

ESE ENTERTAINMENT INC.

CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended October 31, 2023 and 2022

(Expressed in Canadian Dollars)

Independent Auditor's Report

To the Shareholders of ESE Entertainment Inc.

Opinion

We have audited the consolidated financial statements of ESE Entertainment Inc. (the "Group"), which comprise the consolidated statements of financial position as at October 31, 2023 and October 31, 2022 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at October 31, 2023 and October 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Other than the matter described in the Material Uncertainty Related to Going Concern section, we have determined there are no key audit matters to be communicated in our report.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the other information prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Diana Huang.

Crowe Mackay LLP

**Chartered Professional Accountants
Vancouver, Canada
March 28, 2024**

ESE ENTERTAINMENT INC.
Consolidated Statements of Financial Position
As at October 31, 2023 and 2022
(Expressed in Canadian Dollars)

	Note	2023	2022
ASSETS			
Current assets			
Cash		\$ 2,125,251	\$ 812,220
Receivables	8	2,285,731	9,571,707
Term deposits		-	301,799
Prepaid expense and deposits		148,327	305,393
Inventory		27,915	797,018
		4,587,224	11,788,137
Property and equipment	9	431,465	2,500,218
Investment in GR Games	13	331,314	287,841
Intangible assets	10	-	3,713,342
Goodwill	11	-	3,160,975
Investment in GameAddik	12	3,761,567	-
Total assets		\$ 9,111,570	\$ 21,450,513
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	14, 21	\$ 2,195,733	\$ 6,977,112
Lease liabilities	15	110,062	301,874
Acquisition payment commitment	6, 7	862,801	2,992,195
Income taxes payable		-	730,423
Loans and credit facilities	16	674,276	2,033,719
Convertible notes	17	2,517,507	-
Consideration payable	6	63,735	632,928
Deferred revenue	22	9,305	268,519
		6,433,419	13,936,770
Consideration payable	6	-	257,859
Loans payable	16	-	358,090
Convertible notes	17	-	2,806,965
Deferred income tax liability	25	-	915,852
Lease liabilities	15	-	941,082
		6,433,419	19,216,618
EQUITY			
Share capital	18	52,288,061	44,305,370
Share subscriptions received		1,050	8,700
Commitment to issue shares	5, 7, 18	2,235,346	3,937,227
Contributed surplus		6,032,669	5,193,753
Accumulated other comprehensive loss		(11,432)	(139,456)
Deficit		(56,951,453)	(50,598,482)
Equity attributable to shareholders		3,594,241	2,707,112
Non-controlling interest		(916,090)	(473,217)
Total equity		2,678,151	2,233,895
		\$ 9,111,570	\$ 21,450,513

Nature and continuance of operations – Note 1
Subsequent event – Note 26

APPROVED ON BEHALF OF THE BOARD:

“Konrad Marian Wasiela” Director
Konrad Marian Wasiela

“Robert Kang” Director
Robert Kang

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

ESE ENTERTAINMENT INC.
Consolidated Statements of Loss and Comprehensive Loss

For the Years Ended October 31, 2023 and 2022

(Expressed in Canadian Dollars)

	Note	2023	2022
Revenue	22	\$ 19,098,498	\$ 30,919,768
Cost of sales	22	18,921,574	30,845,519
Gross profit		176,924	74,249
Expenses			
Share-based payments	18, 21	4,962,746	13,235,121
Wages, benefits and consulting	21	1,406,046	1,350,385
General and administration		646,356	798,674
Advertising and promotion		294,898	552,729
Professional fees	21	1,136,383	1,045,919
Finder's fees and stamp duty for acquisitions and commissions	6	202,835	449,518
Amortization	9	192,613	222,799
Filing fees, bad debts and other		261,124	305,509
		9,103,001	17,960,654
Loss before other items		(8,926,077)	(17,886,405)
Other items:			
Interest expense	16, 17	(374,348)	(273,756)
Accretion expense	17	(511,839)	(178,773)
Impairment of assets	6	-	(4,768,620)
Gain (loss) on revaluation of consideration payable	6	496,350	(56,001)
Write-off of equipment	9	(13,133)	-
Equity income from investment in GameAddik	12	149,000	-
Loss on sale of WPG subsidiaries	4	(133,701)	-
Gain on revaluation of investment	12	1,166,493	-
Loss on extinguishment of convertible note	17	(132,314)	-
Foreign exchange (loss) gain		(95,654)	84,712
		550,854	(5,192,438)
Net loss for the year before taxes		(8,375,223)	(23,078,843)
Income tax recovery	25	44,338	241,258
Net loss for the year from continuing operations		(8,330,885)	(22,837,585)
Net income (loss) for the year from discontinued operations, net of tax	24	1,535,041	(7,000,246)
Net loss for the year		(6,795,844)	(29,837,831)
Other comprehensive income (loss)			
Income (loss) on translation of foreign operations		128,024	(32,327)
Total comprehensive loss for the year		\$ (6,667,820)	\$ (29,870,158)
Net loss from continuing operations attributable to:			
Shareholders of the company		\$ (7,888,012)	\$ (22,395,968)
Non-controlling interest		(442,873)	(441,617)
Net loss for the year from continuing operations		\$ (8,330,885)	\$ (22,837,585)
Net income (loss) from discontinued operations attributable to:			
Shareholders of the company		\$ 1,535,041	\$ (7,000,246)
Non-controlling interest		-	-
Net income (loss) for the year from discontinued operations		\$ 1,535,041	\$ (7,000,246)
Net loss attributable to:			
Shareholders of the company		\$ (6,352,971)	\$ (29,396,214)
Non-controlling interest		(442,873)	(441,617)
Net loss for the year		\$ (6,795,844)	\$ (29,837,831)
Total comprehensive loss attributable to:			
Shareholders of the company		\$ (6,224,947)	\$ (29,428,541)
Non-controlling interest		(442,873)	(441,617)
Total comprehensive loss for the year		\$ (6,667,820)	\$ (29,870,158)
Basic and diluted loss per share		\$ (0.09)	\$ (0.46)
Basic and diluted loss per share – continuing operations		\$ (0.11)	\$ (0.36)
Basic and diluted income (loss) per common share – discontinued operations		\$ 0.02	\$ (0.11)
Basic and diluted loss per common share – continuing operations attributable to shareholders of the company		\$ (0.09)	\$ (0.35)
Weighted average number of common shares outstanding		72,798,183	64,182,300

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

ESE ENTERTAINMENT INC.

Consolidated Statements of Changes in Equity
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

	Number of Shares	Share Capital	Share subscriptions received	Commitment to issue shares	Contributed Surplus	Accumulated other comprehensive (loss) income	Deficit	Non- Controlling Interest	Total
Balance October 31, 2021	60,768,449	\$ 28,569,784	\$ 1,050	\$ 4,375,304	\$ 2,388,107	\$ (107,129)	\$ (21,202,268)	\$ (31,600)	\$ 13,993,248
Exercise of stock options	1,112,500	1,005,475	-	-	(516,925)	-	-	-	488,550
Exercise of agent's warrants	26,822	12,659	-	-	(4,221)	-	-	-	8,438
Shares issued for acquisition of Frenzy	656,606	866,720	-	-	-	-	-	-	866,720
Shares issued to finder for acquisition of Frenzy	101,016	133,341	-	-	-	-	-	-	133,341
Shares issued for acquisition of GameAddik	879,184	1,213,274	-	1,040,906	-	-	-	-	2,254,180
Shares issued to finder for acquisition of GameAddik	368,858	509,024	-	-	-	-	-	-	509,024
Frenzy Earn-Out shares issued	681,860	388,660	-	-	-	-	-	-	388,660
Commitment to issue shares – Acquisition of Digital Motorsports	1,412,250	1,125,369	-	(1,125,369)	-	-	-	-	-
Deferred compensation shares issued to WPG	-	5,710,384	-	-	-	-	-	-	5,710,384
Deferred compensation shares issued to GameAddik	6,497,959	4,770,680	-	(353,614)	-	-	-	-	4,417,066
Value of warrants and convertible option on issuance of convertible note units, net of tax	-	-	-	-	219,121	-	-	-	219,121
Share subscriptions received	-	-	7,650	-	-	-	-	-	7,650
Share-based payments	-	-	-	-	3,107,671	-	-	-	3,107,671
Loss and comprehensive loss for the year	-	-	-	-	-	(32,327)	(29,396,214)	(441,617)	(29,870,158)
Balance October 31, 2022	72,505,504	44,305,370	8,700	3,937,227	5,193,753	(139,456)	(50,598,482)	(473,217)	2,233,895
Exercise of stock options	65,000	38,250	(7,650)	-	(18,100)	-	-	-	12,500
Private placement	5,000,502	1,750,175	-	-	250,025	-	-	-	2,000,200
Share issue cost	-	(157,091)	-	-	66,350	-	-	-	(90,741)
Frenzy Earn-Out shares issued	1,363,720	330,702	-	-	-	-	-	-	330,702
Commitment to issue shares – Acquisition of Digital Motorsports	2,047,762	1,370,554	-	(1,370,554)	-	-	-	-	-
Deferred compensation shares issued to WPG	-	2,146,682	-	-	-	-	-	-	2,146,682
Deferred compensation shares issued to GameAddik	-	2,485,524	-	(331,327)	-	-	-	-	2,154,197
Value of warrants and convertible option on issuance of convertible note, net of tax	-	-	-	-	125,515	-	-	-	125,515
Repayment of convertible notes	-	-	-	-	(96,741)	-	-	-	(96,741)
Shares issued for services	70,175	17,895	-	-	-	-	-	-	17,895
Share-based payments	-	-	-	-	511,867	-	-	-	511,867
Loss and comprehensive loss for the year	-	-	-	-	-	128,024	(6,352,971)	(442,873)	(6,667,820)
Balance October 31, 2023	81,052,663	\$ 52,288,061	\$ 1,050	\$ 2,235,346	\$ 6,032,669	\$ (11,432)	\$ (56,951,453)	\$ (916,090)	\$ 2,678,151

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

ESE ENTERTAINMENT INC.
Consolidated Statements of Cash Flows
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

	2023	2022
CASH FLOWS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Loss from continuing operations for the year	\$ (8,330,885)	\$ (22,837,585)
Items not affecting cash:		
Accretion on convertible notes	511,839	178,773
Accretion on lease liabilities	13,849	21,451
Amortization	230,663	222,799
Finder's fees for acquisitions paid by shares	-	133,341
Impairment of assets	-	4,768,620
Income tax recovery	(44,338)	(241,258)
Share-based payments	4,962,746	13,235,121
Gain (loss) on revaluation of consideration payable	(496,350)	56,001
Loss on extinguishment of convertible note	132,314	-
Equity income from Investment in GameAddik	(149,000)	-
Gain on revaluation of GameAddik	(1,166,493)	-
Loss on sale of WPG subsidiaries	133,701	-
Shares issued for services	17,895	-
Write-off of equipment	13,133	-
Write-off of ROU asset and liability	119,209	-
Changes in non-cash working capital items:		
Receivables	1,914,182	1,940,991
Inventory	6,709	(6,709)
Prepaid expenses and deposits	(33,639)	157,333
Deferred revenue	(11,521)	(86,251)
Accounts payable and accrued liabilities, income tax payable and shareholder loans	(316,082)	1,636,396
Net cash used in operating activities from continuing operations	(2,492,068)	(820,977)
Net cash used in operating activities from discontinued operations (Note 22)	1,254,962	(927,633)
Net cash used in operating activities	(1,237,106)	(1,748,610)
INVESTING ACTIVITIES		
Cash paid for deferred acquisition payment	(2,129,394)	(3,320,322)
Cash paid to acquire GameAddik	-	(2,061,000)
Cash paid to acquire Frenzy	-	(1,498,798)
Property and equipment	(8,151)	(372,898)
Cash acquired on acquisition of GameAddik	-	123,895
Cash acquired on acquisition of Frenzy	-	109,054
Sale of GameAddik	5,941,389	-
Cash transferred on disposition of GameAddik	(731,958)	-
Sale of WPG subsidiaries	2	-
Cash transferred on disposition of WPG subsidiaries	409	-
Net cash used in investing activities from continuing operations	3,072,297	(7,020,069)
Net cash used in investing activities from discontinued operations (Note 22)	(56,113)	(196,118)
Net cash provided by (used in) investing activities	3,016,184	(7,216,187)
FINANCING ACTIVITIES		
Convertible note units issued for cash	1,175,394	3,099,910
Shares issued for cash, net of share issue cost	1,921,959	496,988
Share subscriptions received	-	7,650
Interest payments	(295,500)	(94,641)
(Repayment of) proceeds from loans, net	(134,737)	284,710
Credit facility received, net of repayments	61,847	283,719
Repayment of convertible notes	(2,528,889)	-
Repayment of lease liabilities	(148,736)	(158,158)
Net cash provided by financing activities from continuing operations	51,338	3,920,178
Net cash (used in) provided by financing activities from discontinued operations (Note 22)	(557,772)	1,077,555
Net cash (used in) provided by financing activities	(506,434)	4,997,733
Foreign exchange effect on cash	40,387	(45,788)
Change in cash for the year	1,313,031	(4,012,852)
Cash, beginning of year	812,220	4,825,072
Cash, end of year	\$ 2,125,251	\$ 812,220

Supplemental disclosures with respect to cash flows – Note 23

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

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

1 Nature and Continuance of Operations

ESE Entertainment Inc. (the “Company” or “ESE”) is a global entertainment and technology company focused on gaming and esports, primarily in the business of attracting gamers and fans to its clients, such as video game developers, publishers, and brands. The Company provides a range of services to leading video game developers, publishers, and brands by providing technology, infrastructure, and fan engagement services internationally. ESE also operates its own ecommerce channels, esports teams, and gaming leagues. The Company was incorporated on June 14, 2018 in British Columbia, Canada. The Company’s registered office is at 6th Floor, 905 West Pender Street, Vancouver, British Columbia, V6C 1L6 and its head office is located at 1000-409 Granville Street, Vancouver, British Columbia, V6C 1T2.

