at July 31, 2022, the Company held cash denominated in Romanian New Leu of RON10,502 (October 31, 2021 – RON 5,937), accounts receivable of RON202,074 (October 31, 2021 – RONNil) and accounts payable and accrued liabilities of RON246,605 (October 31, 2021 – RON372,892) translated at RON1 for every CDN\$0.27. These factors expose the Company to foreign currency exchange rate risk, which could have a material adverse effect on the profitability of the Company. A 10% change in the exchange rate would change other comprehensive income/loss by approximately \$900.

As at July 31, 2022, the Company held cash denominated in Euro of €73,740 (October 31, 2021 – €160,946), trade accounts receivable of €138,894 (October 31, 2021 - €182,046), lease liabilities of €69,747 (October 31, 2021 - €79,411) and accounts payable and accrued liabilities of €360,354 (October 31, 2021 - €176,797) translated at €1 for every CDN\$1.31. These factors expose the Company to foreign currency exchange rate risk, which could have a material adverse effect on the profitability of the Company. A 10% change in the exchange rate would change other comprehensive income/loss by approximately \$28,400.

As at July 31, 2022, the Company held cash denominated in US dollars of (\$7,868) (October 31, 2021 – \$2,000), trade accounts receivable of \$280,007 (October 31, 2021 - \$207,152) and accounts payable and accrued liabilities of \$333,130 (October 31, 2021 - \$163,452) translated at \$1 for every CDN\$1.28. These factors expose the Company to foreign currency exchange rate risk, which could have a material adverse effect on the profitability of the Company. A 10% change in the exchange rate would change other comprehensive income/loss by approximately \$7,800.

The Company currently does not plan to enter into foreign currency future contracts to mitigate this risk.

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17 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. In order to pay for general administrative costs, the Company will raise additional amounts as needed.

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. Management historically funds the Company's expenditures by issuing share capital rather than using capital sources that require fixed repayments of principle and/or interest. 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 nine months ended July 31, 2022.

18 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:

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	Three months ended July 31,		Nine months ended July 31,	
	2022	2021	2022	2021
<u>Consulting fees</u>				
Konrad Wasiela, CEO and Director	\$ -	\$ -	\$ -	\$ 19,000
Maarschalk Capital Inc., a company controlled by Ryan Maarschalk, former Director	12,000	12,000	36,000	36,000
Wasiela Services Ltd., a company controlled by Konrad Wasiela	45,000	45,000	135,000	116,000
RSJ Consulting Inc., a company controlled by Robert Kang, former CFO	12,000	9,000	36,000	36,000
	69,000	66,000	207,000	207,000
Share-based payments incurred with directors and officers	74,820	222,747	787,510	329,704
<u>Legal fees, included in professional fees</u>				
Segev LLP, of which Ron Segev, Director is a principal partner	-	76,883	151,520	188,976
	\$ 143,820	\$ 365,630	\$ 1,146,030	\$ 725,680

Included in prepaid expenses and deposits at July 31, 2022 is \$nil (October 31, 2021 - \$19,950) in prepaid fees to companies with an officer or director in common. Included in accounts payable and accrued liabilities at July 31, 2022 is \$66,302 (October 31, 2021 - \$13,955) in unpaid legal fees and other balances owing to an officer of the company and to companies with an officer or director in common. The balance owing is unsecured, non-interest bearing and due in 30 days.

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

On August 11, 2020, the Company entered into an agreement with Ron Segev to be a director of the Company, and as consideration, the Company agreed to issue 200,000 common shares and granted 300,000 in stock options at a price of \$0.25 per share for a period of 5 years. On August 17, 2020, the Company granted the stock options and recorded the 200,000 common shares at the fair market value of \$0.25 per share for \$50,000. The 200,000 shares were recorded as commitment to issue shares as at October 31, 2020 and issued on September 22, 2021.

