

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, 2024 and 2023

NOTICE OF NO AUDITOR REVIEW OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2024 AND 2023

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, 2024 and 2023 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, 2024 and 2023.

EAST SIDE GAMES GROUP INC.
Consolidated Statement of Financial Position
(Unaudited - Presented in Canadian dollars)
As at September 30, 2024 and December 31, 2023

	<i>Note</i>	2024 <i>September 30</i>	2023 <i>December 31</i>
ASSETS			
CURRENT			
Cash and cash equivalents	3	\$ 8,309,636	\$ 5,237,381
Trade and other receivables	4	8,549,330	8,375,822
Government assistance receivable	5	4,128,078	2,693,565
Prepaid expenses and deposits	6	4,334,278	4,746,560
		25,321,322	21,053,328
PREPAID EXPENSES AND DEPOSITS	6	-	153,815
PROPERTY AND EQUIPMENT	7	369,261	423,613
INTANGIBLE ASSETS	8	10,990,855	14,942,750
GOODWILL		30,507,520	30,507,520
LONG TERM INVESTMENTS	9	1,101,175	1,101,175
DEFERRED INCOME TAXES	12	1,274,029	1,273,949
		\$ 69,564,162	\$ 69,456,150
LIABILITIES			
CURRENT			
Trade and other payables	11	\$ 14,241,223	\$ 12,476,853
Deferred revenue		473,278	1,644,672
		14,714,501	14,121,525
LONG TERM LIABILITIES		770,129	2,725,318
DEFERRED INCOME TAXES	12	2,641,290	3,726,684
		\$ 18,125,920	\$ 20,573,527
SHAREHOLDERS' EQUITY			
Share capital	13	87,420,861	87,812,158
Contributed surplus	14	8,561,501	8,151,543
Deficit		(44,544,120)	(47,081,078)
		51,438,242	48,882,623
		\$ 69,564,162	\$ 69,456,150
COMMITMENTS AND CONTINGENCIES	16		

APPROVED ON BEHALF OF THE BOARD

Director

Director

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, 2024 and 2023

	Note	2024	2023	2024	2023
REVENUE					
Gaming		\$ 16,382,209	\$ 15,997,359	\$ 48,056,240	\$ 50,177,469
Advertising		5,030,941	4,829,484	14,712,798	16,217,960
		21,413,150	20,826,843	62,769,038	66,395,429
COST OF SALES					
		8,604,496	9,044,571	24,331,071	25,680,544
GROSS PROFIT					
		12,808,654	11,782,272	38,437,967	40,714,885
EXPENSES					
Research and development		510,797	1,619,078	2,581,492	5,967,847
Sales and marketing		6,359,924	4,128,975	17,446,680	16,452,908
General and administrative		3,484,842	3,138,386	9,710,550	10,801,509
Transaction expenses and restructuring charges		108,069	641,767	126,497	1,022,580
Depreciation of property and equipment	7	34,836	43,764	97,911	126,739
Depreciation of intangible assets	8	2,430,187	2,728,743	7,236,280	9,070,347
		12,928,655	12,300,713	37,199,410	43,441,930
INCOME (LOSS) BEFORE OTHER INCOME (EXPENSES)					
AND INCOME TAXES					
		\$ (120,001)	\$ (518,441)	\$ 1,238,557	\$ (2,727,045)
OTHER INCOME (EXPENSES)					
Investment and other income		66,311	58,426	209,274	165,434
Unrealized gain (loss) on investment		(20,960)	6,987	(27,947)	(38,427)
Gain (loss) on foreign exchange		(108,509)	(32,053)	31,600	(174,609)
		(63,158)	33,360	212,927	(47,602)
INCOME (LOSS) BEFORE INCOME TAXES					
		\$ (183,159)	\$ (485,081)	\$ 1,451,484	\$ (2,774,647)
INCOME TAX RECOVERY					
Deferred	12	(196,543)	(723,271)	(1,085,474)	(1,773,294)
		(196,543)	(723,271)	(1,085,474)	(1,773,294)
NET AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD					
		\$ 13,384	\$ 238,190	\$ 2,536,958	\$ (1,001,353)
BASIC AND DILUTED EARNINGS PER SHARE					
		\$ 0.00	\$ 0.00	\$ 0.03	\$ (0.01)
SHARES USED IN CALCULATING EARNINGS PER SHARE					
Basic and Diluted		81,536,394	81,536,436	81,536,394	81,536,436

EAST SIDE GAMES GROUP INC.
Consolidated Statement of Changes in Equity
(Unaudited - Presented in Canadian dollars)
For the Nine Month Periods Ended September 30, 2024 and 2023

