

EAST SIDE GAMES GROUP INC.
(Formerly known as “Leaf Mobile Inc.”)
Condensed Consolidated Interim Financial Statements
(Unaudited - Presented in Canadian Dollars)
For the Three and Nine Month Periods Ended September 30, 2022 and 2021

NOTICE OF NO AUDITOR REVIEW OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2022 AND 2021

The accompanying unaudited condensed consolidated interim financial statements of East Side Games Group (the “Company”) for the three and nine month periods ended September 30, 2022 and 2021 have been prepared by, and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of the Company’s unaudited condensed consolidated interim financial statements for the three and nine month periods ended September 30, 2022 and 2021.

EAST SIDE GAMES GROUP INC.
Consolidated Statement of Income
and Comprehensive Income
(Unaudited - Presented in Canadian dollars)
For the Three and Nine Month Periods Ended September 30, 2022 and 2021

	Note	2022	2021	2022	2021
REVENUE					
Gaming		\$ 18,636,337	\$ 13,811,648	\$ 67,133,266	\$ 48,665,550
Advertising		6,411,797	5,223,753	23,226,133	15,913,636
		25,048,134	19,035,401	90,359,399	64,579,186
COST OF SALES					
		9,504,936	6,870,726	31,309,207	23,364,968
GROSS PROFIT					
		15,543,198	12,164,675	59,050,192	41,214,218
EXPENSES					
Research and development	8	4,951,257	2,597,908	16,137,006	8,438,714
Sales and marketing		7,914,504	6,253,279	30,033,183	20,460,839
General and administrative		4,265,844	2,694,281	12,361,270	9,604,205
Transaction expenses		680,959	213,040	704,332	1,591,230
Depreciation of property and equipment and right-of use assets		84,453	93,991	260,238	260,315
Depreciation of intangible assets		1,830,644	1,556,250	5,491,930	4,150,000
		19,727,661	13,408,749	64,987,959	44,505,303
LOSS BEFORE OTHER INCOME (EXPENSES) AND INCOME TAXES					
		\$ (4,184,463)	\$ (1,244,074)	\$ (5,937,767)	\$ (3,291,085)
OTHER INCOME (EXPENSES)					
Reversal of contingent payment		-	-	19,502,224	-
Gain on long term investment and disposal of subsidiary		-	-	-	4,953,463
Investment and other income (loss)		10,351	86,310	(402,901)	284,760
Gain (loss) on foreign exchange		240,555	52,888	732,327	(553,671)
Accretion expense		-	(482,578)	(477,570)	(1,230,925)
		250,906	(343,380)	19,354,080	3,453,627
INCOME (LOSS) BEFORE INCOME TAXES					
		\$ (3,933,557)	\$ (1,587,454)	\$ 13,416,314	\$ 162,542
INCOME TAX EXPENSE (RECOVERY)					
Current		-	272,314	314,753	3,239,952
Deferred	16	(420,188)	(414,762)	(1,260,562)	(1,998,254)
		(420,188)	(142,448)	(945,809)	1,241,698
NET AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD					
		\$ (3,513,369)	\$ (1,445,006)	\$ 14,362,123	\$ (1,079,156)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE					
		\$ (0.04)	\$ (0.02)	\$ 0.18	\$ (0.01)
SHARES USED IN CALCULATING EARNINGS (LOSS) PER SHARE					
Basic and Diluted		81,536,436	76,585,406	80,199,351	72,406,253

EAST SIDE GAMES GROUP INC.
Consolidated Statement of Changes in Equity
(Unaudited - Presented in Canadian dollars)
For the Nine Month Period Ended September 30, 2022 and 2021

