

EAST SIDE GAMES GROUP INC.
Condensed Consolidated Interim Financial Statements
(Unaudited - Presented in Canadian Dollars)
For the Three and Nine Month Periods Ended September 30, 2023 and 2022

NOTICE OF NO AUDITOR REVIEW OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2023 AND 2022

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, 2023 and 2022 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, 2023 and 2022.

EAST SIDE GAMES GROUP INC.
Consolidated Statement of Financial Position
(Unaudited - Presented in Canadian dollars)
As at September 30, 2023 and December 31, 2022

	<i>Note</i>	2023 <i>September 30</i>	2022 <i>December 31</i>
ASSETS			
CURRENT			
Cash and cash equivalents	5	\$ 3,572,867	\$ 5,657,886
Trade and other receivables	6	7,738,788	8,720,183
Government assistance receivable	7	2,494,562	2,285,909
Prepaid expenses and deposits	8	<u>3,782,788</u>	<u>1,785,643</u>
		17,589,005	18,449,621
PREPAID EXPENSES AND DEPOSITS	8	1,066,874	1,066,874
PROPERTY AND EQUIPMENT	9	474,209	545,473
INTANGIBLE ASSETS	10	17,260,517	25,599,430
GOODWILL		30,507,520	30,507,520
LONG TERM INVESTMENTS	11	1,057,323	1,057,323
DEFERRED INCOME TAXES	14	<u>3,022,145</u>	<u>3,021,815</u>
		\$ 70,977,593	\$ 80,248,056
LIABILITIES			
CURRENT			
Bank indebtedness	12	\$ -	\$ 870,000
Trade and other payables	13	13,754,764	15,874,340
Deferred revenue		<u>1,799,548</u>	<u>3,039,799</u>
		15,554,312	19,784,139
LONG TERM LIABILITIES	13	3,479,841	6,264,448
DEFERRED INCOME TAXES	14	<u>3,905,398</u>	<u>5,678,362</u>
		\$ 22,939,551	\$ 31,726,949
SHAREHOLDERS' EQUITY			
Share capital	15	87,903,798	88,274,715
Contributed surplus		8,303,343	7,414,138
Retained earnings (Deficit)		<u>(48,169,099)</u>	<u>(47,167,746)</u>
		48,038,042	48,521,107
		\$ 70,977,593	\$ 80,248,056
COMMITMENTS AND CONTINGENCIES	20		

APPROVED ON BEHALF OF THE BOARD

"Jason Bailey"

Director

"Mike Edwards"

EAST SIDE GAMES GROUP INC.
Consolidated Statement of Income (Loss)
and Comprehensive Income (Loss)
(Unaudited - Presented in Canadian dollars)
For the Three and Nine Month Periods Ended September 30, 2023 and 2022