	Note	Number of shares	Share capital	Contributed surplus	Retained deficit	Total equity
As at January 1, 2023		81,536,394	\$ 88,274,715	\$ 7,414,138	\$ (47,167,746)	\$ 48,521,107
Stock based compensation	14	-	-	889,205	-	889,205
Share buyback	13	-	(370,917)	-	-	(370,917)
Comprehensive loss for the period		-	-	-	(1,001,353)	(1,001,353)
As at September 30, 2023		81,536,394	\$ 87,903,798	\$ 8,303,343	\$ (48,169,099)	\$ 48,038,042
As at January 1, 2024		81,536,394	\$ 87,812,158	\$ 8,151,543	\$ (47,081,078)	\$ 48,882,623
Stock based compensation	14	-	-	409,958	-	409,958
Share buyback	13	-	(391,297)	-	-	(391,297)
Comprehensive income for the period		-	-	-	2,536,958	2,536,958
As at September 30, 2024		81,536,394	\$ 87,420,861	\$ 8,561,501	\$ (44,544,120)	\$ 51,438,242

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

EAST SIDE GAMES GROUP INC.
Consolidated Statement of Cash Flow
(Unaudited - Presented in Canadian dollars)
For the Nine Month Periods Ended September 30, 2024 and 2023

	2024 <i>September 30</i>	2023 <i>September 30</i>
OPERATING ACTIVITIES		
Net and comprehensive income	\$ 2,536,958	\$ (1,001,353)
Items not affecting cash:		
Depreciation of intangible assets	7,236,280	9,070,347
Stock based compensation	409,958	889,205
Depreciation of property and equipment	97,911	126,739
Deferred income tax	(1,085,474)	(1,773,294)
Changes in non-cash working capital		
Trade and other payables	1,764,370	(5,106,651)
Prepaid expenses and deposits	566,097	(1,997,145)
Trade and other receivables	(173,508)	981,395
Deferred revenue	(1,171,394)	(1,240,251)
Government assistance receivable	(1,434,513)	(208,653)
Long term liabilities	(1,955,189)	(128,084)
Cash flow from (used in) operating activities	<u>\$ 6,791,496</u>	<u>\$ (387,745)</u>
INVESTING ACTIVITIES		
Purchase of equipment	\$ (43,559)	\$ (55,475)
Purchase of intangibles	(3,284,385)	(400,882)
Cash flow used in investing activities	<u>\$ (3,327,944)</u>	<u>\$ (456,357)</u>
FINANCING ACTIVITIES		
Share buybacks	\$ (391,297)	\$ (370,917)
Bank indebtedness	-	(870,000)
Cash flow used in financing activities	<u>\$ (391,297)</u>	<u>\$ (1,240,917)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>\$ 3,072,255</u>	<u>\$ (2,085,019)</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	<u>5,237,381</u>	<u>5,657,886</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 8,309,636</u>	<u>\$ 3,572,867</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, 2024 and 2023

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". 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. MATERIAL ACCOUNTING POLICY INFORMATION

Basis of preparation

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, 2023 and 2022, 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, 2023 and 2022. 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 12, 2024.

Basis of measurement

The consolidated financial statements have been prepared on an accrual basis and are based on historical cost with the exception of financial instruments classified as at fair value through profit and loss ("FVTPL"). 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, 2024 and 2023

2. MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Details of the controlled entities are as follows:

	Country of Incorporation	Functional Currency	Percentage Owned	
			September 30, 2024	December 31, 2023
Eastside Games Inc.	Canada	Canadian Dollar	100%	100%
LDRLY (Technologies) Inc.	Canada	Canadian Dollar	100%	100%
Eastside Games (Ontario) Inc.	Canada	Canadian Dollar	100%	100%
Eastside Games USA Inc.	United States	United States Dollar	100%	100%
1182533 B.C. Ltd. ("118Co")	Canada	Canadian Dollar	100%	100%
Keh Kaw Games Inc. ("KKG")	Canada	Canadian Dollar	100%	100%

Control is achieved when the Company has power over the investee, is exposed or has right to variable returns from its involvements with the investee and has the ability to use its power to affect its returns. 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.

Critical accounting estimates and judgements

These condensed consolidated interim financial statements have been prepared following the same accounting policies, estimates and judgements used in preparation of the audited consolidated financial statements of the Company for the years ended December 31, 2023 and 2022.