	<i>Note</i>	Number of shares	Share capital	Contributed surplus	Retained earnings (Deficit)	Total equity
As at January 1, 2021		44,444,444	\$ 2,104,861	\$ 1,312,366	\$ 22,230,299	\$ 25,647,526
Adjustment to the issued common shares of the legal parent at the time of the reverse takeover	4	31,566,347	71,024,281	-	-	71,024,281
Fair value of stock options from reverse takeover	4	-	-	55,000	-	55,000
Shares issued for advisory fees for reverse takeover	17	426,883	960,486	-	-	960,486
Stock option exchange		-	-	(1,255,349)	-	(1,255,349)
Stock option exercised		147,872	515,908	(195,727)	-	320,181
Warrants exercised		23,867	46,318	(14,490)	-	31,828
Stock based compensation	18	-	-	1,722,796	-	1,722,796
Distribution to shareholders on Reverse Takeover	4	-	-	-	(57,733,545)	(57,733,545)
Deferred consideration on Reverse Takeover, as adjusted	4	-	-	5,442,439	(5,442,439)	-
Cash dividends paid prior to Reverse Takeover		-	-	-	(6,300,000)	(6,300,000)
Non-cash dividends paid prior to Reverse Takeover	20	-	-	-	(9,178,619)	(9,178,619)
Refundable taxes paid		-	-	-	(1,818,171)	(1,818,171)
Refundable taxes recovered		-	-	-	2,033,408	2,033,408
Comprehensive loss for the period		-	-	-	(1,079,156)	(1,079,156)
As at September 30, 2021		76,609,413	\$ 74,651,854	\$ 7,067,035	\$ (57,288,223)	\$ 24,430,666
As at January 1, 2022		76,620,326	\$ 74,758,038	\$ 7,364,733	\$ (58,089,983)	\$ 24,032,788
Warrants exercised		11,027	27,568	-	-	27,568
Stock options exercised		41,250	66,000	-	-	66,000
Stock based compensation	18	-	-	2,086,437	-	2,086,437
Shares issued for acquisition	5	419,389	1,267,000	-	-	1,267,000
Shares issued for contingent payment	4	4,444,444	7,659,213	-	2,340,787	10,000,000
Share buyback		-	(194,580)	-	-	(194,580)
Comprehensive income for the period		-	-	-	14,362,123	14,362,123
As at September 30, 2022		81,536,436	\$ 83,583,239	\$ 9,451,170	\$ (41,387,073)	\$ 51,647,336

EAST SIDE GAMES GROUP INC.
Consolidated Statement of Cash Flow
(Unaudited - Presented in Canadian dollars)
For the Nine Month Period Ended September 30, 2022 and 2021

	2022 <i>September 30</i>	2021 <i>September 30</i>
OPERATING ACTIVITIES		
Net and comprehensive income (loss)	\$ 14,362,123	\$ (1,079,156)
Items not affecting cash:		
Reversal of Contingent Liabilities	(19,502,224)	-
Depreciation of property and equipment	260,238	260,315
Depreciation of intangible assets	5,491,930	4,150,000
Deferred income tax	(1,260,562)	(1,998,254)
Share based payments	-	1,038,486
Gain on disposal of marketable securities	-	(284,760)
Unrealized loss on marketable securities	709,151	-
Marketable securities received	(768,538)	-
Gain on long term investments	-	(4,895,791)
Accretion expense on contingent liabilities	477,570	1,230,925
Stock based compensation	2,086,437	3,628,014
Changes in non-cash working capital		
Trade and other receivables	2,079,697	3,581,342
Government assistance receivable	35,282	1,752,040
Prepaid expenses	(329,734)	(2,404,199)
Trade and other payables	1,799,149	(303,150)
Deferred revenue	(404,748)	(38,159)
Income taxes payable and recoverable	544,985	(2,550,120)
Cash flow from operating activities	<u>\$ 5,580,755</u>	<u>\$ 2,087,533</u>
INVESTING ACTIVITIES		
Proceeds from marketable securities	-	5,533,812
Purchase of equipment	(244,394)	(285,710)
Purchase of long term investment	-	(238,528)
Cash acquired from Reverse Takeover	\$ -	\$ 4,422,540
Cash flow from (used in) investing activities	<u>\$ (244,394)</u>	<u>\$ 9,432,114</u>
FINANCING ACTIVITIES		
Cash consideration paid on Reverse Takeover	-	(19,328,515)
Cash dividends paid prior to Reverse Takeover	-	(6,300,000)
Proceeds from subscription offering	-	21,028,250
Warrants exercised	27,568	31,828
Share Buybacks	(194,580)	-
Stock options exercised	66,000	320,181
Earnout payment	(10,000,000)	-
Bank indebtedness	810,000	-
Refundable taxes paid	-	(1,818,171)
Refundable taxes recovered	-	2,033,408
Repayment of lease obligation	(131,201)	(127,820)
Cash flow from (used in) financing activities	<u>\$ (9,422,213)</u>	<u>\$ (4,160,839)</u>
INCREASE (DECREASE) IN CASH	\$ (4,085,852)	\$ 7,358,808
Cash - beginning of period	<u>9,242,144</u>	<u>4,416,399</u>
CASH - END OF PERIOD	\$ 5,156,292	\$ 11,775,207

Supplemental cash flow information

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EAST SIDE GAMES GROUP INC.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited - Presented in Canadian dollars)
For the Three and Nine Month Periods Ended September 30, 2022 and 2021

1. NATURE AND CONTINUANCE OF OPERATIONS

East Side Games Group Inc. (the "Company", "ESGG") was incorporated provincially under the Business Corporations Act of British Columbia on November 29, 2018. The head office of the Company is Suite 3104 – 1055 Dunsmuir Street, Vancouver, British Columbia, V6C 3A8. The Company was formerly known as Leaf Mobile Inc. ("LEAF") and changed its name to East Side Games Group Inc. at its Annual General Meeting on May 17, 2022.