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

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

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

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

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

On August 13, 2023, the Company sold 70% of the issued and outstanding shares of GameAddik (Note 24).

On August 31, 2023, WPG sold its two European operating subsidiaries, WPG Racing Solutions SRL and Foresight Resolution SRL for \$1 each (Note 4).

These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company was not expected to continue operations for the foreseeable future. At October 31, 2023, the Company has not achieved profitable operations, has accumulated losses of \$56,951,453 (2022 - \$50,598,482) since inception and expects to incur further losses in the development of its business. The above material uncertainties cast significant doubt about the Company’s ability to continue as a going concern. The Company’s continuation as a going concern is dependent upon successful results from its operating activities, its ability to attain profitable operations to generate funds and/or its ability to raise equity capital or borrowings sufficient to meet its current and future obligations. Although the Company has been successful in the past in raising funds to continue operations, there is no assurance it will be able to do so in the future.

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

The Company's business may be affected by changes in political and market conditions, such as interest rates, availability of credit, inflation rates, changes in laws, and national and international circumstances. Recent geopolitical events and potential economic global changes such as the rise of higher inflation and energy prices, may create further uncertainty and risk with respect to the prospects of the Company's business. There can be no assurance that the Company will not be impacted by adverse consequences that may be brought about on its business, results of operations, financial position and cash flows in the future.

2 Basis of Preparation

Statement of Compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on March 28, 2024.

Basis of Measurement

These consolidated financial statements have been prepared on an accrual basis, except for cash flow information, and are based on historical costs except for certain financial instruments which are measured at fair value. The consolidated financial statements are presented in Canadian dollars which is the Company's functional currency.

3 Accounting Policies

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

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries at the end of the reporting year.

	Jurisdiction	Percentage of ownership	
		2023	2022
ESE Entertainment Holdings Inc.	Canada	100%	100%
ESE Europe SP. Z O.O. ("ESE Europe")	Poland	100%	100%
World Performance Group Ltd. ("WPG")	Canada	51%	51%
WPG Racing Solutions SRL	Romania	0%	50%
Foresight Resolution SRL	Romania	0%	50%
Auto Simulation Limited (DBA "Digital Motorsports")	Ireland	100%	100%
Frenzy sp. Z.o.o ("Frenzy")	Poland	100%	100%
9327-7358 Quebec Inc. (DBA "GameAddik")	Canada	30%	100%

The results of subsidiaries are fully consolidated from the date on which control is transferred to the Company. The results of these subsidiaries will continue to be included in the consolidated financial statements of the Company until the date that the Company's control over the subsidiary ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

All significant intercompany accounts and transactions between the Company and its subsidiaries have been eliminated on consolidation.

When a parent loses control of a subsidiary, the parent derecognizes the assets and liabilities of the former subsidiary, and recognizes any investment retained in the former subsidiary at its fair value when control is lost. That fair value shall be regarded as the cost on initial recognition of an investment in associate when appropriate. The parent shall recognize the gain or loss associated with the loss of control attributable to the former controlling interest.

Financial Instruments

Financial Assets

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

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

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- FVTPL: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at FVTPL. A gain or loss on an investment that is subsequently measured at FVTPL is recognized in profit or loss.

The Company's cash, receivables and term deposits are measured at amortized cost. The investment in GR Games is measured at FVTPL.

Impairment of Financial Assets at Amortized Cost

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

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

Financial Liabilities

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

A financial liability is classified as FVTPL if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. The fair value changes to financial liabilities at FVTPL are presented as follows: the amount of change in fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and the remaining amount of the change in the fair value is presented in profit or loss. The consideration payable is measured at FVTPL.

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

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets, is recognized in profit or loss.

Foreign Currency

The consolidated financial statements are presented in Canadian dollars which is the functional currency of ESE Entertainment Inc., ESE Entertainment Holdings Inc. and GameAddik. The functional currency of ESE Europe and Frenzy is Polish Zloty. The functional currency of WPG is the US dollars. The Romanian new leu ("RON") is the functional currency of WPG Racing Solutions SRL and Foresight Resolution SRL. The functional currency of Digital Motorsports is the Euro.

Assets and liabilities of the subsidiary having a functional currency other than the Canadian dollar are translated at the rate of exchange at the reporting period date. Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. The resulting foreign currency translation adjustments are recognized in the accumulated other comprehensive income.

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

Inventory

Finished products, work in process, in transit stock, and supplies inventories are valued at the lower of cost and net realizable value, with cost determined on a FIFO basis. The inventory at October 31, 2023 and 2022 was comprised entirely of finished goods.

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

Property and Equipment

Equipment is stated at cost less accumulated amortization and impairment losses. Repairs and maintenance costs are charged to expense as incurred, except when these repairs significantly extend the life or result in an operating improvement. In these instances, the portion of these repairs relating to the betterment is capitalized as part of equipment.

The residual value, useful life and depreciation method are evaluated every reporting period and changes to the residual value, estimated useful life or depreciation method resulting from such review are accounted for prospectively. Depreciation is provided for using a combination of the declining-balance method and straight line method at 4%-50% per annum. Leasehold improvements and right-of-use assets are depreciated straight line over the remaining term of the lease.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognised.

Goodwill

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill is not subject to amortization and an impairment test is performed annually or as events occur that could indicate impairment. Goodwill is reported at cost less any impairment.

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (“CGU”s). To test for impairment, goodwill is allocated to each of the Company’s CGUs, groups of CGUs, or an operating segment expected to benefit from the acquisition. Goodwill is tested by combining the carrying amounts of equipment and leasehold improvements, intangible assets and goodwill and comparing this to the recoverable amount. Fair value less costs of disposal is price to be received in an orderly transaction between market participants. Value in use is assessed using the present value of the expected future cash flows. Any excess of the carrying amount over the recoverable amount is recorded as impairment. Impairment charges, which are not tax affected, are recognized in in profit or loss and are not reversed.

Impairment of Non-Financial Assets

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually at every reporting period. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable and at least annually.

Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset’s cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets.

An impairment loss is charged to profit or loss, except to the extent they reverse gains previously recognized in accumulated other comprehensive income (loss).

Investment in Associate

An associate is an entity over which the Company has significant influence, and which is neither a subsidiary nor a joint arrangement.

The Company has significant influence over an entity when it has the power to participate in the financial and operating policy decisions of the associate but does not have control or joint control.

Under the equity method, the Company’s investment in the associate is initially recognized at cost and subsequently increased or decreased to recognize the Company’s share of net income and losses of the associate, after any adjustments necessary to give effect to uniform accounting policies, any other movement in the associate’s reserves, and for impairment losses after the initial recognition date. The Company’s share of income and losses of the associate is recognized in profit or loss during the period.

Dividends and repayment of capital received from an associate are accounted for as a reduction in the carrying amount of the Company’s investment.

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

At the end of each reporting period, the Company assesses whether there is any objective evidence that an investment in an associate is impaired. Objective evidence includes observable data indicating there is a significant or prolonged decline in the fair value of an equity investment below its cost. When there is objective evidence that an investment is impaired, the carrying amount of such investment is compared to its recoverable amount, being the higher of its fair value less costs of disposal and value-in-use. If the recoverable amount of an investment is less than its carrying amount, the carrying amount is reduced to its recoverable amount and an impairment loss is recognized in the period in which the relevant circumstances are identified. When an impairment loss reverses in a subsequent period, the carrying amount of the investment is increased to the revised estimate of recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had an impairment loss not been previously recognized. A reversal of an impairment loss is recognized in profit or loss in the period in which the reversal occurs.

Convertible Notes

Convertible notes issued by the Company represent a compound financial instrument that includes the host debt liability and the convertible component, with the proceeds received allocated between the two components at the date of issue. The Company assesses whether the convertible component qualifies as equity or is considered a derivative liability. If the conversion feature meets the definition of equity, the fair value of the liability component is estimated at the date of issue of the instrument using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability (net of transaction costs) on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequent remeasured. Transaction costs are apportioned between the liability and equity components of the convertible instrument, based on the allocation of proceeds to the financial liability and equity components when the instruments are initially recognized. On conversion, the financial liability is reclassified to equity and no gain or loss is recognized.

If the conversion feature of a convertible instrument does not meet the definition of equity, it is classified as an embedded derivative and measured accordingly. The debt component of the instrument is determined by deducting the fair value of the embedded derivative at inception from the fair value of the consideration received for the instrument as a whole. The debt component is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

Share Capital

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the date of announcement of the unit private placements. The remaining balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded to contributed surplus.

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

Revenue Recognition

Revenue is recognized when control of the promised goods or services is transferred to the customers, in an amount that reflects the consideration receivable in exchange for those goods or services, net of discounts and sales taxes.

Revenue from sales of long-distance minutes is recognized as minutes are consumed and collection is reasonably assured. Revenue from providing call center service is recognized as services are provided and collection is reasonably assured.

With respect to the sale of simulators and accessories, and revenues generated through esports leagues and corporate event services, there is one performance obligation to fulfil and revenue is recognized upon delivery of the product or upon completion of services. Generally, payments are received in advance of delivery and satisfaction of the performance obligations.

For contracts with multiple promised services, contract revenue is allocated to each distinct performance obligation. For performance obligations which are satisfied over time, the Company recognizes the allocated revenue as the promised services are delivered to the clients.

Share-based payments

Equity-settled share-based payments for directors, officers and employees are measured at fair value at the date of grant using the Black-Scholes valuation model and recorded as compensation expense in profit or loss, with a corresponding increase to contributed surplus. The fair value determined at the grant date of the equity-settled share based payments is expensed on a graded vesting basis over the vesting period based on the Company's estimate of stock options that will eventually vest.

Compensation expense on stock options granted to non-employees is measured at the earlier of the completion of performance and the date the options are vested using the fair value method and is recorded as an expense in the same period as if the Company had paid cash for the goods or services received. When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by the use of the Black-Scholes valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Expected volatility was determined based on comparison to similar companies as the Company does not have enough trading history.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

All equity-settled share-based payments are reflected in contributed surplus until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled and settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted,

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

measured at the repurchase date. Any such excess is recognized as an expense. Amount recorded in contributed surplus for options that expire unexercised remain in contributed surplus.

Basic and Diluted Loss Per Share

Basic loss per share is computed by dividing the net loss by the weighted average number of outstanding shares in issue during the reporting period. Diluted loss per share is computed similar to basic loss except that the weighted average number of outstanding shares include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. In a loss reporting period, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive. Issued but unvested shares are excluded from the weighted average number of shares outstanding.

All the outstanding stock options, warrants and convertible notes as of October 31, 2023 and 2022 were not included in the calculation of diluted per share amounts.