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, 2024 and 2023

3. FINANCIAL INSTRUMENTS

Categories of financial assets and financial liabilities

The carrying values of the Company's financial instruments are classified into the following categories:

Financial instrument	Category	September 30, 2024	December 31, 2023
Cash and cash equivalents	FVTPL	8,309,636	5,237,381
Trade and other receivables	Amortized Cost	8,549,330	8,375,822
Long term investments without significant influence	FVTPL	708,999	708,999
Trade and other payables	Amortized Cost	14,241,223	12,476,853
Long-term liabilities	Amortized Cost	770,129	2,725,318

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 and bank indebtedness approximate their fair value as most of these instruments are short-term in nature, while long-term liabilities are discounted to their present value. The Company's fair value of cash and cash equivalents are measured using Level 1 inputs. Long-term investments not subject to significant influence are measured using Level 3 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, 2024 and 2023

3. 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, 2024, 69% (December 31, 2023 – 71%) 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. The following are the remaining contractual maturities of financial liabilities at the reporting date:

	Contractual cash flows				
	Total	2 months	3-12 months	13-24 months	25-48 months
September 30, 2024					
Trade and other payables	14,241,223	12,186,369	2,054,854	-	-
Long-term liabilities ⁽ⁱ⁾ (minimum guarantee payments)	833,983	-	-	833,983	-
	15,075,206	12,186,369	2,054,854	833,983	-
December 31, 2023					
Trade and other payables	12,476,853	9,785,185	2,691,668	-	-
Long-term liabilities ⁽ⁱ⁾ (minimum guarantee payments)	3,110,813	-	-	2,774,588	336,225
	15,587,666	9,785,185	2,691,668	2,774,588	336,225

(i) Total cash payment amounts do not include present value discounts.

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, 2024 and 2023

3. FINANCIAL INSTRUMENTS *(continued)*

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 and cash equivalents, 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, 2024, 1 Canadian Dollar was equal to \$0.7435 US Dollar (December 31, 2023 - \$0.7561).

	September 30, 2024		December 31, 2023	
	US Dollar	CDN Equivalent	US Dollar	CDN Equivalent
Cash and cash equivalents	3,095,314	4,162,888	3,218,365	4,256,610
Trade and other receivables	5,086,620	6,840,995	4,790,427	6,335,819
Trade and other payables	(3,440,907)	(4,627,676)	(3,102,401)	(4,103,235)

Based on the net exposures as of September 30, 2024 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 \$579,655 (December 31, 2023 - \$589,927).

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, 2024 and 2023

4. TRADE AND OTHER RECEIVABLES

	Current	Over 30 days past due	Over 90 days past due	Total
September 30, 2024				
Trade receivable	\$ 7,927,629	\$ 152,289	\$ 223,363	\$ 8,303,821
Goods and services tax recoverable	245,509	-	-	245,509
	\$ 8,173,138	\$ 152,289	\$ 223,363	\$ 8,549,330
December 31, 2023				
Trade receivable	\$ 7,485,114	\$ 314,470	\$ 187,390	\$ 7,986,974
Goods and services tax recoverable	388,848	-	-	388,848
	\$ 7,873,962	\$ 314,470	\$ 187,390	\$ 8,375,822

5. GOVERNMENT ASSISTANCE RECEIVABLE

Included in research and development expenses are tax credits from various government assistance programs. The Company claims investment tax credits (“ITC”) from the British Columbia and Ontario Interactive Digital Media Tax Credits (“BC IDMTC” and “Ontario IDMTC”). During the nine-month period ended September 30, 2024 and the year ended December 31, 2023, the Company accrued the following tax credits from the government assistance programs, which are offset against research and development expenses:

	2024 September 30	2023 December 31
BC IDMTC		
Carryforward from prior periods	\$ 1,341,635	\$ 1,451,480
Received during the year	-	(1,347,205)
Adjustments to prior year	-	64,301
Accrued during the period	1,125,000	1,173,059
	2,466,635	1,341,635
Ontario IDMTC		
Carryforward from prior periods	1,351,930	834,429
Received during the period	(158,954)	-
Adjustments to prior period	(56,533)	-
Accrued during the period	525,000	517,501
	1,661,443	1,351,930
	\$ 4,128,078	\$ 2,693,565

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, 2024 and 2023

6. PREPAID EXPENSES AND DEPOSITS

	2024	2023
	<i>September 30</i>	<i>December 31</i>
Prepaid development cost - current	\$ 3,129,147	\$ 3,525,368
Other prepaids	1,169,174	1,185,235
Security deposits	35,957	35,957
Prepaid expenses and deposits	\$ 4,334,278	\$ 4,746,560
Prepaid development cost - non-current	-	153,815
	\$ 4,334,278	\$ 4,900,375