Eastside Games Inc. ("ESG") and LDRLY (Technologies) Inc. ("LDRLY"), wholly owned subsidiaries of the Company, are mobile game developers and publishers, specialising in free-to-play casual mobile games. ESG and LDRLY generate in-app purchases revenue from the sale of in game virtual items that enhance the game-playing experience, and through advertising.

On February 5, 2021, the Company received approval from the Toronto Stock Exchange ("TSX") and the TSX Venture Exchange ("TSX-V") to close its acquisition by ESG. On February 10, 2021, the Company resumed trading on the TSX under the symbol "LEAF". Refer to Note 4 for details of the acquisition of ESG, which is being accounted for as a reverse takeover. On December 8, 2021, the Company changed its ticker to "EAGR" on the TSX and "EAGRF" on the OTCQB Marketplace in the United States.

2. BASIS OF PRESENTATION

Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the years ended December 31, 2021 and 2020, which have been prepared in accordance with IFRS as issued by the IASB. The accounting policies followed in these condensed consolidated interim financial statements are consistent with those applied in the Company's financial statements for the years ended December 31, 2021 and 2020. The disclosures which follow do not include all disclosures required for the annual financial statements.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 10th, 2022.

Basis of measurement

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

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EAST SIDE GAMES GROUP INC.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited - Presented in Canadian dollars)
For the Three and Nine Month Periods Ended September 30, 2022 and 2021

2. BASIS OF PRESENTATION *(continued)*

Basis of consolidation

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

Significant Judgments and estimates

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

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

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

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

Estimates related to earn out payments are typically recorded as contingent liabilities. These are remeasured quarterly based on the criteria surrounding the earn out, which in the case of the ESG Acquisition, is estimated revenue for the earn out period.

(b) Share-based payments

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

EAST SIDE GAMES GROUP INC.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited - Presented in Canadian dollars)
For the Three and Nine Month Periods Ended September 30, 2022 and 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements have been prepared following the same accounting policies used in preparation of the audited consolidated financial statements of the Company for the year ended December 31, 2021.

4. ACQUISITION OF EAST SIDE GAMES INC.

Prior to the acquisition of ESG, on January 22, 2021, the Company received all necessary approvals from the TSX, the TSX-V and all security commissions in each of the Provinces of Canada (except Quebec) and filed its short form prospectus with respect to its public offering of Subscription Receipts and acquisition of ESG. The offering consisted of 8,888,888 Subscription Receipts at a price of \$2.25 per Subscription Receipt, for gross proceeds of \$20,000,000, and an over-allotment option for an additional 1,333,333 Subscription Receipts at a price of \$2.25 per Subscription Receipt, for additional gross proceeds of \$3,000,000.

The Company completed its offering on February 4, 2021, including the over-allotment, for aggregate gross proceeds of \$23,000,000. The Company paid \$1,971,750 in cash and issued 613,333 broker warrants exercisable into Leaf shares at \$2.25 per share, in share issuance costs.

On February 5, 2021, the Company acquired all issued and outstanding shares of ESG, such that ESG is now a wholly owned subsidiary, for the following consideration:

- Cash consideration of \$10,000,000, plus a working capital adjustment of \$10,428,514, with \$1,100,000 being held in escrow for a period of 12 months;
- Share consideration of 44,444,444 Leaf shares; and
- \$40,000,000 in contingent payable, with an acquisition date present value of \$37,305,031, upon the Company reaching certain milestones. At the option of the vendors, the contingent payable will be paid fully in cash or up to a maximum of 50% in Leaf common shares at a set price of \$2.25 per share. The contingent amount becomes payable based on the following:
 - \$20,000,000 if Leaf achieves \$100,000,000 in gross revenue, as defined in the purchase agreement, in the first 12 months following transaction close date. This milestone was achieved on February 5, 2022 and the Company paid the \$20,000,000, with the vendors electing to take half in shares with 4,444,444 shares being issued and \$10,000,000 cash.
 - \$20,000,000 if Leaf achieves \$150,000,000 in gross revenue in the second 12 months following transaction close date. Until Q2 2022, the Company estimated that this contingent amount would be paid and accrued the present value of the expected payments as contingent liabilities. However, based on the Company's forecast as of June 30, 2022 and September 30, 2022, the Company believes that it won't achieve the \$150,000,000 revenue target. As a result, at June 30, 2022, the Company reversed the remaining carrying value of 19,502,224 contingent liability into income. If the Company's forecast increases to \$150,000,000 these amounts will be owed to the vendors.