	Note	2023	2022	2023	2022
REVENUE					
Gaming		\$ 15,997,359	\$ 18,636,337	\$ 50,177,469	\$ 67,133,266
Advertising		4,829,484	6,411,797	16,217,960	23,226,133
		20,826,843	25,048,134	66,395,429	90,359,399
COST OF SALES					
		9,044,571	9,874,127	25,680,544	32,416,779
GROSS PROFIT					
		11,782,272	15,174,008	40,714,885	57,942,621
EXPENSES					
Research and development	7	1,619,078	3,801,718	5,967,847	12,688,388
Sales and marketing		4,128,975	7,914,504	16,452,908	30,033,183
General and administrative		3,138,386	4,265,844	10,801,509	12,361,270
Transaction expenses and restructuring charges		641,767	680,959	1,022,580	704,332
Depreciation of property and equipment	9	43,764	84,453	126,739	260,238
Depreciation of intangible assets	10	2,728,743	3,116,277	9,070,347	9,348,828
		12,300,713	19,863,754	43,441,930	65,396,239
LOSS BEFORE OTHER INCOME (EXPENSES) AND INCOME TAXES					
		\$ (518,441)	\$ (4,689,747)	\$ (2,727,045)	\$ (7,453,618)
OTHER INCOME (EXPENSES)					
Reversal of contingent liabilities		-	-	-	19,502,224
Investment and other income		58,426	83,711	165,434	306,250
Unrealized gain (loss) on investment		6,987	(73,360)	(38,427)	(709,151)
Gain (loss) on foreign exchange		(32,053)	240,555	(174,609)	732,327
Accretion expense		-	-	-	(477,570)
		33,360	250,906	(47,602)	19,354,080
INCOME (LOSS) BEFORE INCOME TAXES					
		\$ (485,081)	\$ (4,438,841)	\$ (2,774,647)	\$ 11,900,462
INCOME TAX EXPENSE (RECOVERY)					
Current		-	-	-	314,753
Deferred	14	(723,271)	(420,188)	(1,773,294)	(1,260,562)
		(723,271)	(420,188)	(1,773,294)	(945,809)
NET AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD					
		\$ 238,190	\$ (4,018,653)	\$ (1,001,353)	\$ 12,846,271
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE					
		\$ 0.00	\$ (0.05)	\$ (0.01)	\$ 0.16
SHARES USED IN CALCULATING EARNINGS (LOSS) PER SHARE					
Basic and Diluted		81,536,436	81,536,436	81,536,436	79,530,809

EAST SIDE GAMES GROUP INC.
Consolidated Statement of Changes in Equity
(Unaudited - Presented in Canadian dollars)
For the Nine Month Period Ended September 30, 2023 and 2022

	Note	Number of shares	Share capital	Contributed surplus	Retained earnings (Deficit)	Total equity
As at January 1, 2022		76,620,326	\$ 74,758,038	\$ 7,364,733	\$ (57,923,504)	\$ 24,199,267
Stock options exercised		11,027	27,568	-	-	27,568
Warrants exercised		41,250	66,000	-	-	66,000
Stock based compensation	16	-	-	2,086,437	-	2,086,437
Shares issued for acquisition	5	419,389	1,267,000	-	-	1,267,000
Shares issued for contingent payment		4,444,444	10,000,000	(2,340,787)	2,340,787	10,000,000
Share buyback	17	-	(194,580)	-	-	(194,580)
Comprehensive income for the period		-	-	-	(4,018,653)	(4,018,653)
As at September 30, 2022		81,536,436	\$ 85,924,026	\$ 7,110,383	\$ (59,601,370)	\$ 33,433,039
As at January 1, 2023		81,536,436	\$ 88,274,715	\$ 7,414,138	\$ (47,167,746)	\$ 48,521,107
Stock based compensation	16	-	-	889,205	-	889,205
Share buyback	15	-	(370,917)	-	-	(370,917)
Comprehensive income for the period		-	-	-	(1,001,353)	(1,001,353)
As at September 30, 2023		81,536,436	\$ 87,903,798	\$ 8,303,343	\$ (48,169,099)	\$ 48,038,042

EAST SIDE GAMES GROUP INC.
Consolidated Statement of Cash Flow
(Unaudited - Presented in Canadian dollars)
For the Nine Month Period Ended September 30, 2023 and 2022