7. PROPERTY AND EQUIPMENT

	Computer equipment	Furniture and fixtures	Leasehold improvement	Right-of-use asset	Total
Cost					
Balance at January 1, 2023	\$ 1,340,988	\$ 238,940	\$ 62,576	\$ 581,874	\$ 2,224,378
Additions	80,901	3,775	-	-	84,676
Disposals	(129,546)	-	-	-	(129,546)
Balance at December 31, 2023	\$ 1,292,343	\$ 242,715	\$ 62,576	\$ 581,874	\$ 2,179,508
Additions	43,559	-	-	-	43,559
Balance at September 30, 2024	\$ 1,335,902	\$ 242,715	\$ 62,576	\$ 581,874	\$ 2,223,067
Accumulated depreciation					
Balance at January 1, 2023	\$ 872,901	\$ 161,554	\$ 62,576	\$ 581,874	\$ 1,678,905
Depreciation for the period	164,476	16,232	-	-	180,708
Disposals	(103,718)	-	-	-	(103,718)
Balance at December 31, 2023	\$ 933,659	\$ 177,786	\$ 62,576	\$ 581,874	\$ 1,755,895
Depreciation for the period	88,172	9,739	-	-	97,911
Balance at September 30, 2024	\$ 1,021,831	\$ 187,525	\$ 62,576	\$ 581,874	\$ 1,853,806
Carrying value					
At December 31, 2023	\$ 358,684	\$ 64,929	\$ -	\$ -	\$ 423,613
At September 30, 2024	\$ 314,071	\$ 55,190	\$ -	\$ -	\$ 369,261

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, 2024 and 2023

8. INTANGIBLE ASSETS

	Brand	Customer relationships	Intellectual property rights, games acquired and external development costs	Total
Cost				
Balance at January 1, 2023	\$ 7,130,000	\$ 5,010,000	\$ 34,304,989	\$ 46,444,989
Additions	-	-	576,266	576,266
Balance at December 31, 2023	\$ 7,130,000	\$ 5,010,000	\$ 34,881,255	\$ 47,021,255
Additions	-	-	3,284,385	3,284,385
Balance at September 30, 2024	\$ 7,130,000	\$ 5,010,000	\$ 38,165,640	\$ 50,305,640
Accumulated depreciation				
Balance at January 1, 2023	\$ 2,733,167	\$ 4,801,250	\$ 13,311,142	\$ 20,845,559
Depreciation for the period	1,426,000	208,750	9,598,196	11,232,946
Balance at December 31, 2023	\$ 4,159,167	\$ 5,010,000	\$ 22,909,338	\$ 32,078,505
Depreciation for the period	\$ 1,069,500	-	\$ 6,166,780	\$ 7,236,280
Balance at September 30, 2024	\$ 5,228,667	\$ 5,010,000	\$ 29,076,118	\$ 39,314,785
Carrying value				
At December 31, 2023	\$ 2,970,833	-	\$ 11,971,917	\$ 14,942,750
At September 30, 2024	\$ 1,901,333	-	\$ 9,089,522	\$ 10,990,855

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, 2024 and 2023

9. LONG TERM INVESTMENTS

	2024 <i>September 30</i>	2023 <i>December 31</i>
Creative Labs Limited Partnership (i)	\$ 708,999	\$ 708,999
Night Garden Studio Inc. (ii)	392,176	392,176
Truly Social Games Inc. (iii)	-	-
	\$ 1,101,175	\$ 1,101,175

- i. The Company entered into a subscription agreement with 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, 2024, 500,000 (December 31, 2023 – 500,000) of the committed units have been funded. The Company recognized an unrealized loss of \$153,324 during the year ended December 31, 2023 (2022 – unrealized loss of \$87,677). The unrealized loss is included in unrealized loss on investment on the consolidated statement of income (loss) and comprehensive income (loss).
- 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 20% ownership in Night Garden and has been accounted for using the equity method. The Company recorded an equity pick up of \$197,176 during the year ended December 31, 2023 (2022 – equity pick up of \$195,000). The equity pick up is included in investment and other income on the consolidated statement of income (loss) and comprehensive income (loss).

The Company also entered into a Live-Ops Services Agreement with Night Garden on July 23, 2021 to support the game known as “RuPaul’s Drag Race: Superstar”. During the three month period ended September 30, 2024, the Company incurred \$1,674,000 (2023 – \$1,674,000) in costs to Night Garden and is included in cost of sales on the consolidated statement of income (loss) and comprehensive income (loss).

- 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 option 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 the 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. On December 11, 2023, the claim was dismissed by the US District Court of Oregon.