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EAST SIDE GAMES GROUP INC.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited - Presented in Canadian dollars)
For the Three and Nine Month Periods Ended September 30, 2022 and 2021

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

The cash consideration, working capital adjustment and the original estimate of contingent amounts totalling \$57,733,545 are payments, or expected payments, from Leaf to its shareholders and were included as part of dividends and distributions to shareholders in the consolidated statement of changes in equity. Given the contingent liability has an equity feature allowing for up to 50% to be settled in shares, the equity settlement option was valued using the Black-Scholes model resulting in a value of \$5,442,439 being recognized as an increase to contributed surplus and as a further distribution to shareholders in the consolidated statement of changes in equity. The Black-Scholes option pricing model used the following inputs: risk-free interest rate of 0.48%, expected volatility ranging from 55.80% to 59.06%, and expected dividend yield of 0%.

As a result of the shares issued to shareholders of ESG, ESG shareholders owned 58% of the combined Company. As such, despite being the legal subsidiary, ESG was identified as the accounting acquiror and LEAF was identified as the legal parent and the accounting acquiree. As ESG was deemed to be the acquirer for accounting purposes, its assets, liabilities, and operations since incorporation are included in the consolidated financial statements at their historical carrying values. Leaf's results of operations have been included from the date of the transaction. The legal capital continues to be that of Leaf, the legal parent.

As at September 30, 2022, cash of \$1,100,000 (December 31, 2021 - \$1,100,000) remains held in escrow pursuant to the share purchase agreement. This restricted amount is included in the total cash and cash equivalents and trade and other payables on the statement of financial position.

Transaction costs for the reverse acquisition were \$1,210,375 and were expensed during the period ended September 30, 2021.

EAST SIDE GAMES GROUP INC.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited - Presented in Canadian dollars)
For the Three and Nine Month Periods Ended September 30, 2022 and 2021

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

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

<u>Consideration</u>	
31,566,347 Leaf shares at a price of \$2.25 per share	\$ 71,024,281
44,000 stock options	55,000
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Total consideration before settling the pre-existing relationship	\$ 71,079,281
Net payables to ESG eliminated on acquisition	7,765,636
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	\$ 78,844,917
 <u>Net assets acquired</u>	
Cash	\$ 4,422,540
Trade and other receivables	5,447,741
Subscription proceeds receivable	21,028,250
Government assistance receivable	156,315
Prepaid expenses and deposits	99,388
Property and equipment	89,100
Trade and other payables	(1,537,444)
Deferred income taxes	(4,978,493)
Brand	7,130,000
Developed game technology	11,470,000
Customer relationships	5,010,000
Goodwill	30,507,520
	<hr/>
	\$ 78,844,917
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The amount of revenue and net loss of the Company for the nine months ended September 30, 2021 on a combined basis had the acquisition occurred on January 1, 2021 after intercompany eliminations is as follows:

Combined Revenue	\$66,842,455
Combined Net loss	\$(2,323,102)

EAST SIDE GAMES GROUP INC.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited - Presented in Canadian dollars)
For the Three and Nine Month Periods Ended September 30, 2022 and 2021

5. ASSET ACQUISITION OF FUNKO POP! BLITZ

In January 2022, the Company acquired all of N3TWORK Inc.'s interest in the *Funko Pop! Blitz* mobile game, and all assets used and related to the free-to-play mobile game on iOS and Android thereto. The purchase price included 419,389 shares and the assumption of certain minimum guarantees due in 2023 and 2024 which are included in long term liabilities in the consolidated statement of financial position at September 30, 2022. The assets acquired are included in intangible assets and are being amortized over their estimated useful life of three years.

EAST SIDE GAMES GROUP INC.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited - Presented in Canadian dollars)
For the Three and Nine Month Periods Ended September 30, 2022 and 2021

6. FINANCIAL INSTRUMENTS

Categories of financial assets and financial liabilities

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

Financial Instrument	Category	September 30, 2022	December 31, 2021
Cash and cash equivalents	FVTPL	5,156,292	9,242,144
Marketable securities	FVTPL	59,387	-
Trade and other receivables	Amortized Cost	8,066,665	10,146,362
Long term investments without significant influence	FVTPL	950,000	950,000
Bank indebtedness	Amortized Cost	810,000	-
Trade and other payables	Amortized Cost	14,538,244	12,739,096
Contingent liabilities	Amortized Cost	-	39,024,654

Fair value

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

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

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

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

The carrying values of trade and other receivables, trade and other payables, bank indebtedness, and contingent payable approximate their fair value due to their short-term nature. The Company's fair value of cash and cash equivalents and marketable securities under fair value hierarchy are measured using Level 1 inputs. Long-term investments not subject to significant influence are measured using Level 2 inputs.