Income Taxes

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

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

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

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income taxes are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

Leases

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The lease liability is recognized at the lease commencement date at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, and otherwise at the Company's incremental borrowing rate. At the commencement date, a right-of-use asset is measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

Each lease payment is allocated between repayment of the lease principal and interest. Interest on the lease liability in each period during the lease term is allocated to produce a constant periodic rate of interest on the remaining balance of the lease liability. Except where the costs are included in the carrying amount of another asset, the Company recognizes in profit or loss (a) the interest on a lease liability and (b) variable lease payments not included in the measurement of a lease liability in the period in which the event or condition that triggers those payments occurs. The Company subsequently measures a right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any remeasurement of the lease liability. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term, except where the lease contains a bargain purchase option a right-of-use asset is depreciated over the asset's useful life.

Recent accounting pronouncements and changes in accounting policies

The following new standards and interpretations are not yet effective and have not been applied in preparing these consolidated financial statements. The Company will adopt the amendments on their effective dates and do not expect the amendments to have a significant impact on the consolidated financial statements.

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

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

The amendments to IAS 1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date. These amendments are effective for reporting periods beginning on or after January 1, 2024.

Amendments to IAS 8 – Definition of Accounting Estimates

These amendments clarify how companies distinguish changes in accounting policies from changes in accounting estimates, with a primary focus on the definition of and clarifications on accounting estimates. The distinction between the two is important because changes in accounting policies are applied retrospectively, whereas changes in accounting estimates are applied prospectively. Further, the amendments clarify that accounting estimates are monetary amounts in the financial statements subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. These amendments are effective for reporting periods beginning on or after January 1, 2023.

Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies

These amendments continue the IASB's clarifications on applying the concept of materiality. These amendments help companies provide useful accounting policy disclosures, and they include: requiring companies to disclose their material accounting policies instead of their significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and do not need to be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material. The IASB also amended IFRS Practice Statement 2 to include guidance and examples on applying materiality to accounting policy disclosures. These amendments are effective for reporting periods beginning on or after January 1, 2023.

Significant accounting judgement, estimates and uncertainties

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

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

Going concern

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The assessment of the Company's ability to source future operations and continue as a going concern involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. If the going concern assumption were not appropriate for these consolidated financial statements,

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenue and expenses and the statement of financial position classifications used.

Discontinued operations

Discontinued operations are reported when a component of the Company, representing a separate major line of business or geographical area of operations with clearly distinguishable cash flows, has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. Discontinued operations are reported as a separate element on the consolidated statements of loss and comprehensive loss for both the current and comparative periods. GameAddik and Digital Motorsports have been classified and reported as a discontinued operation.

Investment in GameAddik

At every reporting period, management assesses the potential impairment with respect to the carrying value and recoverability of investments in associates, which involves assessing whether or not facts or circumstances exist that suggest the carrying amount exceeds the recoverable amount. At October 31, 2023, management did not identify any impairment indicators.

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

Valuation of receivables

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

Revenue

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

Purchase price allocation

The acquisition of Frenzy on November 12, 2021 and the acquisition of GameAddik on February 1, 2022 were accounted for as business combinations at fair value in accordance with IFRS 3, Business Combinations. The purchase price allocation process resulting from a business combination requires management to estimate the fair value of the consideration paid, and the fair value of the identifiable assets acquired, including intangible assets, and liabilities assumed. The Company relies on work performed by third-party valuation specialists. These valuations are closely linked to the assumptions used by management on the future performance of the related assets and the discount rates applied.

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

Impairment of goodwill

The Company performs a goodwill impairment test annually and when circumstances indicate that the carrying value may not be recoverable. The recoverable amount of the CGUs was based on value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGUs. The cash flows were projected over a five-year period based on revenue forecast prepared by management. The Company performed its annual goodwill impairment test during the year ended October 31, 2022 and determined that an impairment of goodwill was indicated for the period tested for the acquisitions of Digital Motorsports and Frenzy. The values assigned to the key assumptions represented management's assessment of future trends in the industry and were based on historical data from both internal and external sources.

Impairment of intangible assets

The Company performs an intangible asset impairment test annually and when circumstances indicate that the carrying value may not be recoverable. The recoverable amount of each intangible asset was based on its value in use, determined by discounting the future cash flows to be generated from the continuing use of the intangible asset. The cash flows were projected based on revenue forecasts prepared by management. The Company performed its annual intangible asset impairment tests during the year ended October 31, 2022 and determined that the customer relationships and brand and media presence acquired from the acquisition of Digital Motorsports were impaired as at October 31, 2022. The values assigned to the key assumptions represented management's assessment of future trends in the industry and were based on historical data from both internal and external sources.

Consideration payable

The acquisition of Frenzy on November 12, 2021 included consideration in the form of common shares of the Company to be issued in four equal instalments, subject to Frenzy generating revenue (as defined) greater than PLN7,460,950 for the prior four quarters, assessed every six months following closing. The calculation was based on the assumption that the revenue threshold would be met, given the revenue forecast prepared by management. The values assigned to the key assumptions represented management's assessment of future trends in the industry and were based on historical data from both internal and external sources. The key assumptions applied in the valuation include a weighted average cost of capital of 31%.

Leases

The application of IFRS 16 requires the Company to make judgments and estimates that affect the valuation of the lease liabilities and the valuation of right-of-use assets. These include the determination of contracts in the scope of IFRS 16, the lease term and the interest rate used for discounting future cash flows. The Company measures the lease liability at the present value of the lease payments using the implicit interest rate in the lease at the commencement of a new lease or when a lease is modified. If the rate cannot be readily determined, the Company evaluates its incremental borrowing cost using assumptions and estimates.

Convertible notes

The identification of convertible note components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible note at issuance and the subsequent measurement of interest on the liability component. The determination of fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates, and the presence of any derivative financial instruments.

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

Additionally, significant judgment is required when accounting for the redemption, conversion or modification of these instruments. The key assumptions applied in the valuation include an estimated 20% market discount rate.

4 Acquisition of WPG

On April 12, 2021, the Company acquired 51% of the issued and outstanding shares of WPG. The acquisition of WPG was an important step to build infrastructure, as customer service is expected to be an important part of gaming and esports moving forward. WPG has the framework that can support esports and gaming events in the future. The purchase price consisted of (i) \$10,000 refundable deposit (paid), (ii) \$128,019 in cash on closing of the transaction (the “Closing”) (paid), and (iii) issuance of 585,156 common shares of the Company. The Company is also required to (i) issue 6,664,845 common shares (the “Deferred Compensation Shares”), vesting over three years, and (ii) advance \$750,000 to WPG (the “Working Capital Amount”). The Deferred Compensation Shares are considered a post-combination expense (Note 18b). Pursuant to the agreement, WPG is not required to repay or reimburse the Company all or any portion of the Working Capital Amount.

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

The Company has the option to acquire the remaining 49% of the issued and outstanding shares of WPG (the “Minority Interest”) at any time within 34 months following the closing by: (i) paying \$624,613 in cash; and (ii) issuing 2,500,000 common shares. WPGI also has the right to sell the Minority Interest to the Company at any time within 34 months following the closing upon the occurrence of a change of control event in exchange for the Company: (i) paying \$780,767 in cash; and (ii) issuing 3,125,000 common shares. The value of 49% of the outstanding shares of WPG was determined to be \$1,416,078 and is accounted for as a non-controlling interest.

The following is a summary of WPG’s financial information as at October 31, 2023.

	October 31, 2023
	\$
Current assets	225,191
Non-current assets	5,018
Current liabilities	(806,860)
Non-current liabilities	(1,225,256)
Revenue	15,491,335
Net loss	(903,823)
Total comprehensive loss	(895,691)
Accumulated other comprehensive loss	(9,131)

On August 31, 2023, WPG sold its two European operating subsidiaries, WPG Racing Solutions SRL and Foresight Resolution SRL for gross proceeds of \$2. \$133,701 was recognized as loss on disposal.

5 Acquisition of Digital Motorsports

On September 15, 2021, the Company acquired 100% of the issued and outstanding shares of Digital Motorsports. The purchase price consisted of (i) \$1,681,250 in cash on closing of the transaction (the “Closing”) (paid), (ii) issuance of 941,500 common shares of the Company, and (iii) up to 8,473,500 contingent earn-out shares (the “DMS Contingent Shares”) to be issued in six equal installments, with the first installment being issued on October 14, 2021, subject to DMS generating revenue greater than €2,587,005 for the prior four quarters, assessed

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

every six months between Closing and January 1, 2027. The Company will also advance €250,000 to Digital Motorsports (the “DMS Working Capital Amount”). Pursuant to the agreement, Digital Motorsports is not required to repay or reimburse the Company all or any portion of the DMS Working Capital Amount.

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

The fair value of the 941,500 common shares issued (\$950,915) was determined based on the share price of the Company on the date of acquisition. The estimated fair value of the 8,473,500 DMS Contingent Shares (\$5,664,314) was determined as the present value based on the share price of the Company on the date of acquisition and discounted using a WACC rate of 31% to account for the timing of the future share issuances. The calculation was based on the assumption that the revenue threshold would be met, given the revenue forecast prepared by management.

During the year ended October 31, 2022, the Company determined that the performance of Digital Motorsports did not support the carrying value of intangible assets and goodwill. As a result, the customer relationships, brand and media presence and goodwill were written off and \$8,273,827 was recorded as an impairment loss during the year ended October 31, 2022.

The Company issued 470,750 common shares to consultants for a total value of \$475,458 and paid cash of \$84,062 for providing M&A advisory services in connection with the acquisition of Digital Motorsports. The Company also paid \$109,905 in stamp taxes on Closing. These amounts were recorded as finder’s fees in the consolidated statement of loss.

The changes in the number of DMS Contingent Shares to be issued and commitment to issue shares during the years ended October 31, 2023 and 2022 are as follows:

	Number of DMS Contingent Shares	Commitment to issue shares
Balance, October 31, 2021	7,061,250	\$ 4,375,305
Issued	(1,412,250)	(1,125,369)
Balance, October 31, 2022	5,649,000	3,249,936
Issued	(2,047,762)	(1,370,554)
Balance, October 31, 2023	3,601,238	\$ 1,879,382

6 Acquisition of Frenzy

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

The purchase price consisted of (i) \$1,380,044 in cash paid on the closing of the transaction which includes a working capital adjustment (paid); (ii) \$1,183,123 in cash payable six months following closing; (iii) 656,606 common shares of the Company issued on closing (issued); and (iv) a minimum of 1,363,720 common shares (the “Frenzy Earn Out Shares”) to be issued in four equal installments, subject to Frenzy generating revenue (as defined) greater than PLN7,460,950 for the prior four quarters, assessed every six months following closing. The

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

Company has also agreed to discharge a loan owed by Frenzy in the amount of \$118,754 concurrently with closing.

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

The fair value of the 656,606 common shares issued (\$866,720) was determined based on the share price of the Company on the date of acquisition. The estimated fair value of the 1,363,720 Frenzy Earn Out Shares (\$1,223,446) was determined as the present value based on the share price of the Company on the date of acquisition and discounted using a WACC rate of 31% to account for the timing of the future share issuances. The calculation was based on the assumption that the revenue threshold would be met, given the revenue forecast prepared by management. As the number of the Frenzy Earn Out Shares to be issued is contingent on the share prices of the Company on the earn out dates and the Company has an obligation to make a cash payment if the shares are not issued, the Frenzy Earn Out Shares meet the definition of a financial liability and is recorded as such and revalued on each subsequent reporting date with the changes in the fair value recorded in profit and loss.

The consideration was allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The purchase price was allocated as follows:

Cash	\$	1,380,044
Cash – loan discharge		118,754
Deferred cash payment		1,183,123
656,606 common shares of the Company		866,720
1,363,720 Frenzy Earn Out Shares to be issued		1,223,446
Fair value of consideration	\$	4,772,087
Allocated to the fair value of net assets acquired (liabilities assumed):		
Cash	\$	109,054
Receivables		718,480
Equipment and other (Note 9)		193,915
Goodwill (Note 11)		4,768,620
Accounts payable and accrued liabilities		(327,246)
Loans and credit facilities (Note 16)		(583,718)
Income tax payable		(107,018)
Total net assets acquired	\$	4,772,087

The Company relied on the work of third-party valuation specialists and the assessment of the discounted cash flow forecast did not support the carrying value of goodwill. Accordingly, the goodwill of \$4,768,620 was written off and recorded as an impairment loss during the year ended October 31, 2022.