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, 2024 and 2023

10. 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, 2024, no amounts have been drawn (December 31, 2023 - \$nil) from its lines of credit.

11. TRADE AND OTHER PAYABLES

	2024	2023
	<i>September 30</i>	<i>December 31</i>
Trade payables and accrued liabilities (i)	\$ 10,585,769	\$ 8,422,491
Minimum guarantee payments for intellectual property	3,655,454	3,924,896
Wages and vacation payable	-	129,466
	\$ 14,241,223	\$ 12,476,853

(i) See note 17 for related party transactions with Bailey Ransen Family Trust.

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12. DEFERRED INCOME TAXES

The following components of deferred income taxes are calculated based on a current period enacted rate of 27% (December 31, 2023 - 27%). The change in deferred income taxes is \$1,085,474 (December 31, 2023 - \$203,812) 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, 2024 and December 31, 2023 are as follows:

	2024 <i>September 30</i>	2023 <i>December 31</i>
Deferred income tax assets		
Non-capital losses	\$ 1,042,711	\$ 1,042,711
Investment tax credits	821,554	821,554
Financing and share issuance costs	230,857	230,857
Capital assets	55,608	40,918
Fair value adjustments	34,208	30,435
Total deferred tax assets	\$ 2,184,938	\$ 2,166,475
Deferred income tax liabilities		
Government assistance	\$ (623,566)	\$ (623,566)
Intangible assets – RTO	(1,339,200)	(2,092,500)
Intangible assets	(1,589,433)	(1,903,144)
Total deferred tax liabilities	\$ (3,552,199)	\$ (4,619,210)
Net deferred tax liabilities	\$ (1,367,261)	\$ (2,452,735)
Deferred tax asset, as recognized on the balance sheet	1,274,029	1,273,949
Deferred tax liability, as recognized on the balance sheet	(2,641,290)	(3,726,684)
	\$ (1,367,261)	\$ (2,452,735)

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13. 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, 2024, the Company had the following transactions:

- 588,740 shares were repurchased under the Normal Course Issuer Bid (“NCIB”) for a total of \$391,297.

For the nine-month period ended September 30, 2023, the Company had the following transactions:

- 449,146 shares were repurchased under the Normal Course Issuer Bid (“NCIB”) for a total of \$370,917.

Normal Course Issuer Bid

- On August 11, 2022, the Company announced a Normal Course Issuer Bid authorizing the Company to purchase up to 4,076,819 of its shares, and the renewal of its NCIB was subsequently announced on November 13, 2023. Through September 30, 2024, 1,540,719 shares were repurchased for a total of \$1,176,151 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. As of the issuance date of these consolidated financial statements, all of these shares have been released, including the contingent shares.

	Shares Locked-up	Released on Feb 5, 2022	Released on Feb 5, 2023	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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14. 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 2024 <i>September 30</i>	Number	Weighted Average Exercise Price 2023 <i>December 31</i>
Outstanding at beginning of year	6,416,061	\$ 1.61	4,644,733	\$ 2.59
Granted	-	-	2,750,000	0.39
Exercised	-	-	-	-
Forfeited	(21,000)	1.47	(978,672)	2.96
Outstanding at end of year	6,395,061	\$ 1.61	6,416,061	\$ 1.61

(continues)

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14. 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 0.34% - 3.45% (2023 – 0.33% - 3.10%).
- The expected life of the options ranges from 2 - 5 years (2023 – 2 - 5 years).
- The expected volatility is 79.5% (2023 – 67.5%).
- The expected forfeiture rate is 0% (2023 – 0%).
- The expected dividends yield is 0% (2023 – 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 ended September 30, 2024, the Company recognized stock-based compensation expense of \$409,958 (2023 - \$889,205).

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, 2024 was \$0.27 per option (2023 – \$1.61). The weighted average remaining contractual life of outstanding share options at September 30, 2024 was 2.82 years (2023 – 3.19 years).

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15. CAPITAL MANAGEMENT

The Company manages, as capital, the components of shareholders' equity and its cash and cash equivalents. 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.

16. COMMITMENTS AND CONTINGENCIES

See note 3 for minimum guarantees associated with intellectual property rights.

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

17. RELATED PARTY TRANSACTIONS

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

	2024	2023
	<i>September 30</i>	<i>September 30</i>
Payments made to Night Garden <i>Refer to note 11 for nature of payments</i>	\$ 1,674,000	\$ 1,674,000
Bailey Ransen Family Trust <i>Entity with common directorship</i>		
Amount included in other payables	\$ -	\$ 908,928