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19 Segmented Information and Revenue DisclosuresSegmented information

The Company operates in four industry segments of digital media and entertainment, call center services, telecommunications and advanced simulation racing infrastructure, technology, and support.

Information for the four industry segments as at and for the nine months ended July 31, 2022 is as follows:

	Digital media and entertainment	Call center services	Telecommunicati ons	Advanced simulation racing infrastructure, technology, and support	Corporate	Total
Types of products and services from which each reportable segment derives its revenues	Contract revenue – advertising and events	Contact center fan engagement & other	Telecom wholesale voice	Sale of products and solutions	Activities not directly attributable to an operating segment	
Total assets	\$ 19,628,225	\$ 74,079	\$ 648,317	\$ 10,273,675	\$ 3,088,340	\$ 33,712,636
Total liabilities	\$ 13,401,338	\$ 30,094	\$ 692,787	\$ 696,838	\$ 2,126,056	\$ 16,947,113
Revenue	\$ 16,249,130	\$ 923,264	\$ 17,428,855	\$ 4,361,473	\$ -	\$ 38,962,722
Net (loss) income	\$ 1,632,238	\$ (2,387)	\$ (232,584)	\$ (179,131)	\$ (14,424,171)	\$ (13,206,035)

Information for the four industry segments as at October 31, 2021 and for the nine months ended July 31, 2021 as follows:

	Digital media and entertainment	Call center services	Telecommunications	Advanced simulation racing infrastructure, technology, and support	Corporate	Total
Total assets	\$ 820,864	\$ 61,832	\$ 573,787	\$ 9,946,175	\$ 4,541,703	\$ 15,944,361
Total liabilities	\$ 204,544	\$ 48,132	\$ 432,747	\$ 482,710	\$ 265,167	\$ 1,433,300
Revenue	\$ 855,366	\$ 504,528	\$ 3,783,889	\$ -	\$ -	\$ 5,143,783
Net (loss) income	\$ (190,605)	\$ (10,114)	\$ 729,711	\$ -	\$ (6,759,551)	\$ (6,230,559)

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Information about geographical areas

The Company's non-current assets are allocated to geographic segments as at July 31, 2022 and October 31, 2021 as follows:

	July 31, 2022	October 31, 2021
Ireland	\$ 8,961,296	\$ 8,989,411
Canada	7,978,477	-
Poland	5,811,568	317,524
Romania	76,050	113,041
Total non-current assets	\$ 22,827,391	\$ 9,419,976

The Company's net loss is allocated to geographic segments for the nine months ended July 31, 2022 and 2021 as follows:

	July 31, 2022	July 31 2021
Canada	\$ (12,582,712)	\$ (6,132,254)
Ireland	(179,131)	-
Poland	(441,805)	(97,919)
Romania	(2,387)	(386)
Net loss	\$ (13,206,035)	\$ (6,230,559)

Three customers (2021 – four customers) in the Telecommunications segment accounted for more than 10% of total revenue for the Company and in aggregate accounted for 29% (2021 - 60%) of sales. One customer (2021 – nil customer) in the Digital media and entertainment segment accounted for more than 10% of total revenue for the Company and in aggregate accounted for 21% (2021 – nil%) of sales.

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The Company's revenues are allocated to geographic segments for the nine months ended July 31, 2022 and 2021 as follows:

	2022	2021
Canada	\$ 317,798	\$ 87,531
China	4,065,555	-
Norway	9,313,607	-
Poland	3,021,726	767,835
United Kingdom	1,698,231	729,031
United States	10,870,208	2,487,282
Ireland	523,377	-
Italy	590,288	-
Other	8,561,932	1,072,104
Total revenue	\$ 38,962,722	\$ 5,143,783

Disaggregation of revenue

Revenue and gross profit are derived from the following sources during the nine months ended July 31, 2022 and 2021:

For the nine months, ended July 31, 2022	Contract revenue – advertising and events	Telecom wholesale voice	Contact center fan engagement & other	Sale of products and solutions	Total
Revenue	\$ 16,249,130	\$ 17,428,855	\$ 923,264	\$ 4,361,473	\$ 38,962,722
Cost of sales	(8,970,236)	(17,605,327)	(506,657)	(3,525,414)	(30,607,634)
Gross profit (loss)	\$ 7,278,894	\$ (176,472)	\$ 416,607	\$ 836,059	\$ 8,355,088

For the nine months ended July 31, 2021	Contract revenue – advertising and events	Telecom wholesale voice	Contact center fan engagement & other	Sale of products and solutions	Total
Revenue	\$ 855,366	\$ 3,783,889	\$ 504,528	-	\$ 5,143,783
Cost of sales	(322,594)	(3,732,466)	(313,431)	-	(4,368,491)
Gross profit	\$ 532,772	\$ 51,423	\$ 191,097	-	\$ 775,292

During the nine months ended July 31, 2022, the Company recognized as revenue \$213,652 (2021 - \$nil) which was included in deferred revenue at the beginning of the period. The Company expects to recognize as revenue

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the remaining performance obligations represented by the deferred revenue balance as at July 31, 2022 in the next twelve months.

20 Investment in K1CK

On November 19, 2020, the Company entered into an asset purchase agreement with the owner of K1CK Esports Club (“Vendor”), whereby the Company has agreed to acquire certain assets (the “K1CK assets”) from the Vendor. As consideration, the Company shall pay an aggregate of \$207,500, consisting of the following (1) \$120,000 cash with \$60,000 payable on closing and the balance due on demand after January 20, 2021; (2) \$87,500 in common shares of the Company at a price of \$0.25 per share for a total of 350,000 common shares of the Company. On February 1, 2021, the Company issued 350,000 common shares and as at October 31, 2021, the \$120,000 in cash was paid.

At the date of acquisition, the Company determined that the K1CK assets did not constitute a business as defined under IFRS 3, Business Combinations, and as such, the acquisition was accounted for as an asset acquisition. The Company was unable to identify the intangible assets that meet the recognition criteria under IAS 38, therefore, the entire consideration paid of \$207,500 was recorded as an impairment on K1CK assets.

21 Supplemental Disclosures with Respect to Cash Flows

	Nine months ended July 31,	
	2022	2021
Supplemental cash-flow disclosures		
Interest paid	\$ 157,871	\$ -
Taxes paid	\$ -	\$ -
Supplemental non-cash disclosures		
Fair value of stock options and warrants exercised	\$ 274,974	\$ 894,019
Fair value of shares issued to acquire K1CK assets	\$ -	\$ 87,500
Fair value of finder’s warrants issued	\$ 38,131	\$ 88,400
Fair value of shares issued to finders for acquisitions	\$ 642,365	\$ 1,000,498
Fair value of shares issued for commitment to issue shares	\$ 1,115,880	\$ -
Fair value of shares issued to acquire WPG	\$ -	\$ 1,345,858
Fair value of warrants issued to Bought Deal underwriters	\$ -	\$ 491,900
Fair value of shares issued to acquire Frenzy	\$ 866,720	\$ -
Fair value of shares issued to acquire GameAddik	\$ 4,764,001	\$ -

22 Subsequent Events

- a) Subsequent to July 31, 2022, options to acquire 75,000 common shares at \$0.25 per share were exercised.
- b) Subsequent to July 31, 2022, warrants to acquire 24,784 common shares at \$0.25 per share were exercised.
- c) On August 2, 2022, options to acquire 250,000 common shares at \$0.50 per share were granted.

ESE ENTERTAINMENT INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three and Nine Months Ended July 31, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited - Prepared by Management)

- d) On August 5, 2022, options to acquire 250,000 common shares at \$0.52 per share were granted.
- e) On August 19, 2022, options to acquire 450,000 common shares at \$0.50 per share were granted.