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

The operating results for Frenzy have been recognized in the consolidated statement of loss and comprehensive loss beginning on November 12, 2021, the effective date of obtaining control. From the acquisition date of November 12, 2021 to October 31, 2022, the Company recorded revenues of \$2,995,233 and net loss of \$5,118,331 related to Frenzy.

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

The changes in the consideration payable during the years ended October 31, 2023 and 2022 are as follows:

Balance, October 31, 2021	\$	-
Fair value of Frenzy Earn Out Shares to be issued		1,223,446
First tranche of Frenzy Earn Out Shares issued		(388,660)
Loss on revaluation of consideration payable		56,001
Balance, October 31, 2022		890,787
Second tranche of Frenzy Earn Out Shares issued		(235,242)
Third tranche of Frenzy Earn Out Shares issued		(95,460)
Gain on revaluation of consideration payable		(496,350)
Balance, October 31, 2023	\$	63,735

The fair value of the considerable payable at October 31, 2023 was determined as the present value based on the share price of the Company on October 31, 2023 and discounted using a WACC rate of 31%.

The changes in the Frenzy acquisition payment commitment during the years ended October 31, 2023 and 2022 are as follows:

Balance, October 31, 2021	\$	-
Incurred		1,183,123
Payment		(320,322)
Balance, October 31, 2023 and 2022	\$	862,801

7 Acquisition of GameAddik

On February 1, 2022, the Company completed the acquisition of 100% of the issued and outstanding shares of GameAddik, a Canadian technology and data company focused on gaming and esports, primarily in the business of attracting gamers and fans to its clients, such as video game developers, publishers, and brands. The acquisition of GameAddik allows ESE to bring a new revenue channel of video game advertising to expand its service offerings. GameAddik creates and executes its performance technology software to generate users and increase the reach of video games for its customers, which are primarily video game developers.

The technology developed and utilized by GameAddik includes unified campaign management, multi-engine search campaigns, and programmatic display and video advertising. The Company has developed methods for tracking and reporting ad performance across diverse channels and devices while using built-in ad verification to protect budget from fraud. In addition, it utilizes automated bidding and optimization for data-driven results and other tools to improve quality and delivery. The technology is used for precision targeting, including the ability to limit operating systems, browsers, and devices, to provide downloads or registrations to its customers' video games.

The purchase price consisted of: (i) \$2,061,000 in cash to be paid on closing or within 5 days of closing (paid); (ii) \$2,751,000 in cash to be paid 6 months from closing, plus working capital adjustment of \$2,378,394 (paid); and (iii) 7,377,143 common shares of ESE (the "Consideration Shares") (issued). The Company will have the right to repurchase 6,497,959 of the Consideration Shares for nominal consideration if revenues of GameAddik do not reach \$5,000,000 for 2022 and \$6,250,000 for the 2023 and 2024 fiscal years. 5,378,887 of the Consideration Shares are considered a post-combination expense (Note 18b), and 1,119,072 of the Consideration Shares are considered an acquisition cost.

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

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

The fair value of the 879,184 common shares issued (\$1,213,274) was determined based on the share price of the Company on the date of acquisition. The estimated fair value of the 1,119,072 Consideration Shares (\$1,040,906) was determined as the present value based on the share price of the Company on the date of acquisition and discounted using a WACC rate of 31% to account for the timing of the future share issuances. The calculation was based on the assumption that the revenue threshold would be met, given the revenue forecast prepared by management.

The consideration was allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The purchase price was allocated as follows:

Cash	\$	2,061,000
Deferred cash payment		2,751,000
Working capital adjustment		2,378,394
879,184 common shares of the Company		1,213,274
1,119,072 Consideration Shares		1,040,906
Fair value of consideration	\$	9,444,574
Allocated to the fair value of net assets acquired (liabilities assumed):		
Cash	\$	123,895
Receivables		3,681,886
Investments		301,187
Prepaid expenses and deposits		24,649
Equipment and right-of-use assets (Note 9)		1,557,120
Customer relationships (Note 10)		1,230,000
Brand and media presence (Note 10)		2,790,000
Goodwill (Note 11)		3,160,975
Other non-current assets		13,045
Lease liability		(973,880)
Lawsuit liability		(250,000)
Accounts payable and accrued liabilities		(1,215,253)
Deferred tax liability		(999,050)
Total net assets acquired	\$	9,444,574

The Company relied on the work of third-party valuation specialists to determine the value of customer relationships, brand and media presence and goodwill as at the acquisition date. Management performed impairment testing at October 31, 2022 and determined that there was no impairment to customer relationships, brand and media presence and goodwill.

The Company also issued 368,858 common shares to consultants for a total value of \$509,024, paid cash of \$240,600 for advisory services, and incurred transaction costs of \$532,348 in connection with the acquisition of GameAddik. These amounts were recorded as finder's fees in the consolidated statement of loss and comprehensive loss.

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

The operating results for GameAddik have been recognized in the consolidated statement of loss and comprehensive loss beginning on February 1, 2022, the effective date of obtaining control. From February 1, 2022 to October 31, 2022, the Company recorded revenues of \$22,118,396 and net income of \$2,069,243 related to GameAddik. If both Frenzy and GameAddik had been acquired on November 1, 2021, the Company would have recorded total revenues of \$63,495,806.

The changes in the GameAddik acquisition payment commitment during the years ended October 31, 2023 and 2022 are as follows:

Balance, October 31, 2021	\$ -
Incurred	5,129,394
Payment	(3,000,000)
Balance, October 31, 2022	2,129,394
Payment	(2,129,394)
Balance, October 31, 2023	\$ -

In August 2023, the Company sold 70% of the issued and outstanding shares of GameAddik (see Note 12).

8 Receivables

	October 31, 2023	October 31, 2022
Sales taxes receivable	\$ 343,196	\$ 509,657
Due from WPGI	-	29,123
GameAddik holdback (Note 24)	1,079,573	-
Sublease receivable (Note 15)	103,007	-
Trade accounts receivable	759,955	9,032,927
Receivables	\$ 2,285,731	\$ 9,571,707

9 Property and Equipment

	Equipment	Software	Right of Use Asset	Total
Cost as at October 31, 2021	\$ 171,401	\$ -	\$ 215,123	\$ 386,524
Acquired pursuant to acquisition of Frenzy	193,915	-	-	193,915
Acquired pursuant to acquisition of GameAddik	597,901	-	973,880	1,571,781
Additions	513,671	55,345	309,022	878,038
Foreign exchange	17,133	(1,282)	23,251	39,102
Cost as at October 31, 2022	1,494,021	54,063	1,521,276	3,069,360
Additions – continuing operations	3,992	4,159	-	8,151
Additions – discontinued operations	56,113	-	264,138	320,251
Sale of Gameaddik	(757,902)	-	(1,238,018)	(1,995,920)
Disposals and write-off – continuing operations	(73,978)	-	(431,979)	(505,957)
Disposals and write-off – discontinued operations	(249,327)	-	(115,417)	(364,744)
Foreign exchange	61,914	9,549	-	71,463
Cost as at October 31, 2023	\$ 534,833	\$ 67,771	\$ -	\$ 602,604

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

Accumulated amortization as at October 31, 2021	\$ 16,602	\$ -	\$ 22,927	\$ 39,529
Amortization – continuing operations	77,902	3,690	141,207	222,799
Amortization – discontinued operations	122,896	-	130,389	253,285
Foreign exchange	30,746	(87)	22,870	53,529
Accumulated amortization as at October 31, 2022	248,146	3,603	317,393	569,142
Amortization – continuing operations	90,240	4,463	135,960	230,663
Amortization – discontinued operations	79,397	-	186,477	265,874
Sale of Gameaddik	(126,810)	-	(199,496)	(326,306)
Disposals and write-off – continuing operations	(25,069)	-	(309,249)	(334,318)
Disposals and write-off – discontinued operations	(109,553)	-	(131,085)	(240,638)
Foreign exchange	5,967	755	-	6,722
Accumulated amortization as at October 31, 2023	\$ 162,318	\$ 8,821	\$ -	\$ 171,139
Net Book Value as at October 31, 2022	\$ 1,245,875	\$ 50,460	\$ 1,203,883	\$ 2,500,218
Net Book Value as at October 31, 2023	\$ 372,515	\$ 58,950	\$ -	\$ 431,465

10 Intangible Assets

	Customer Relationships	Brand and Media Presence	Total
Cost as at October 31, 2021	\$ 136,000	\$ 575,000	\$ 711,000
Acquired pursuant to acquisition of GameAddik	1,230,000	2,790,000	4,020,000
Cost as at October 31, 2022	1,366,000	3,365,000	4,731,000
Write-off - discontinued operations	(136,000)	(575,000)	(711,000)
Sale of GameAddik	(1,230,000)	(2,790,000)	(4,020,000)
Cost as at October 31, 2023	\$ -	\$ -	\$ -
Accumulated amortization and impairment as at October 31, 2021	\$ -	\$ -	\$ -
Amortization – discontinued operations	352,658	-	352,658
Impairment – discontinued operations	90,000	575,000	665,000
Accumulated amortization and impairment as at October 31, 2022	442,658	575,000	1,017,658
Amortization – discontinued operations	321,260	-	321,260
Write-off – discontinued operations	(136,000)	(575,000)	(711,000)
Sale of GameAddik	(627,918)	-	(627,918)
Accumulated amortization and impairment as at October 31, 2023	\$ -	\$ -	\$ -
Net Book Value as at October 31, 2022	\$ 923,342	\$ 2,790,000	\$ 3,713,342
Net Book Value as at October 31, 2023	\$ -	\$ -	\$ -

Customer relationships is an intangible asset with a finite useful life and amortization is provided for using the straight-line method over its estimated useful life of three years.

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

Brand and media presence is an intangible asset with an indefinite useful life. The Company has no plans to change its branding and expects these assets to generate cash flows over an indefinite future period. Therefore, these intangible assets are considered to have indefinite useful lives for accounting purposes.

The Company completed the annual impairment test for the indefinite useful life brand and media presence, and goodwill acquired on acquisition of GameAddik as at October 31, 2022. As at October 31, 2022, the carrying value of the intangible asset was \$2,790,000, and goodwill was \$3,160,975, and the recoverable amount was \$11,600,000. The Company calculated the recoverable amount based on value-in-use calculations, and determined the value-in-use using a five-year forecast followed by a terminal growth rate determined by management.

The key assumptions used in the model were:

- Discount rate of 16.6%;
- Revenue growth of 7.5% for the forecast period;
- Terminal growth rate of 2.0%; and
- Brand royalty rate of 4.0%.

The discount rate reflects management's assessment of market and specific risk of the CGU. The revenue growth rate and brand royalty rate were estimated based on management's assessment of future trends in the industry and on historical data from both internal and external sources. The terminal growth rate was estimated based on the historical inflation rate and GDP growth rate of Canada.

11 Goodwill

	2023	2022
Opening balance	\$ 3,160,975	\$ 7,608,827
Acquired pursuant to acquisition of Frenzy	-	4,768,620
Acquired pursuant to acquisition of GameAddik	-	3,160,975
Impairment	-	(12,377,447)
Sale of GameAddik	(3,160,975)	-
Ending balance	\$ -	\$ 3,160,975

12 Investment in GameAddik

On August 5, 2023, the Company entered into a definitive share purchase agreement (the "SPA") with an affiliate of BlackPines Capital Partners Ltd., ("BlackPines" or the "Purchaser") for the sale of 70% of the issued and outstanding shares (the "Transaction") of GameAddik. The remaining 30% of the issued and outstanding shares of GameAddik were retained by the Company. The Transaction was completed on August 13, 2023. As a result of this transaction, the Company's ownership of GameAddik decreased from 100% to 30%, which led to a loss of control and deconsolidation of GameAddik from the Company's consolidated financial statements. GameAddik has been recognized as discontinued operations (see Note 24). The Company retained significant influence over GameAddik, resulting in GameAddik being recorded on the Company's consolidated financial statements as an investment in associate.

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

Fair value of the remaining 30% of GameAddik based on consideration received	\$ 3,612,567
Net assets of GameAddik remaining (30%)	2,446,074
Gain on revaluation of assets	\$ 1,166,493

The equity accounting for GameAddik is based on financial results for the period from August 14, 2023 to October 31, 2023. The Company's equity share of GameAddik's income for the period from August 14, 2023 to October 31, 2023 was \$149,000.

Balance, October 31, 2022 and 2021	\$ -
Fair value of initial cost	3,612,567
Equity income	149,000
Balance, October 31, 2023	\$ 3,761,567

The following is a summary of GameAddik's financial information as at October 31, 2023 and results for the period between August 14, 2023 and October 31, 2023.