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company's main exposure to credit risk relates to its trade receivables. The credit risk is minimal since the majority of the Company's receivables come from large corporations who pay the Company advertising and gaming revenue. There is no bad debt expense in the current or prior periods and in the opinion of management, none of the amounts comprising this balance were considered impaired. As at September 30, 2022, 68% (December 31, 2021 - 72%) of the Company's trade receivables was concentrated to three major Digital Storefronts and advertisers. The Company has not had any problems with payment from these Digital Storefronts and advertisers and as such management is of the opinion that any concentration of credit risk is minimal.

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EAST SIDE GAMES GROUP INC.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited - Presented in Canadian dollars)
For the Three and Nine Month Periods Ended September 30, 2022 and 2021

6. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk

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

Currency risk

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

At September 30, 2022, 1 Canadian Dollar was equal to \$0.7508 US Dollar (December 31, 2021 - \$0.7816).

	September 30, 2022		December 31, 2021	
	US Dollar	CDN Equivalent	US Dollar	CDN Equivalent
Cash	3,024,388	4,028,182	3,068,546	3,925,898
Trade and other receivables	3,955,064	5,267,749	4,487,294	5,741,044
Trade and other payables	(5,502,429)	(7,328,685)	(2,350,206)	(3,006,853)

Based on the net exposures as of September 30, 2022 and assuming that all other variables remain constant, a 10% fluctuation on the Canadian Dollar against the US Dollar would result in a change to the Company's net income by approximately \$178,841 (December 31, 2021 - \$605,463).

7. TRADE AND OTHER RECEIVABLES

	2022		2021	
	<i>September 30</i>		<i>December 31</i>	
Trade receivable	\$	7,954,269	\$	9,467,801
Goods and services tax recoverable		112,396		678,561
	\$	8,066,665	\$	10,146,362

EAST SIDE GAMES GROUP INC.
Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited - Presented in Canadian dollars)
For the Three and Nine Month Periods Ended September 30, 2022 and 2021

8. GOVERNMENT ASSISTANCE

Included in research and development expenses are tax credits from various government assistance programs. The Company claims investment tax credits (“ITC”) from the eligible scientific research and experimental development (“SR&ED”) expenditures incurred during the year and British Columbia and Ontario Interactive Digital Media Tax Credits (“BC IDMTC” and “Ontario IDMTC”). As at September 30, 2022, the Company has an amount receivable from these government assistance programs of \$1,064,507 (December 31, 2021 - \$1,099,789).

During the nine months ended September 30, 2022 and 2021, the Company accrued the following tax credits from the government assistance programs, which are offset against research and development expenses:

	2022	2021
	<i>September 30</i>	<i>September 30</i>
ITC from SR&ED expenditures	\$ -	\$ 101,622
BC IDMTC	745,155	152,336
Ontario IDMTC	319,352	-
	\$ 1,064,507	\$ 253,958

9. PREPAID EXPENSES AND DEPOSITS

The Company has entered into agreements with several license holders and external studios in an effort to develop new video games. Included in deposits and other are amounts paid to license holders and external studios in advance related to development and royalty costs of the games under development. The Company is also committed to pay royalties over and above prepaid minimum guarantees on these games in the future based on a percentage of sales less certain eligible costs.

	2022	2021
	<i>September 30</i>	<i>December 31</i>
Prepaid royalties - current	\$ 1,974,089	\$ 1,758,491
Other prepaids	1,570,753	919,398
Security deposits	35,957	35,957
Prepaid expenses and deposits	\$ 3,580,799	\$ 2,713,846
Prepaid royalties - non-current	2,229,544	2,766,763
	\$ 5,810,343	\$ 5,480,609