	2023 <i>September 30</i>	2022 <i>September 30</i>
OPERATING ACTIVITIES		
Net and comprehensive income (loss)	\$ (1,001,353)	\$ 12,846,271
Items not affecting cash:		
Reversal of Contingent liabilities	-	(19,502,224)
Depreciation of property and equipment	126,739	260,238
Depreciation of intangible assets	9,070,347	9,348,828
Deferred income tax	(1,773,294)	(1,260,562)
Accretion expense on contingent liabilities	-	477,570
Stock based compensation	889,205	2,086,437
Changes in non-cash working capital		
Trade and other receivables	981,395	2,079,697
Government assistance receivable	(208,653)	35,282
Prepaid expenses and deposits	(1,997,145)	(1,062,260)
Trade and other payables	(5,234,735)	3,612,698
Deferred revenue	(1,240,251)	(404,748)
Cash flow from operating activities	<u>\$ (387,745)</u>	<u>\$ 8,517,226</u>
INVESTING ACTIVITIES		
Purchase of equipment	\$ (55,475)	\$ (244,394)
Purchase of Intangibles	(400,882)	(2,936,471)
Cash flow from (used in) investing activities	<u>\$ (456,357)</u>	<u>\$ (3,180,865)</u>
FINANCING ACTIVITIES		
Warrants exercised	\$ -	\$ 66,000
Share Buybacks	(370,917)	(194,580)
Stock options exercised	-	27,568
Earnout payment on reverse takeover	-	(10,000,000)
Bank indebtedness	(870,000)	810,000
Repayment of lease obligation	-	(131,201)
Cash flow used in financing activities	<u>\$ (1,240,917)</u>	<u>\$ (9,422,213)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>\$ (2,085,019)</u>	<u>\$ (4,085,852)</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	<u>5,657,886</u>	<u>9,242,144</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 3,572,867</u>	<u>\$ 5,156,292</u>

Supplemental cash flow information

Note 18

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Unaudited - Presented in Canadian dollars)
For the Three and Nine Month Periods Ended September 30, 2023 and 2022

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, 2022 and 2021, 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, 2022 and 2021. The disclosures which follow do not include all disclosures required for the annual financial statements.

The consolidated financial statements were authorized for issue by the Board of Directors on November 7, 2023.

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 Consolidated Financial Statements
(Unaudited - Presented in Canadian dollars)
For the Three and Nine Month Periods Ended September 30, 2023 and 2022

2. BASIS OF PRESENTATION *(continued)*

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, ESG, LDRLY, Eastside Games (Ontario) Inc., Eastside Games USA Inc., 1182533 B.C. Ltd. ("118Co"), 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.

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, 2022.

4. 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 \$1,267,000 in minimum guarantees due in 2023 and 2024 which are included in current liabilities at September 30, 2023. The assets acquired are included in intangible assets and are being amortized over their estimated useful life of 20 months.

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Unaudited - Presented in Canadian dollars)
For the Three and Nine Month Periods Ended September 30, 2023 and 2022

5. 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, 2023	December 31, 2022
Cash and cash equivalents	FVTPL	3,572,867	5,657,886
Trade and other receivables	Amortized Cost	7,738,788	8,720,183
Long term investments without significant influence	FVTPL	862,323	862,323
Bank indebtedness	Amortized Cost	-	870,000
Trade and other payables	Amortized Cost	13,754,764	15,874,340
Long-term liabilities	Amortized Cost	3,479,841	6,264,448

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 long-term liabilities approximate their fair value as most of these instruments are short-term in 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.

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EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Unaudited - Presented in Canadian dollars)
For the Three and Nine Month Periods Ended September 30, 2023 and 2022

5. FINANCIAL INSTRUMENTS *(continued)*

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, 2023, 72% (December 31, 2022 – 68%) of the Company's trade receivables were 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.

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, 2023, 1 Canadian Dollar was equal to \$0.7388 US Dollar (December 31, 2022 - \$0.7357).

	September 30, 2023		December 31, 2022	
	US Dollar	CDN Equivalent	US Dollar	CDN Equivalent
Cash	2,452,949	3,320,067	3,335,621	4,533,776
Trade and other receivables	4,638,492	6,278,199	4,418,117	6,005,105
Trade and other payables	(2,347,831)	(3,177,789)	(6,749,582)	(9,174,032)

Based on the net exposures as of September 30, 2023 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 \$583,680 (December 31, 2022 - \$128,523).

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Unaudited - Presented in Canadian dollars)
For the Three and Nine Month Periods Ended September 30, 2023 and 2022

6. TRADE AND OTHER RECEIVABLES

	2023	2022
	<i>September 30</i>	<i>December 31</i>
Trade receivable	\$ 7,401,718	\$ 7,790,435
Goods and services tax recoverable	337,070	929,748
	\$ 7,738,788	\$ 8,720,183

7. 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, 2023, the Company has an amount receivable from these government assistance programs of \$2,494,562 (December 31, 2022 - \$2,285,909).