	October 31, 2023
	\$
Current assets	5,570,102
Non-current assets	1,499,088
Current liabilities	(2,962,085)
Non-current liabilities	(835,219)
Revenue	6,030,420
Net income and total comprehensive income	496,666

13 Investment in GR Games

During the year ended October 31, 2021, the Company made a deposit to GR Games SP. Z O.O. ("GR Games"), a private entity in Poland, for the purchase of 50,000 "Series B" shares in GR Games. The Company received the share certificate in the year ended October 31, 2022.

14 Accounts Payable and Accrued Liabilities

	October 31, 2023	October 31, 2022
Trade payables	\$ 1,281,590	\$ 5,182,567
Lawsuit settlement liability	-	400,000
Interest payable (Note 17)	136,803	109,943
Due to WPGI	56,842	-
Accrued liabilities	720,498	1,284,602
Accounts payable and accrued liabilities	\$ 2,195,733	\$ 6,977,112

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

15 Lease Liabilities

Balance, October 31, 2021	\$	198,125
Cash flows		
Principal payments		(237,416)
Interest payments		(93,187)
Non-cash changes		
Additions		1,282,901
Interest expense		93,187
Foreign exchange		(654)
Balance, October 31, 2022		1,242,956
Cash flows		
Principal payments – continuing operations		(134,887)
Principal payments – discontinued operations		(139,201)
Interest payments – continuing operations		(13,849)
Interest payments – discontinued operations		(145,910)
Non-cash changes		
Interest expense – continuing operations		13,849
Interest expense – discontinued operations		145,910
Derecognition		240,110
Sale of GameAddik		(1,098,916)
Balance, October 31, 2023		110,062
Less: Current portion		(110,062)
Non-current portion	\$	-

The Company has the following lease liabilities:

- A premise lease entered into by WPG in February 2021. This lease expires in January 2024, has 34 monthly payments of \$3,634 due at the beginning of each month with an interest rate of 5.45%. The lease includes two rent free months (January 2023 and January 2024). During the year ended October 31, 2023, WPG terminated and derecognized the lease. As at October 31, 2023 the net carrying amount of the right-of-use asset from the WPG premise lease is \$Nil (2022 – \$52,674).
- A premise lease entered into by Digital Motorsports in April 2021. The lease expires in December 2025. The monthly lease payments are €1,500 for the first 12 months and €2,000 for the remainder of the term with an interest rate of 12%. An estate management fee of €980 is also due each year. During the year ended October 31, 2023, DMS terminated and derecognized the lease. As at October 31, 2023, the net carrying amount of the right-of-use asset from the Digital Motorsports premise lease is \$Nil (2022 – \$76,945).
- A premise lease entered into by ESE Holdings in November 2021. This lease expires in October 2024, has 36 monthly payments of \$9,546 due at the beginning of each month with an interest rate of 7.45%. During the year ended October 31, 2023, the Company subleased the premise out to a subtenant (see Note 8). As at October 31, 2023, the net carrying amount of the right-of-use asset from the ESE Holdings premise lease is \$Nil (2022 – \$206,014).
- A premise lease entered into by GameAddik in October 2020. This lease expires in September 2026, has 72 monthly payments of \$3,988, increasing by 3% each year, due at the beginning of each month with an interest rate of 8.45%. Due to the sale of GameAddik, the Company has derecognized the lease

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

liability and the associated right-of-use asset. As at October 31, 2023, the net carrying amount of the right-of-use asset from the GameAddik premise lease is \$Nil (2022 – \$170,060).

- A premise lease entered into by GameAddik in January 2020. This lease expires in January 2030, has 120 monthly payments of \$11,667 due at the beginning of each month with an interest rate of 9.95%. In September 2022, the lease was modified to increase the lease space. The modified lease expires in January 2030, has 89 monthly payments of \$18,302 due at the beginning of each month with an interest rate of 13.20%. Due to the sale of GameAddik, the Company has derecognized the lease liability and the associated right-of-use asset. As at October 31, 2023, the net carrying amount of the right-of-use asset from the GameAddik premise lease is \$Nil (2022 – \$698,190).

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

	\$
1 year	114,554
Total minimum lease payments	114,554
Less: imputed interest	(4,492)
Total present value of minimum lease payments	110,062
Less: Current portion	(110,062)
Non-current portion	-

16 Loans and Credit Facilities

	Loans	Facilities	Total
Balance, October 31, 2021	\$ -	\$ -	\$ -
Loans assumed upon acquisition of Frenzy (Note 6)	583,718	-	583,718
Loans received	500,000	-	500,000
Repayment of loans and interest	(190,290)	-	(190,290)
Credit facility received	-	4,808,115	4,808,115
Repayment of credit facility	-	(3,274,396)	(3,274,396)
Net exchange difference	(35,338)	-	(35,338)
Balance, October 31, 2022	858,090	1,533,719	2,391,809
Loans received	437,290	-	437,290
Repayment of loan – continuing operations	(572,027)	-	(572,027)
Exchanged to convertible note (Note 17)	(500,000)	-	(500,000)
Credit facility received – continuing operations	-	1,326,448	1,326,448
Credit facility received – discontinued operations	-	4,510,000	4,510,000
Repayment of credit facility – continuing operations	-	(1,264,602)	(1,264,602)
Repayment of credit facility – discontinued operations	-	(5,085,000)	(5,085,000)
Net exchange difference	120,291	(14,933)	105,358
Sale of GameAddik	-	(675,000)	(675,000)
Balance, October 31, 2023	343,644	330,632	674,276
Less: Current portion	(343,644)	(330,632)	(674,276)
Non-current portion	\$ -	\$ -	\$ -

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

During the year ended October 31, 2021, a loan payable of \$583,718 was assumed upon acquisition of Frenzy. The loan accrues interest at the WIBOR 1-year rate plus 2.25% per annum. The loan matured on December 31, 2022. As at October 31, 2023, the amount outstanding was \$343,644 (2022 - \$358,090).

During the year ended October 31, 2021, WPG obtained a revolving demand credit facility of \$400,000 which bears interest at Royal Bank Prime plus 2% for loans made in Canadian dollars, and at Royal Bank US Base Rate plus 2% for loans made in US dollars. The facility is secured by a general security agreement in all personal property of WPG, a first ranking security interest in all accounts receivable of WPG, and a guarantee and postponement of claim in the amount of \$300,000 signed by the Company. During the year ended October 31, 2023, the Company drew \$1,326,448 (2022 - \$1,948,115) and repaid \$1,264,602 (2022 - \$1,664,396). As at October 31, 2023, the amount drawn from the credit facility was \$330,632 (2022 - \$283,719).

During the year ended October 31, 2022, GameAddik obtained a revolving demand credit facility of \$2,000,000 which bears interest at National Bank Prime plus 1% for loans in Canadian currency. The facility is secured by a general security agreement with a first ranking security interest in all accounts receivable of GameAddik. During the year ended October 31, 2023, the Company drew \$4,510,000 (2022 - \$2,860,000) and repaid \$5,085,000 (2022 - \$1,610,000). As at August 13, 2023, the amount drawn from the credit facility was \$675,000, which was derecognized due to the sale of GameAddik (October 31, 2022 - \$1,250,000).

During the year ended October 31, 2022, the Company obtained a \$500,000 promissory note, inclusive of a \$25,000 discount for gross proceeds of \$475,000. The loan was secured by cash and cash equivalents of the Company in the amount of \$250,000. On January 31, 2023, the \$500,000 promissory note was amended and exchanged for a convertible note with a principal amount of \$500,000 (Note 17).

During the year ended October 31, 2023, the Company obtained a \$100,000 promissory note. The loan was to mature on November 28, 2024, was unsecured, and bore interest at a simple rate of 10% per annum. During the year ended October 31, 2023, the loan and accrued interest of \$7,261 was repaid.

During the year ended October 31, 2023, Frenzy obtained a PLN150,000 promissory note. The loan accrued interest at the WIBOR 3-month rate plus 2% per annum. During the year ended October 31, 2023, the loan and accrued interest was repaid.

During the year ended October 31, 2023, the Company obtained \$290,000 in promissory notes from a related party. The loans were to mature in 2 years and bore simple interest at 10% per annum payable quarterly. During the year ended October 31, 2023, the loans and accrued interest of \$5,775 were repaid.

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

17 Convertible Notes

Balance, October 31, 2021	\$	-
Additions, net of issuance costs and transaction fees		2,628,192
Accretion expense		178,773
Balance, October 31, 2022		2,806,965
Additions, net of issuance costs, transaction fees and issuance discount		1,498,537
Repayments		(2,432,148)
Accretion expense		511,839
Loss on extinguishment		132,314
Balance, October 31, 2023	\$	2,517,507

On February 16, 2022, the Company raised gross proceeds of \$1,575,000 through the issuance of 1,575 convertible note units at a price of \$1,000 per unit. Each unit consists of \$1,000 in principal amount of an unsecured convertible note and 250 common share purchase warrants of the Company. The convertible note will mature on February 16, 2024 and bears interest at a simple rate of 10% per annum. Interest is payable quarterly on the last business day of each quarter, commencing on March 31, 2022. The entire principal amount of the convertible note may be converted at the election of the holder into common shares of the Company at a conversion price of \$1.60 per share at any time prior to the maturity date. The accrued but unpaid interest may also be converted into common shares at a conversion price equal to the greater of (i) \$1.60 and (ii) the market price of the Company's common shares on the conversion date. Each warrant is exercisable into one common share of the Company at a price of \$1.60 per share expiring two years from closing.

The Company paid cash finders' fees of \$37,560 and issued 23,100 Agent's warrants. Each Agent's warrant is exercisable at \$1.60 per share expiring two years from closing. The Agent's warrants were fair valued at \$12,871 using the Black-Scholes option valuation model.

The fair value of the liability component of the convertible note on inception was estimated at \$1,351,947 based on an estimated 20% market discount rate less \$43,289 pro-rata portion of the \$50,431 transaction costs. The residual value of \$223,053 and \$7,142 of transaction costs was allocated to the equity components, being the common share purchase warrants and conversion feature. During the year ended October 31, 2023, the Company repaid \$639,000 (2022 - \$Nil) of the principal amount of the convertible notes and accrued interest of \$148,749 (2022 - \$57,822).

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

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

The Company paid cash finders' fees of \$117,530 and issued 73,457 Agent's warrants. Each Agent's warrant is exercisable at \$1.60 per share expiring two years from closing. The Agent's warrants were fair valued at \$25,260 using the Black-Scholes option valuation model.

The fair value of the liability component of the convertible notes on inception was estimated at \$1,442,104 based on an estimated 20% market discount rate less \$122,570 pro-rata portion of the \$142,790 transaction costs. The residual value of \$237,896 and \$20,220 of transaction costs was allocated to the equity components, being the common share purchase warrants and conversion feature. During the year ended October 31, 2023, the Company repaid \$1,000 (2022 - \$Nil) of the principal amount of the convertible notes and accrued interest of \$128,104 (2022 - \$36,819).

On January 16, 2023, the Company raised gross proceeds of \$1,250,000 through the issuance of 1,250 convertible note units at a price of \$1,000 per unit. Each unit is comprised of one secured convertible debenture having a principal amount of \$1,111 and 2,500 common share purchase warrants of the Company. The aggregate principal amount of the debentures issued pursuant to the offering is \$1,388,889, inclusive of a 10% original issue discount. The convertible note is secured by a general security agreement over all of the Company's assets. The convertible note will mature on January 16, 2025. On the one-year anniversary of the closing date, the principal amount then outstanding will be increased by 10%. The entire principal amount of the convertible note may be converted at the election of the holder into common shares of the Company at a conversion price of \$0.40 per share at any time prior to the maturity date. Each warrant is exercisable into one common share of the Company at a price of \$0.70 per share expiring two years from closing. The Company incurred cash transaction costs of \$76,200.

The fair value of the liability component of the convertible note on inception was estimated at \$1,225,094 based on an estimated 20% market discount rate less \$67,213 pro-rata portion of the \$76,200 transaction costs and issuance discount of \$138,889. The residual value of \$163,795 and \$8,987 of transaction costs was allocated to the equity components, being the common share purchase warrants and conversion feature.

During the year ended October 31, 2023, the Company repaid \$1,388,889 (2022 - \$Nil) of the principal amount of the convertible notes and recognized a loss on extinguishment of convertible note of \$132,314 (2022 - \$Nil) due to the early repayment.