EAST SIDE GAMES GROUP INC.
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10. PROPERTY AND EQUIPMENT

	Computer equipment	Furniture and Fixture	Leasehold Improvement	Right-of-use asset	Total
Cost					
Balance at January 1, 2021	\$ 730,626	\$ 236,522	\$ 62,576	\$ 581,874	\$ 1,611,598
Additions	413,655	18,167	-	-	431,822
Disposals	-	-	-	-	-
Balance at December 31, 2021	\$ 1,144,281	\$ 254,689	\$ 62,576	\$ 581,874	\$ 2,043,420
Additions	260,144	(15,749)	-	-	244,395
Disposals	-	-	-	-	-
Balance at September 30, 2022	\$ 1,404,425	\$ 238,940	\$ 62,576	\$ 581,874	\$ 2,287,815
Accumulated depreciation					
Balance at January 1, 2021	\$ 474,671	\$ 110,017	\$ 62,576	\$ 317,386	\$ 964,650
Depreciation for the year	208,890	30,446	-	158,692	398,028
Disposals	-	-	-	-	-
Balance at December 31, 2021	\$ 683,561	\$ 140,463	\$ 62,576	\$ 476,078	\$ 1,362,678
Depreciation for the period	138,362	16,081	-	105,796	260,239
Disposals	-	-	-	-	-
Balance at September 30, 2022	\$ 821,923	\$ 156,544	\$ 62,576	\$ 581,874	\$ 1,622,917
Carrying value					
At December 31, 2021	\$ 460,720	\$ 114,226	\$ -	\$ 105,796	\$ 680,742
At September 30, 2022	\$ 582,502	\$ 82,396	\$ -	\$ -	\$ 664,898

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11. INTANGIBLE ASSETS

	Brand	Developed Game Technologies	Customer relationships	Total
Cost				
Balance at January 1, 2021	\$ -	\$ -	\$ -	\$ -
Additions	7,130,000	12,228,718	5,010,000	24,368,718
Disposals	-	-	-	-
Balance at December 31, 2021	<u>\$ 7,130,000</u>	<u>\$ 12,228,718</u>	<u>\$ 5,010,000</u>	<u>\$ 24,368,718</u>
Additions	\$ -	\$ 2,534,000	\$ -	\$ 2,534,000
Disposals	-	-	-	-
Balance at September 30, 2022	<u>\$ 7,130,000</u>	<u>\$ 14,762,718</u>	<u>\$ 5,010,000</u>	<u>\$ 26,902,718</u>
Accumulated depreciation				
Balance at January 1, 2021	\$ -	\$ -	\$ -	\$ -
Depreciation for the period	1,307,167	2,102,833	2,296,250	5,706,250
Disposals	-	-	-	-
Balance at December 31, 2021	<u>\$ 1,307,167</u>	<u>\$ 2,102,833</u>	<u>\$ 2,296,250</u>	<u>\$ 5,706,250</u>
Depreciation for the period	\$ 1,069,500	\$ 2,543,680	\$ 1,878,750	\$ 5,491,930
Disposals	-	-	-	-
Balance at September 30, 2022	<u>\$ 2,376,667</u>	<u>\$ 4,646,513</u>	<u>\$ 4,175,000</u>	<u>\$ 11,198,180</u>
Carrying value				
At December 31, 2021	<u>\$ 5,822,833</u>	<u>\$ 10,125,885</u>	<u>\$ 2,713,750</u>	<u>\$ 18,662,468</u>
At September 30, 2022	<u>\$ 4,753,333</u>	<u>\$ 10,116,205</u>	<u>\$ 835,000</u>	<u>\$ 15,704,538</u>

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12. LONG TERM INVESTMENTS

	2022 <i>September 30</i>	2021 <i>December 31</i>
Creative Labs Limited Partnership (i)	\$ 950,000	\$ 950,000
Night Garden Studio Inc. (ii)	-	-
Truly Social Games Inc. (iii)	3,000,000	3,000,000
	\$ 3,950,000	\$ 3,950,000

- i. The Company entered into a subscription agreement Creative Labs L.P. on December 5, 2016 and committed to subscribe for 500,000 units of the partnership and enter the partnership as a limited partner. As at September 30, 2022, 500,000 (December 31, 2021 – 500,000) of the committed units have been funded. During the year ended December 31, 2021, the Company recognized an unrealized gain on investment of \$450,000.

 - ii. The Company entered into a Share Purchase Agreement with Night Garden Studio Inc. (“Night Garden”) on November 15, 2020 to purchase 37,500 common shares of Night Garden for a purchase price of \$100,000. This transaction has resulted in 25% ownership in Night Garden and has been accounted for using the equity method. During the year end December 31, 2021, the company incurred \$2,176,000 (2020 – \$ nil) recoupable development costs to Night Garden. The balance recoverable at September 30, 2022 was \$2,176,000 (December 31, 2021 – \$ 2,176,000) and is included in prepaids. During the nine months ended September 30, 2022, the Company recorded \$2,583,000 in research and development expense (September 30, 2021 - \$1,286,000).