During the nine month periods ended September 30, 2023 and 2022, the Company accrued the following tax credits from the government assistance programs, which are offset against research and development expenses:

	2023	2022
	<i>September 30</i>	<i>September 30</i>
BC IDMTC	\$ 1,050,000	\$ 745,155
Ontario IDMTC	525,000	319,352
	\$ 1,575,000	\$ 1,064,507

8. PREPAID EXPENSES AND DEPOSITS

	2023	2022
	<i>September 30</i>	<i>December 31</i>
Prepaid development cost - current	\$ 2,670,683	\$ 689,784
Other prepaids	1,076,148	1,059,902
Security deposits	35,957	35,957
Prepaid expenses and deposits	\$ 3,782,788	\$ 1,785,643
Prepaid development cost - non-current	1,066,874	1,066,874
	\$ 4,849,662	\$ 2,852,517

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Unaudited - Presented in Canadian dollars)
For the Three and Nine Month Periods Ended September 30, 2023 and 2022

9. PROPERTY AND EQUIPMENT

	Computer equipment	Furniture and Fixture	Leasehold Improvement	Right-of-use asset	Total
Cost					
Balance at January 1, 2022	\$ 1,144,281	\$ 254,689	\$ 62,576	\$ 581,874	\$ 2,043,420
Additions	270,038	-	-	-	270,038
Disposals	(73,331)	(15,749)	-	-	(89,080)
Balance at December 31, 2022	\$ 1,340,988	\$ 238,940	\$ 62,576	\$ 581,874	\$ 2,224,378
Additions	51,670	3,775	-	-	55,475
Disposals	-	-	-	-	-
Balance at September 30, 2023	\$ 1,392,688	\$ 242,715	\$ 62,576	\$ 581,874	\$ 2,279,853
Accumulated depreciation					
Balance at January 1, 2022	\$ 683,561	\$ 140,463	\$ 62,576	\$ 476,078	\$ 1,362,678
Depreciation for the period	209,545	21,091	-	105,796	336,432
Disposals	(20,205)	-	-	-	(20,205)
Balance at December 31, 2022	\$ 872,901	\$ 161,554	\$ 62,576	\$ 581,874	\$ 1,678,905
Depreciation for the period	114,530	12,209	-	-	126,739
Disposals	-	-	-	-	-
Balance at September 30, 2023	\$ 987,431	\$ 173,763	\$ 62,576	\$ 581,874	\$ 1,805,644
Carrying value					
At December 31, 2022	\$ 468,087	\$ 77,386	\$ -	\$ -	\$ 545,473
At September 30, 2023	\$ 405,257	\$ 68,952	\$ -	\$ -	\$ 474,209

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Unaudited - Presented in Canadian dollars)