On January 31, 2023, the Company amended a \$500,000 promissory note that it obtained during the year ended October 31, 2022 (Note 16). Pursuant to the terms of the amendment, the promissory note was exchanged for a convertible note having a principal amount of \$500,000, and the lender was issued 1,144,578 common share purchase warrants of the Company. The convertible note matured on August 5, 2023 and bore interest at a simple rate of 10% per annum. Interest was payable on March 31, 2023, June 30, 2023 and on the maturity date. Each warrant is exercisable into one common share of the Company at a price of \$0.70 per share expiring two years from the amendment date.

The fair value of the liability component of the convertible notes on inception was estimated at \$479,545 based on an estimated 20% market discount rate. The residual value of \$20,455 was allocated to the equity components, being the common share purchase warrants and conversion feature. During the year ended October 31, 2023, the Company repaid \$500,000 (2022 - \$Nil) of the principal amount of the convertible notes and accrued interest of \$18,647 (2022 - \$Nil).

A deferred income tax recovery of \$49,748 was recorded against the equity components of the convertible notes during the year ended October 31, 2023 (2022 - \$252,597).

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

During the year ended October 31, 2023, \$511,839 (2022 - \$178,773) of accretion and \$322,259 (2022 - \$204,585) of interest expense was recorded on the convertible notes. As at October 31, 2023, \$136,803 (2022 - \$109,943) of accrued interest is recorded in accounts payable and accrued liabilities (Note 14).

18 Share Capital**a) Authorized**

Unlimited common shares, without par value.

b) Issued

During the year ended October 31, 2023:

On December 30, 2022, January 23, 2023 and January 27, 2023, the Company closed three tranches of a non-brokered private placement financing of a total of 5,000,502 units of the Company at a price of \$0.40 per unit for gross proceeds of \$2,000,200. Each unit consists of one common share and one-half of one common share purchase warrant of the Company. Within the unit, a value of \$0.35 was attributed to the common share and \$0.05 to the warrant using the residual value method. Each warrant is exercisable into one common share of the Company at a price of \$0.70 per share expiring three years from closing.

The Company paid cash finders' fees of \$90,741 and issued a total of 226,851 Agent's warrants. Each Agent's warrant is exercisable at \$0.40 per share expiring three years from closing. The Agent's warrants were fair valued at \$66,350 using the Black-Scholes option valuation model with the following assumptions: Weighted average share price at the time of issuance \$0.45; weighted average risk-free interest rate of 3.46%; weighted average expected life of three years; weighted average dividend rate – 0%; weighted average forfeiture rate – 0% and weighted average annualized volatility of 100%. Since the Company does not have enough history of trading prices, the Company utilized annualized volatility of comparable startup companies.

2,047,762 DMS Contingent Shares were issued in February 2023 (Note 5).

681,860 Frenzy Earn Out Shares were issued in April 2023 (Note 6). The fair value of the common shares was determined to be \$235,242.

On April 18, 2023, the Company issued 70,175 common shares for the settlement of \$17,895 of accounts payable and accrued liabilities.

681,860 Frenzy Earn Out Shares were issued in October 2023 (Note 6). The fair value of the common shares was determined to be \$95,460.

During the year ended October 31, 2023, 65,000 stock options were exercised for total proceeds of \$20,150. The Company also transferred \$18,100 from contributed surplus. The weighted average share price on the date of exercise was \$0.38 per share.

During the year ended October 31, 2023, the fair value of the Deferred Compensation Shares issued to WPG recorded in share capital and share-based payments was \$2,146,682. The fair value was determined based on the share price of the Company on the date of issuance adjusted for the reverse vesting terms.

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

During the year ended October 31, 2023, the fair value of the GameAddik Consideration Shares recorded in share capital was \$2,485,524 and the vesting of post-combination expense Consideration Shares recorded as share-based payments was \$2,154,197.

During the year ended October 31, 2022:

On November 12, 2021, the Company acquired 100% of Frenzy by issuing 656,606 common shares for a fair value of \$866,720 and by committing to issue a minimum of 1,363,720 Frenzy Earn Out Shares for a fair value of \$1,223,446 (Note 6). The fair value of the first tranche of the Frenzy Earn Out Shares issued in September 2022 of 681,860 common shares was determined to be \$388,660. The Company also issued 101,016 common shares to consultants for a total value of \$133,341.

On February 1, 2022, the Company acquired 100% of GameAddik by issuing 7,377,143 Consideration Shares (Note 7). The Company also issued 368,858 common shares to consultants for a total value of \$509,024. The Consideration Shares are subject to a Reverse Vesting Agreement under which the Company will have the right to repurchase 6,497,959 of the Consideration Shares for nominal consideration if revenues of GameAddik do not reach \$5,000,000 for 2022 and \$6,250,000 for the 2023 and 2024 fiscal years. 5,378,887 of the Consideration Shares are considered a post-combination expense. The fair value of 879,184 of the Consideration Shares (\$1,213,274) was determined based on the share price of the Company on the date of acquisition. The estimated fair value of the 1,119,072 Consideration Shares (\$1,040,906) was determined as the present value based on the share price of the Company on the date of acquisition and discounted using a WACC rate of 31% to account for the timing of the future share issuances. The calculation was based on the assumption that the revenue threshold would be met, given the revenue forecast prepared by management. During the year ended October 31, 2022, the fair value of the Consideration Shares recorded in share capital was \$4,770,680 and the vesting of post-combination expense Consideration shares recorded as share-based payments was \$4,417,066.

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

During the year ended October 31, 2022, 1,112,500 stock options were exercised for total proceeds of \$488,550. The Company also transferred \$516,925 from contributed surplus. The weighted average share price on the date of exercise was \$0.77 per share.

During the year ended October 31, 2022, 26,822 agent's warrants were exercised for total proceeds of \$8,438. The Company also transferred \$4,221 from contributed surplus. The share price on the date of exercise was \$0.60 per share.

During the year ended October 31, 2022, the fair value of the Deferred Compensation Shares issued to WPG recorded in share capital and share-based payments was \$5,710,384. The fair value was determined based on the share price of the Company on the date of issuance adjusted for the reverse vesting terms.

c) Stock Options

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

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

On October 3, 2023, the Company granted 1,250,000 stock options to an officer, an employee and consultants of the Company. The stock options entitle the holder thereof the right to purchase one common share for each option at \$0.13 per share expiring on October 3, 2028. The stock options vested immediately. The fair value of the stock options of \$125,000 was determined using the Black Scholes option valuation model.

On September 22, 2023, the Company granted 1,700,000 stock options to an officer, a consultant, directors and employees of the Company. The stock options entitle the holder thereof the right to purchase one common share for each option at \$0.155 per share expiring on September 22, 2028. The stock options vested immediately. The fair value of the stock options of \$187,000 was determined using the Black Scholes option valuation model.

On May 4, 2023, the Company granted 350,000 stock options to consultants of the Company. The stock options entitle the holder thereof the right to purchase one common share for each option at \$0.24 per share expiring on May 4, 2028. The stock options vested immediately. The fair value of the stock options of \$63,000 was determined using the Black Scholes option valuation model.

On December 28, 2022, the Company granted 550,000 stock options to consultants and an employee of the Company. The stock options entitle the holder thereof the right to purchase one common share for each option at \$0.32 per share expiring on December 28, 2027. 375,000 of the stock options vested immediately, and the remainder vests upon the satisfaction of performance conditions. The fair value of the stock options of \$132,000 was determined using the Black Scholes option valuation model. The share-based compensation for the 175,000 stock options that vest upon the satisfaction of performance conditions was recorded based on the probability and expected timing of when the stock options will ultimately vest.

On October 27, 2022, the Company granted 250,000 stock options to a consultant of the Company. The stock options entitle the holders thereof the right to purchase one common share for each option at \$0.51 per share expiring on October 27, 2027. The stock options vested immediately. The fair value of the stock options of \$95,000 was determined using the Black Scholes option valuation model.

On September 27, 2022, the Company granted 500,000 stock options to consultants of the Company. The stock options entitle the holders thereof the right to purchase one common share for each option at \$0.54 per share expiring on September 27, 2027. The stock options vested immediately. The fair value of the stock options of \$225,000 was determined using the Black Scholes option valuation model. During the year ended October 31, 2023, 450,000 of these options were cancelled.

On September 19, 2022, the Company granted 500,000 stock options to a consultant of the Company. The stock options entitle the holders thereof the right to purchase one common share for each option at \$0.51 per share expiring on September 19, 2027. The stock options vested immediately. The fair value of the stock options of \$195,000 was determined using the Black Scholes option valuation model.

On September 16, 2022, the Company granted 850,000 stock options to an officer and consultants of the Company. The stock options entitle the holders thereof the right to purchase one common share for each option at \$0.51 per share expiring on September 16, 2027. 750,000 of the stock options vested immediately, and 100,000 of the stock options vest in four equal tranches every 3 months with the first vesting on December 16, 2022. The fair value of the stock options of \$374,000 was determined using the Black Scholes option valuation model. During the year ended October 31, 2023, 455,000 of these options were cancelled.

On September 14, 2022, the Company granted 50,000 stock options to a consultant of the Company. The stock options entitle the holders thereof the right to purchase one common share for each option at \$0.48 per share

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

expiring on September 14, 2027. The stock options vested immediately. The fair value of the stock options of \$18,000 was determined using the Black Scholes option valuation model.

On August 19, 2022, the Company granted 450,000 stock options to consultants of the Company. The stock options entitle the holders thereof the right to purchase one common share for each option at \$0.50 per share expiring on August 19, 2027. The stock options vested immediately. The fair value of the stock options of \$166,500 was determined using the Black Scholes option valuation model.

On August 5, 2022, the Company granted 250,000 stock options to a consultant of the Company. The stock options entitle the holders thereof the right to purchase one common share for each option at \$0.52 per share expiring on August 5, 2027. The stock options vested immediately. The fair value of the stock options of \$97,500 was determined using the Black Scholes option valuation model.

On August 2, 2022, the Company granted 250,000 stock options to a consultant of the Company. The stock options entitle the holders thereof the right to purchase one common share for each option at \$0.50 per share expiring on August 2, 2027. The stock options vested immediately. The fair value of the stock options of \$97,500 was determined using the Black Scholes option valuation model.

On April 1, 2022, the Company granted 500,000 stock options to a consultant of the Company. The stock options entitle the holders thereof the right to purchase one common share for each option at \$0.95 per share expiring on April 1, 2027. The stock option vest in four equal tranches on July 1, 2022, October 1, 2022, January 1, 2023, and April 1, 2023. The fair value of the stock options of \$355,000 was determined using the Black Scholes option valuation model. During the year ended October 31, 2023, 125,000 of these options were cancelled.

On March 16, 2022, the Company granted 2,098,000 stock options to directors, officers and consultants of the Company. The stock options entitle the holders thereof the right to purchase one common share for each option at \$0.91 per share expiring on March 16, 2027. The stock options vested immediately. The fair value of the stock options of \$1,489,580 was determined using the Black Scholes option valuation model. During the year ended October 31, 2023, 1,100,000 of these options were cancelled.

During the year ended October 31, 2023, the Company recorded \$511,867 (2022 - \$3,107,671) in share-based compensation related to stock options.