 - iii. The Company entered into a Definitive Agreement to acquire Truly Social Games Inc. (“TSG”) on June 22, 2021. The Company initially acquired 20% of TSG in July 2021 in exchange for an initial investment of up to \$3,000,000 which will be used by TSG to develop new game titles. Subsequent to quarter end, the Company informed TSG that it had completed its obligations under the first tranche of the Agreement. In response TSG has filed a claim. The Company believes that the claim has no merit.
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13. CREDIT FACILITIES

The Company has two authorized operating lines of credit and an acquisition line totalling \$27,100,000. One of the operating lines is with a Canadian Bank for \$7,100,000 and carries interest at prime plus 0.75% and the other for \$10,000,000 is with a director of the Company. The acquisition line is with a Canadian Bank for \$10,000,000 and carries interest at prime plus 1%. At September 30, 2022, the Company has drawn \$810,000 (December 31, 2021 - \$nil) from its bank operating line.

14. TRADE AND OTHER PAYABLES

	2022 <i>September 30</i>	2021 <i>December 31</i>
Trade payables	\$ 13,743,629	\$ 11,993,494
Wages and vacation payable	794,615	745,602
	\$ 14,538,244	\$ 12,739,096

15. LEASE OBLIGATION

The lease obligation has been measured by discounting future lease payments using the Company's incremental borrowing rate at January 1, 2020. The weighted-average rate applied is 12%. Rates implicit in the leases were not readily determinable.

	2022 <i>September 30</i>	2021 <i>December 31</i>
Opening balance	\$ 131,201	\$ 305,591
Lease payments, net of interest recognized	(131,201)	(174,390)
Lease obligation	\$ -	\$ 131,201

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16. DEFERRED INCOME TAXES

The following components of deferred income taxes are calculated based on a current period enacted rate of 27% (December 31, 2021 - 27%). The change in deferred income taxes is \$1,260,562 (through September 30, 2021 - \$1,998,254) and is represented as a deferred income tax recovery on the consolidated statement of income (loss) and comprehensive income (loss). The deferred income tax assets and liabilities recognized as at September 30, 2022 and December 31, 2021 are as follows:

	2022 <i>September 30</i>	2021 <i>December 31</i>
Long term investments	\$ (47,250)	\$ (47,250)
Property and equipment	(131,114)	(124,255)
Right-of-use assets and lease obligations	6,859	-
Intangible assets	(3,573,450)	(4,834,013)
Government tax credit	(495,560)	(495,560)
Loss carryforwards	1,563,273	1,563,273
Financing and share issuance costs	471,561	471,561
	\$ (2,205,681)	\$ (3,466,243)

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17. SHARE CAPITAL

Authorized:

Unlimited common shares of the Company without par value.

Share transactions during the period

For the nine month period ended September 30, 2022, the Company had the following transactions:

- As part of the contingent consideration related to the reverse takeover (“RTO”) as described in Note 4, the Company issued 4,444,444 shares for achieving \$100,000,000 in revenue during the first twelve months subsequent to the acquisition.
- As part of the Funko Pop! Acquisition, the Company issued 419,389 shares.
- During the period, 11,027 warrants and 41,250 options were exercised.
- 98,139 shares were repurchased under the Normal Course Issuer Bid.

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

For the nine month period ended September 30, 2021, the Company had the following transactions:

- As part of the reverse takeover (“RTO”) as described in Note 4, an increase of \$71,024,281 to share capital was recorded as consideration for the issued and outstanding Leaf shares immediately prior to the RTO transaction.
- As part of the RTO transaction, the Company issued 426,883 shares as advisory fees, valued at \$960,486.
- During the period, 23,867 warrants and 147,872 options were exercised.

Normal Course Issuer Bid

- On August 11, 2022, the Company announced a Normal Course Issuer Bid (“NCIB”) authorizing the Company to purchase up to 4,076,819 of its shares. Through September 30, 2022, 98,139 shares were repurchased and are held in treasury.

Escrow shares

Former ESG shareholders agreed that 48,985,416 shares are subject to lock-up with one third coming out of lock-up on each of February 5, 2022, February 5, 2023 and February 5, 2024. Accordingly, as of the date of these financial statements, 32,656,944 of these shares are in lock-up. In addition, two thirds, or 2,962,962, of the contingent shares are in lock-up.