For the Three and Nine Month Periods Ended September 30, 2023 and 2022

10. INTANGIBLE ASSETS

	Brand	Customer relationships	Intellectual property rights, games acquired and external development costs	Total
Cost				
Balance at January 1, 2022	\$ 7,130,000	\$ 5,010,000	\$ 20,300,812	\$ 32,440,812
Additions	-	-	14,860,981	14,860,981
Disposals	-	-	(662,050)	(662,050)
Impairment	-	-	(194,754)	(194,754)
Balance at December 31, 2022	<u>\$ 7,130,000</u>	<u>\$ 5,010,000</u>	<u>\$ 34,304,989</u>	<u>\$ 46,444,989</u>
Additions	\$ -	\$ -	\$ 731,434	\$ 731,434
Disposals	-	-	-	-
Balance at September 30, 2023	<u>\$ 7,130,000</u>	<u>\$ 5,010,000</u>	<u>\$ 35,036,423</u>	<u>\$ 47,176,423</u>
Accumulated depreciation				
Balance at January 1, 2022	\$ 1,307,167	\$ 2,296,250	\$ 5,439,088	\$ 9,042,505
Depreciation for the period	1,426,000	2,505,000	8,534,104	12,465,104
Disposals	-	-	(662,050)	(662,050)
Balance at December 31, 2022	<u>\$ 2,733,167</u>	<u>\$ 4,801,250</u>	<u>\$ 13,311,142</u>	<u>\$ 20,845,559</u>
Depreciation for the period	\$ 1,069,500	\$ 208,750	\$ 7,792,097	\$ 9,070,347
Disposals	-	-	-	-
Balance at September 30, 2023	<u>\$ 3,802,667</u>	<u>\$ 5,010,000</u>	<u>\$ 21,103,239</u>	<u>\$ 29,915,906</u>
Carrying value				
At December 31, 2022	<u>\$ 4,396,833</u>	<u>\$ 208,750</u>	<u>\$ 20,993,847</u>	<u>\$ 25,599,430</u>
At September 30, 2023	<u>\$ 3,327,333</u>	<u>\$ -</u>	<u>\$ 13,933,184</u>	<u>\$ 17,260,517</u>

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Unaudited - Presented in Canadian dollars)
For the Three and Nine Month Periods Ended September 30, 2023 and 2022

11. LONG TERM INVESTMENTS

	2023	2022
	<i>September 30</i>	<i>December 31</i>
Creative Labs Limited Partnership (i)	\$ 862,323	\$ 862,323
Night Garden Studio Inc. (ii)	195,000	195,000
Truly Social Games Inc. (iii)	-	-
	\$ 1,057,323	\$ 1,057,323

- 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, 2023, 500,000 (December 31, 2022 – 500,000) of the committed units have been funded. The Company recognized an unrealized loss of \$87,677 during the year ended December 31, 2022 (2021 – unrealized gain 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. The Company recorded an equity pick up of \$195,000 during the year ended December 31, 2022 (2021 – loss of \$100,000). The equity pick up is included in investment and other income.
- iii. The Company entered into a membership interest purchase agreement (the “MIPA”) to acquire Truly Social Games Inc. (“TSG”) on June 22, 2021, the details of which were announced in the Company’s news release on the same date. Pursuant to the MIPA, the Company was entitled to acquire a 20% membership interest in TSG, in consideration of the Company funding up to \$3,000,000 in development expenses in relation to four game titles to be developed by TSG for the Company. Additionally, the Company was granted options to acquire the remaining membership interests in TSG. The initial value of the 20% membership was considered to be nominal.

The Company also provided TSG with additional funding in excess of that amount. In October 2022, the Company provided notice to TSG that it did not intend to exercise its options to acquire the remaining membership interests in TSG. TSG subsequently filed claims in Oregon and in British Columbia, which claim, among other things, that the Company is in breach of its obligations under the MIPA and publishing agreements related to aforementioned game titles, and that the Company has improperly used TSG’s intellectual property with respect to same. The Company believes these claims have no merit, intends to vigorously defend against all such claims, and has filed a response to TSG’s claim and filed a counter claim against TSG in British Columbia. The Company intends to pursue all legal and/or equitable remedies available to it with respect to the repayment of all excess amounts funded. The outcome of the claim is not yet determinable.

EAST SIDE GAMES GROUP INC.
Notes to the Consolidated Financial Statements
(Unaudited - Presented in Canadian dollars)
For the Three and Nine Month Periods Ended September 30, 2023 and 2022

12. 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 up to \$7,100,000, limited to approximately 85% of its outstanding accounts receivables and carries interest at prime plus 0.75%. The other for \$10,000,000 is with a director of the Company and carries an interest rate of 5%. The acquisition line is with a Canadian Bank for \$10,000,000, is limited to 70% of the acquisition purchase price and carries interest at prime plus 1%. At September 30, 2023, no amounts have been drawn (December 31, 2022 - \$870,000) from its bank operating line.