The fair value of each option grant during the years ended October 31, 2023 and 2022 was estimated using the Black-Scholes option pricing model with assumptions as follows:

	2023	2022
Weighted average exercise price	\$0.18	\$0.70
Weighted average grant date share price	\$0.17	\$0.72
Risk-free interest rate	4.04%	2.74%
Expected life	5 years	5 years
Expected volatility	100%	100%
Dividend rate	0%	0%
Fair value	\$0.13	\$0.55

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

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

	Number of Stock Options Outstanding	Weighted Average Exercise Price
Balance, October 31, 2021	4,462,500	\$ 0.95
Granted	5,698,000	0.70
Cancelled	(2,163,000)	1.42
Exercised	(1,112,500)	0.44
Balance, October 31, 2022	6,885,000	0.68
Granted	3,850,000	0.18
Cancelled	(3,330,000)	0.89
Exercised	(65,000)	0.31
Balance, October 31, 2023	7,340,000	\$ 0.32

As at October 31 2023, the Company had stock options outstanding enabling holders to acquire the following:

Number of Options Outstanding	Number of Options Vested	Exercise price per option	Expiry date
1,305,000	1,305,000	\$0.25	August 17, 2025
585,000	585,000	\$0.91	March 16, 2027
250,000	250,000	\$0.50	August 2, 2027
200,000	200,000	\$0.50	August 19, 2027
50,000	50,000	\$0.48	September 14, 2027
350,000	350,000	\$0.51	September 16, 2027
500,000	500,000	\$0.51	September 19, 2027
250,000	250,000	\$0.51	October 27, 2027
550,000	375,000	\$0.32	December 28, 2027
350,000	350,000	\$0.24	May 4, 2028
1,700,000	1,700,000	\$0.155	September 22, 2028
1,250,000	1,250,000	\$0.13	October 3, 2028
7,340,000	7,165,000		

d) Share Purchase Warrants

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

	Number of Share Purchase Warrants	Weighted Average Exercise Price
Balance, October 31, 2021	7,975,830	\$ 1.86
Issued	919,590	1.60
Balance, October 31, 2022	8,895,420	1.83
Issued	6,769,827	0.70
Expired	(6,318,100)	1.95
Balance, October 31, 2023	9,347,147	\$0.93

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

As at October 31, 2023, the Company had share purchase warrants outstanding enabling holders to acquire the following:

Share Purchase Warrants	Number of	Exercise price	Expiry date
		per warrant	
	1,657,730	\$1.50	December 24, 2023 ¹
	393,750	\$1.60	February 16, 2024 ²
	289,838	\$1.60	April 8, 2024
	212,527	\$1.60	April 16, 2024
	23,475	\$1.60	April 21, 2024
	3,125,000	\$0.70	January 16, 2025
	1,144,578	\$0.70	January 31, 2025
	248,687	\$0.70	December 30, 2025
	1,186,330	\$0.70	January 23, 2026
	1,065,232	\$0.70	January 27, 2026
	9,347,147		

¹ During the year ended October 31, 2023, the Company extended the expiry date of these warrants from December 24, 2022 to December 24, 2023, with all other terms remaining the same. Subsequent to October 31, 2023, these warrants expired unexercised.

² Subsequent to October 31, 2023, these warrants expired unexercised.

e) Agent's Warrants

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

	Number of	Weighted
	Agent's	Average
	Warrants	Exercise Price
Balance, October 31, 2021	638,617	\$1.26
Granted	96,557	1.60
Expired	(3,760)	0.25
Exercised	(26,822)	0.31
Balance, October 31, 2022	704,592	1.35
Granted	226,851	0.40
Expired	(608,035)	1.31
Balance, October 31, 2023	323,408	\$0.76

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

As at October 31, 2023, the Company had agent's warrants outstanding enabling holders to acquire the following:

Number of Agent's Warrants	Exercise price per warrant	Expiry date
23,100	\$1.60	February 16, 2024 ¹
40,469	\$1.60	April 8, 2024
29,707	\$1.60	April 14, 2024
3,281	\$1.60	April 21, 2024
24,928	\$0.40	December 30, 2025
149,041	\$0.40	January 23, 2026
52,882	\$0.40	January 27, 2026
323,408		

¹ Subsequent to October 31, 2023, these warrants expired unexercised.

f) Escrow Agreement

25,000,000 shares were placed into escrow. Under the escrow agreement, 10% of the shares were released on the issuance of the final exchange bulletin (the TSXV's acceptance of the reverse acquisition of Kepler by ESE) and an additional 15% will be released on each of the dates which are 6 months, 12 months, 18 months, 24 months, 30 months and 36 months following the initial release. As at October 31, 2023, Nil shares were in escrow (2022 – 7,500,000 shares were in escrow).

g) Nature and Purpose of Reserves

Share Subscriptions Received

The share subscriptions received reserve is used to recognize share subscription proceeds that the Company has received in advance of share issuances.

Commitment to Issue Shares

The commitment to issue shares reserve is used to recognize the value of common shares that the Company is obligated to issue.

Contributed Surplus

The contributed surplus reserve is used to recognize the grant date fair value of options and warrants issued but not exercised, and the value of the convertible option on issuance of convertible notes.

Accumulated Other Comprehensive (Loss) Income

The accumulated other comprehensive (loss) income reserve is used to recognize exchange differences arising from foreign currency translation adjustments of subsidiaries that have a functional currency other than the Canadian dollar.

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

Non-Controlling Interest

The non-controlling interest reserve is used to recognize the non-controlling interest of the Company's subsidiaries and the associated income or loss.

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

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

Fair Value Hierarchy:

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

- Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.
- Level 3 – Applies to assets or liabilities for which there are unobservable market data.

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

Fair Value:

As at October 31, 2023, the Company believes that the carrying values of cash, receivables, term deposits, accounts payable and accrued liabilities, lease liabilities, convertible notes, acquisition payment commitment, and loans and credit facilities approximate their fair values because of their nature and relatively short maturity dates or durations. The investment in GR Games is measured at fair value under Level 3 fair value hierarchy and considerable payable is measured at fair value with reference to level 2 inputs within the fair value hierarchy.

As there is no quoted market price in an active market for the Company's investment in GR Games, the investment is currently measured at the fair value equivalent to the cost basis of the shares. There are no indicators during the current and prior year that the value of the shares might not be representative of fair value.

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

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

General Objectives, Policies and Processes

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

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

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

Financial risk factors*Credit risk*

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash, holdback receivable and trade accounts receivable. The Company limits its exposure to credit loss by placing its cash with major financial institutions. The Company has concentration risk on the holdback receivable from BlackPines for the sale of GameAddik.

Trade accounts receivable balances are monitored on an ongoing basis. The Company maintains an allowance for expected credit losses to provide for the estimated amount of doubtful accounts. The allowance for expected credit losses is based on management's assessment of a customer's credit quality as well as subjective factors and trends, including the aging of receivable balances. The Company considers a financial asset not recoverable when the customer is more than 120 days past due and information obtained from the customer and other external factors indicate that the customer is unlikely to pay its creditors in full. Financial assets (and the related allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. The Company applied the simplified model and determined the lifetime expected credit losses as at October 31, 2023 was \$88,373 (2022 – \$35,395).

Interest rate risk

The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to floating rate of interest. The Company pays interest on its convertible notes at a fixed rate of 10% per annum. The loan payable assumed upon acquisition of Frenzy accrues interest at WIBOR 1-year rate plus 2.25% per annum and therefore the Company is exposed to interest rate risk on its loan payable.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in the note.

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

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

On October 7, 2019, the Company obtained a credit facility of \$50,000 which bears interest at prime rate plus 3% which is secured by the CEO of the Company. As at October 31, 2023 and 2022, the Company had not utilized any of the credit facility.

During the year ended October 31, 2021, WPG obtained a revolving demand credit facility of \$400,000 which bears interest at Royal Bank Prime plus 2% for loans made in Canadian currency, and at Royal Bank US Base Rate plus 2% for loans made in US Currency. The facility is secured by a general security agreement in all personal property of WPG, a first ranking security interest in all accounts receivable of WPG, and a guarantee and postponement of claim in the amount of \$300,000 signed by the Company. As at October 31, 2023, the amount drawn from the credit facility is \$330,632.

As at October 31, 2023, the Company had a cash balance of \$2,125,251 and receivables of \$2,285,731 to settle current liabilities of \$6,433,419. The Company intends to raise adequate funds to meet its liquidity needs for the next twelve months via cash flows from operations, private placement or the sale of over-performing investments.

Contractual cash flow requirements as at October 31, 2023 were as follows:

	< 1 year \$	1 – 2 years \$	2 – 5 years \$	>5 years \$	Total \$
Accounts payable and accrued liabilities	2,195,733	-	-	-	2,195,733
Lease liabilities	114,554	-	-	-	114,554
Acquisition payment commitment	862,801	-	-	-	862,801
Credit facilities	330,632	-	-	-	330,632
Loans payable	343,644	-	-	-	343,644
Convertible notes	2,615,000	-	-	-	2,615,000
Total	6,462,364	-	-	-	6,462,364

Foreign currency risk

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

As at October 31, 2023, the Company held cash denominated in Polish Zloty of PLN934,381 (2022 – PLN1,409,107), receivables of PLN1,408,176 (2022 – PLN1,615,089), accounts payable and accrued liabilities of PLN2,117,510 (2022 – PLN1,829,595), and loans and credit facilities of PLN948,251 (2022 – PLN1,321,739) translated at PLN1 for every CDN\$0.33. These factors expose the Company to foreign currency exchange rate risk, which could have a material adverse effect on the profitability of the Company. A 10% change in the exchange rate would change other comprehensive income/loss by approximately \$24,000.

As at October 31, 2023, the Company had bank indebtedness denominated in US dollars of \$7,002 (2022 – cash of \$28,339), receivables of \$153,912 (2022 - \$3,705,848), accounts payable and accrued liabilities of \$293,006 (2022 - \$3,170,310) and loans and credit facilities of \$456 (2022 - \$65,000) translated at \$1 for every CDN\$1.39. These factors expose the Company to foreign currency exchange rate risk, which could have a material adverse effect on the profitability of the Company. A 10% change in the exchange rate would change other comprehensive income/loss by approximately \$20,000.

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

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

20 Capital Management

The Company's objective when managing capital is to safeguard its ability to continue as a going concern. The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital. In order to pay for general administrative costs, the Company will raise additional amounts as needed.

The Company reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company considers shareholders' equity and working capital as components of its capital base. The Company may access capital through the issuance of shares, debt or the disposition of assets. Management historically funds the Company's expenditures by issuing share capital or debt instruments. The Company is not subject to externally imposed capital requirements. The Company believes it will be able to raise additional equity capital as required, but recognizes the uncertainty attached thereto. There is no change to the Company's approach to capital management during the year ended October 31, 2023.

21 Related Party Transactions

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

Key Management Compensation

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

	2023	2022
<u>Wages, Benefits and Consulting Fees</u>		
Konrad Wasiela, CEO and Wasiela Services Ltd., a company controlled by Konrad Wasiela	\$230,000	\$305,000
Andrea Lieuwen, CFO (effective September 12, 2022)	174,667	27,222
RSJ Consulting Inc., a company controlled by Robert Kang, Director and former CFO	-	44,000
	404,677	376,222
Share-based payments incurred with directors and officers	169,411	820,246
<u>Interest expense</u>		
Konrad Wasiela, CEO	5,775	-
<u>Legal fees, included in professional fees</u>		
Segev LLP, of which Ron Segev, Director is a principal partner	185,522	246,401
	\$765,375	\$1,442,869

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

Included in accounts payable and accrued liabilities at October 31, 2023 is \$2,411 (2022 - \$300,616) in unpaid legal fees, consulting fees and other balances owing to officers of the Company and to companies with an officer or director in common. The balance owing is unsecured, non-interest bearing and due in 30 days.

To assist with the sale of 70% of the issued and outstanding shares of GameAddik (Note 24), the Company paid total due diligence fees of \$1,099,750 to companies controlled by Eric Jodoin, former COO and directors of GameAddik.

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

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2023 and 2022

(Expressed in Canadian Dollars)

22 Segmented Information and Revenue DisclosuresSegmented information

The Company operates in two industry segments of digital media and entertainment, and telecommunications and call center services. Information for the segments as at and for the year ended October 31, 2023 is as follows:

	Digital media and entertainment	Telecommunications and call center services	Corporate	Discontinued operations	Total
Types of products and services from which each reportable segment derives its revenues	Contract revenue – advertising and events	Telecom wholesale voice and call center services	Activities not directly attributable to an operating segment		
Total assets	\$ 1,714,103	\$ 287,051	\$ 6,992,480	\$ 117,936	\$ 9,111,570
Total liabilities	\$ 1,130,666	\$ 873,007	\$ 4,363,399	\$ 66,347	\$ 6,433,419
Investment in GameAddik	\$ -	\$ -	\$ 3,761,567	\$ -	\$ 3,761,567
Revenue	\$ 3,607,163	\$ 15,491,335	\$ -	\$ -	\$ 19,098,498
Net loss from continuing operations	\$ (582,275)	\$ (903,823)	\$ (6,844,787)	\$ -	\$ (8,330,885)

Information for the segments as at and for the year ended October 31, 2022 as follows:

	Digital media and entertainment	Telecommunications and call center services	Corporate	Discontinued operations	Total
Types of products and services from which each reportable segment derives its revenues	Contract revenue – advertising and events	Telecom wholesale voice and call center services	Activities not directly attributable to an operating segment		
Total assets	\$ 1,898,054	\$ 746,498	\$ 343,990	\$ 18,461,971	\$ 21,450,513
Total liabilities	\$ 1,120,476	\$ 808,053	\$ 9,001,246	\$ 8,286,843	\$ 19,216,618
Revenue	\$ 3,773,952	\$ 27,145,816	\$ -	\$ -	\$ 30,919,768
Impairment of assets	\$ 4,768,620	\$ -	\$ -	\$ -	\$ 4,768,620
Net loss from continuing operations	\$ (5,388,040)	\$ (901,259)	\$ (16,548,286)	\$ -	\$ (22,837,585)

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

Information about geographical areas

The Company's non-current assets are allocated to geographic segments as at October 31, 2023 and 2022 as follows:

	2023	2022
Ireland	\$ -	\$ 250,021
Canada	3,761,567	8,585,106
Poland	757,761	736,131
Romania	5,018	91,118
Total non-current assets	\$ 4,524,346	\$ 9,662,376

The Company's net loss from continuing operations is allocated to geographic segments for the years ended October 31, 2023 and 2022 as follows:

	2023	2022
Canada	\$ (6,959,153)	\$(16,698,861)
Poland	(467,909)	(5,237,465)
Romania	(903,823)	(901,259)
Net loss from continuing operations	\$ (8,330,885)	\$(22,837,585)

Four customers (2022 – four customers) in the Telecommunications segment accounted for more than 10% of total revenue for the Company and in aggregate accounted for 44% (2022 - 67%) of sales.