	Shares Locked-up	Released on Feb 5, 2022	To be released on Feb 5, 2023	To be released on Feb 5, 2024
Acquisition of ESG	48,985,416	16,328,472	16,328,472	16,328,472
Contingent payment (shares issuable)	2,962,962	-	1,481,481	1,481,481

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18. STOCK OPTIONS AND WARRANTS

Stock options

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

Details of the stock options, reflecting ESG options in 2020 updated for the share exchange ratio of 94.8 on reverse takeover and the 10-for-1 share consolidation, are as follows:

	Number	Weighted Average Exercise Price 2022 <i>September 30</i>	Number	Weighted Average Exercise Price 2021 <i>December 31</i>
Outstanding at beginning of period	2,877,028	\$ 2.35	2,372,351	\$ 0.80
Previously issued from legal parent	-	-	680,568	2.51
Granted	2,109,800	2.95	2,459,302	2.30
Exercised	(41,250)	2.50	(158,785)	2.19
Exchanged	-	-	(2,372,351)	0.80
Forfeited	-	-	(104,057)	2.50
Outstanding at end of period	4,945,578	\$ 2.61	2,877,028	\$ 2.35

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18. STOCK OPTIONS AND WARRANTS *(continued)*

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

- The risk-free interest rate ranges from 0.33% - 3.32%.
- The expected life of the options ranges from 2 - 5 years.
- The expected volatility is 67.5%.
- The expected forfeiture rate is 0%.
- The expected dividends yield is 0%.

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

Accordingly, during the nine month period, the Company recognized stock-based compensation expense of \$2,086,437 respectively (nine months ended September 30, 2021 - \$3,628,014).

The weighted average fair value of all share options granted, using the Black Scholes option pricing model, during the period was \$1.31 per option (2021 - \$1.20). The weighted average remaining contractual life of outstanding share options at September 30, 2022 was 3.0 years (2021 – 4.49 years).

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18. STOCK OPTIONS AND WARRANTS *(continued)*

Warrants

Details of the warrants issued are as follows:

	Number	Weighted Average Exercise Price 2022 <i>September 30</i>	Number	Weighted Average Exercise Price 2021 <i>December 31</i>
Outstanding at beginning of period	648,216	\$ 2.21	-	\$ -
Previously issued from legal parent	-	-	672,083	2.18
Exercised	(11,027)	2.25	(23,867)	1.33
Forfeited	-	-	-	-
Outstanding at end of period	637,189	\$ 2.21	648,216	\$ 2.21

Of the total warrants previously issued from legal parent, 613,333 warrants were issued as part of the share issuance in February 2021 and the legal parent recognized stock-based compensation expense from granting the warrants of \$507,999 prior to acquisition. These warrants are exercisable at \$2.25 per warrant for a period of two years from the issuance date of February 5, 2021.

The weighted average fair value of all warrants granted, using the Black Scholes option pricing model, during 2021 was \$0.83 per warrant. The weighted average remaining contractual life of outstanding warrants at September 30, 2022 was 0.3 years (September 30, 2021 – 1.55 years).

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19. CAPITAL MANAGEMENT

The Company manages, as capital, the components of shareholders' equity and its cash. The Company's objectives, when managing capital, are to safeguard its ability to continue as a going concern and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure, and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue common shares, borrow or adjust the amount of cash. The Company does not anticipate the payment of dividends in the foreseeable future.

20. SUPPLEMENTAL CASH FLOW INFORMATION

The following non-cash transactions occurred during the period ended September 30, 2022:

- 419,389 shares were issued and 1,267,000 of long term liabilities was assumed for the purchase of Funko Pop!
- 4,444,444 shares were issued for settlement of the contingent payable.
- \$768,568 in marketable securities were received in exchange for the license of intellectual property.

The following non-cash transaction occurred during the period ended September 30, 2021:

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

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

	2022	2021
	<i>September 30</i>	<i>September 30</i>
LDRLY (Technologies) Inc. - support services	\$ -	\$ 3,539,918
Royalties paid to TSG	-	1,052,061
Haymarket Investments Inc. - advisory services	-	960,486
TSG accrued royalties (i)	125,680	-
Pioneer Media Holdings Ltd. - license revenue (ii)	768,568	-
Growthworks Capital Ltd. - accounting and administrative (iii)	224,000	240,400

- (i) For additional transactions with Night Garden see note 12(ii). 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.
- (ii) Pioneer and Growthworks are related due to common directors. The Company received 698,671 shares of Pioneer which are included in marketable securities.
- (iii) For transactions with former ESG shareholders see note 4.

22. COMMITMENTS AND CONTINGENCIES

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

See note 5 for long term liabilities associated with the Funko Pop! Blitz game acquisition.

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

The Company has minimum guarantees of approximately \$5,100,000 for certain intellectual property rights to be paid on achieving certain milestones over the next 18 months.