13. TRADE AND OTHER PAYABLES

	2023	2022
	<i>September 30</i>	<i>December 31</i>
Trade payables and accrued liabilities	\$ 8,484,704	\$ 11,340,095
Minimum guarantee payments for intellectual property	4,809,250	4,140,994
Wages and vacation payable	460,810	393,251
	\$ 13,754,764	\$ 15,874,340

Minimum guarantees included in long term liabilities at September 30, 2023 were \$3,479,841, of which \$962,212 are due in 2024, \$2,212,192 are due in 2025 and \$305,437 are due in 2026.

14. DEFERRED INCOME TAXES

The following components of deferred income taxes are calculated based on a current period enacted rate of 27% (December 31, 2022 - 27%). The change in deferred income taxes is \$1,773,294.24 (December 31, 2022 - \$809,696) 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, 2023 and December 31, 2022 are as follows:

	2023	2022
	<i>September 30</i>	<i>December 31</i>
Long term investments	\$ 54,251	\$ 35,412
Property and equipment	50,108	(105,693)
Intangible assets	(3,852,087)	(5,829,993)
Government tax credit	(157,142)	(157,142)
Loss carryforwards	2,670,408	3,049,661
Financing and share issuance costs	351,209	351,208
	\$ (883,253)	\$ (2,656,547)

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15. 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, 2023, the Company had the following transactions:

- 499,146 shares were repurchased under the Normal Course Issuer Bid for a total of \$370,917.

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 options and 41,250 warrants were exercised.
- 98,139 shares were repurchased under the Normal Course Issuer Bid for a total of \$194,629.

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, 2023, 733,879 shares were repurchased for a total of \$693,213 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 issuance date of these financial statements, 16,328,472 of these shares are in lock-up. In addition, 1,481,481 of the contingent shares are in lock-up.

	Shares Locked-up	Released on Feb 5, 2022	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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16. 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 are as follows:

	Number	Weighted Average Exercise Price 2023 <i>September 30</i>	Number	Weighted Average Exercise Price 2022 <i>December 31</i>
Outstanding at beginning of year	4,644,733	\$ 2.59	2,877,028	\$ 2.35
Granted	-	-	2,109,800	2.95
Exercised	-	-	(11,027)	2.50
Forfeited	-	-	(331,068)	2.75
Outstanding at end of year	4,644,733	\$ 2.59	4,644,733	\$ 2.59

(continues)

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16. STOCK OPTIONS *(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% (2022 – 0.33% - 3.32%).
- The expected life of the options ranges from 2 - 5 years (2022 – 2 - 5 years).
- The expected volatility is 67.5% (2022 – 67.5%).
- The expected forfeiture rate is 0% (2022 – 0%).
- The expected dividends yield is 0% (2022 – 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 \$889,205 respectively (nine month period ended September 30, 2022 - \$2,086,437).

The weighted average fair value of all share options granted, using the Black Scholes option pricing model, during the nine month period ended September 30, 2022 was \$1.31 per option (2023 – not applicable). The weighted average remaining contractual life of outstanding share options at September 30, 2023 was 2.8 years (2022 – 3.5 years).

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17. 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.

18. SUPPLEMENTAL CASH FLOW INFORMATION

There were no non-cash transactions occurred during the period ended September 30, 2023.

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

- 419,389 shares were issued 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.
-

19. RELATED PARTY TRANSACTIONS

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

	2023	2022
	<i>September 30</i>	<i>September 30</i>
Payments made to Night Garden	\$ 1,674,000	\$ 2,583,000
Pioneer Media Holdings Ltd. - license revenue (i)	-	768,538
Growthworks Capital Ltd. - accounting and administrative services (i)	-	224,000

(i) Pioneer and Growthworks are related due to common directors.

20. COMMITMENTS AND CONTINGENCIES

See note 4 for liabilities associated with the Funko Pop! Blitz game acquisition.

See note 11 for details surrounding legal claim filed by TSG.

See note 13 for minimum guarantees associated with intellectual property rights.