The Company's revenues are allocated to geographic segments for the years ended October 31, 2023 and 2022 as follows:

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

	2023	2022
United States	\$ 8,198,014	\$ 14,175,545
Poland	3,607,163	3,844,236
Luxemburg	1,947,261	-
Cyprus	1,053,411	6,490,565
Bermuda	379,538	-
Slovenia	334,613	-
Romania	312,925	-
China	283,491	287,746
Panama	-	2,592,425
Germany	218,428	1,788,909
Italy	-	252,055
United Kingdom	-	654,214
Other	2,763,654	834,073
Total revenue	\$ 19,098,498	\$ 30,919,768

Disaggregation of revenue

Revenue and gross profit are derived from the following sources during the years ended October 31, 2023 and 2022:

For the year ended October 31, 2023	Contract revenue – advertising and events	Telecom wholesale voice	Total
Revenue	\$ 3,607,163	\$ 15,491,335	\$ 19,098,498
Cost of sales	(3,511,377)	(15,410,197)	(18,921,574)
Gross profit (loss)	\$ 95,786	\$ 81,138	\$ 176,924

For the year ended October 31, 2022	Contract revenue – advertising and events	Telecom wholesale voice	Total
Revenue	\$ 3,773,952	\$ 27,145,816	\$ 30,919,768
Cost of sales	(3,564,767)	(27,280,752)	(30,845,519)
Gross profit (loss)	\$ 209,185	\$ (134,936)	\$ 74,249

During the year ended October 31, 2023, the Company recognized as revenue \$20,826 (2022 - \$107,077) which was included in deferred revenue at the beginning of the period. The Company expects to recognize as revenue the remaining performance obligations represented by the deferred revenue balance as at October 31 in the next twelve months.

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

Segmented information - cash flows

Cash flows are derived from the following sources during the year ended October 31, 2023:

	Digital media and entertainment	Telecommunications and call center services	Corporate	Discontinued operations	Total
Operating Activities	\$(392,421)	\$(352,921)	\$(1,746,726)	\$1,254,962	\$(1,237,106)
Investing Activities	-	(8,151)	3,080,448	(56,113)	3,016,184
Financing Activities	401,227	299,240	(649,129)	(557,772)	(506,434)

23 Supplemental Disclosures with Respect to Cash Flows

	2023	2022
Supplemental cash-flow disclosures		
Interest paid – continuing operations	\$ 309,349	\$ 116,092
Interest paid – discontinued operations	\$ 145,910	\$ 71,736
Taxes paid – continuing operations	\$ -	\$ -
Taxes paid – discontinued operations	\$ 971,563	\$ 144,238
Non-cash investing and financing activities		
Fair value of stock options and warrants exercised	\$ 18,100	\$ 521,146
Fair value of shares issued to finders for acquisitions	\$ -	\$ 133,341
Fair value of agent’s warrants issued	\$ 66,350	\$ 38,131
Fair value of shares issued to acquire Digital Motorsports	\$ -	\$ 1,125,369
Fair value of shares issued to acquire Frenzy	\$ -	\$ 866,720
Fair value of Frenzy Earn-Out Shares issued	\$ 330,702	\$ 388,660
Fair value of shares issued to acquire GameAddik	\$ -	\$ 1,213,274
Fair value of deferred compensation shares issued to GameAddik	\$ 2,154,198	\$ 4,770,680
Fair value of shares issued for commitment to issue shares	\$ 1,701,881	\$ -

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2023 and 2022

(Expressed in Canadian Dollars)

Reconciliation of liabilities arising from financing activities for the years ended October 31, 2023 and 2022:

Non-cash items											
	October 31, 2022	Cash flow from continuing operations	Cash flow from discontinued operations	Addition	Accretion	Foreign Exchange	Sale of Game- Addik	Loss on Extinguishment	Bifurcation to Equity	Conversion to Convertible Note	October 31, 2023
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Lease liabilities	1,242,956	(148,736)	(285,111)	240,110	159,759	-	(1,098,916)	-	-	-	110,062
Credit facilities	1,533,719	61,847	(575,000)	-	-	(14,934)	(675,000)	-	-	-	330,632
Loans payable	858,090	(134,737)	-	-	-	120,291	-	-	-	(500,000)	343,644
Convertible notes	2,806,965	(1,256,754)	-	-	511,839	(1,594)	-	132,314	(175,263)	500,000	2,517,507
Total	6,441,730	(1,478,380)	(860,111)	240,110	671,598	103,763	(1,773,916)	132,314	(175,263)	-	3,301,845

Non-cash items										
	October 31, 2021	Cash flow from continuing operations	Cash flow from discontinued operations	Addition	Accretion	Foreign Exchange	Due to acquisition	Bifurcation to Equity	Discount	October 31, 2022
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Lease liabilities	198,125	(158,158)	(172,445)	1,282,901	93,187	(654)	-	-	-	1,242,956
Credit facilities	-	283,719	1,250,000	-	-	-	-	-	-	1,533,719
Loans payable	-	284,710	-	-	-	(35,338)	583,718	-	25,000	858,090
Convertible notes	-	3,099,910	-	-	178,773	-	-	(471,718)	-	2,806,965
Total	198,125	3,510,181	1,077,555	1,282,901	271,960	(35,992)	583,718	(471,718)	25,000	6,441,730

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

24 Discontinued Operations

On August 5, 2023, the Company entered into the Transaction for the sale of 70% of the issued and outstanding shares of GameAddik. The remaining 30% of the issued and outstanding shares of GameAddik were retained by the Company. The Transaction was completed on August 13, 2023.

The purchase price consisted of (i) \$7,349,750 in cash paid on the closing of the transaction, which includes a purchase price adjustment, and (ii) a 15% holdback of \$1,079,573 for certain indemnification obligations of the Company under the SPA. The holdback will be released to the Company in two equal tranches on each of the 6-month and 12-month anniversaries of the closing, respectively, subject to any outstanding or pending claims for indemnification. As part of the transaction costs in connection with the Transaction, the Company paid ZDK Holdings Ltd., DBA Kepler Acquisitions Group a fee of 2% of the transaction value for providing M&A advisory services in connection with the Transaction.

The following tables outline the net assets disposed of, the consideration received and the gain on sale of GameAddik. The remaining 30% of the net assets of GameAddik were revalued based on the transaction price and recognized as an Investment in GameAddik.

GameAddik

Cash	\$ 7,349,750
Holdback receivable	1,079,573
Fair value of consideration received	8,429,323
Allocated to the net assets disposed (70% basis):	
Cash	512,371
Receivables	3,009,138
Prepays	66,398
Equipment and right-of-use assets	1,168,731
Customer relationships	421,458
Brand and media presence	1,953,000
Goodwill	2,212,682
Accounts payable and accrued liabilities	(1,692,083)
Credit facility	(472,500)
Lease liability	(769,242)
Provision for income taxes	(65,061)
Deferred tax liability	(637,386)
Total net assets disposed	5,707,506
Less: transaction costs	(1,408,261)
Gain on sale of GameAddik	\$ 1,313,556

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

As at October 31, 2023, the Company had decided to discontinue the business of Digital Motorsports. GameAddik and Digital Motorsports are considered to be discontinued operations for the Company, as each represents a separate major line of business and has been discontinued. GameAddik and Digital Motorsports' net incomes and cash flows have been presented in these consolidated financial statements as discontinued operations.

The results of operations for GameAddik and Digital Motorsports are presented as discontinued operations for the years ended October 31, 2023 and 2022 as shown below:

	For the year ended October 31, 2023		
	GameAddik	Digital Motorsports	Total
Revenue	\$ 19,469,572	\$ 3,531,077	\$ 23,000,649
Cost of sales	(14,090,694)	(3,453,594)	(17,544,288)
Gross Profit	5,378,878	77,483	5,456,361
Expenses	(3,788,671)	(908,028)	(4,696,699)
Other items	(251,708)	93,408	(158,300)
Income (loss) for the year before taxes	1,338,499	(737,137)	601,362
Provision for income taxes	(385,178)	5,301	(379,877)
Income (loss) for the year from discontinued operations	953,321	(731,836)	221,485
Gain on sale of GameAddik	1,313,556	-	1,313,556
Net income (loss) for the year from discontinued operations	2,266,877	(731,836)	1,535,041
Other comprehensive loss	-	(29,822)	(29,822)
Comprehensive income (loss) for the year from discontinued operations	\$ 2,266,877	\$ (761,658)	\$ 1,505,219

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

	For the year ended October 31, 2022		
	GameAddik	Digital Motorsports	Total
Revenue	\$ 22,118,396	\$ 5,780,421	\$ 27,898,817
Cost of sales	(15,602,561)	(4,672,026)	(20,274,587)
Gross Profit	6,515,835	1,108,395	7,624,230
Expenses	(4,364,183)	(1,346,386)	(5,710,569)
Other items	156,121	(110,467)	45,654
Impairment	-	(8,273,827)	(8,273,827)
Income (loss) for the year before taxes	2,307,773	(8,622,285)	(6,314,512)
Provision for income taxes	(756,245)	70,511	(685,734)
Net income (loss) for the year from discontinued operations	1,551,528	(8,551,774)	(7,000,246)
Other comprehensive loss	-	(12,893)	(12,893)
Comprehensive income (loss) for the year from discontinued operations	\$ 1,551,528	\$ (8,564,667)	\$ (7,013,139)

25 Income Tax

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

	2023	2022
Income (loss) for the year before income tax from continuing operations	\$ (8,375,223)	\$ (23,078,843)
Statutory corporate tax rate	27%	27%
Anticipated tax expense (recovery)	(2,261,300)	(6,231,300)
Change in tax rates resulting from:		
Foreign income taxed at different rate and foreign exchange	47,500	96,300
Permanent differences	1,138,100	5,280,600
Change in unrecognized tax benefits	1,031,400	613,100
Total current and deferred income tax recovery	\$ (44,300)	\$ (241,300)

The breakdown of the income tax recovery is as follows:

	2023	2022
Current	\$ 5,400	\$ 3,600
Deferred	(49,700)	(244,900)
	\$ (44,300)	\$ (241,300)

In the year ended October 31, 2023, a deferred tax recovery of \$49,700 (2022 – \$253,000) was charged to shareholder's equity as a result of the convertible debt issuance.

ESE ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements
For the Years Ended October 31, 2023 and 2022
(Expressed in Canadian Dollars)

The Company has the following unrecognized deductible temporary differences expiring as follows:

	2023	Expiring	2022	Expiring
Temporary Difference				
Losses in Canada	\$ 11,672,167	2036-2043	\$ 8,667,602	2036-2042
Losses in Poland	1,479,540	2024-2028	1,307,913	2024-2027
Financing Costs	685,084	2024-2027	812,886	2024-2026
Other	559,801	-	232,414	-

26 Subsequent Event

On February 15, 2024, the Company repaid \$200,000 of the convertible debentures plus accrued interest. \$106,000 of the remaining convertible debentures scheduled to mature on February 16, 2024 were extended up to February 16, 2025 bearing simple interest at 10%.