

Kings Entertainment Group Inc.
(formerly 1242455 B.C. Ltd.)
Interim Consolidated Financial Statements
Three months ended March 31, 2023 and 2022
(Presented in United States Dollars)

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Kings Entertainment Group Inc.
(formerly 1242455 B.C. Ltd.)

Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
Three months ended March 31, 2023 and 2022
(Presented in United States Dollars)

	Three months ended March 31,	
	2023	2022
Revenue		
Lottery procurement revenue	\$ 798,572	\$ 923,907
Online casino and scratchcard revenue	232,650	294,166
	<u>1,031,222</u>	<u>1,218,073</u>
Cost of revenue		
Processing costs (Note 10)	126,096	123,476
License fees	34,673	52,494
Commissions	259,052	261,838
	<u>419,821</u>	<u>437,808</u>
Gross profit	<u>611,401</u>	<u>780,265</u>
Operating expenses		
Salaries and benefits (Note 10)	477,515	458,920
Share-based payments	-	2,707,337
Marketing expenses	34,128	244,568
Expected credit losses	-	(4,062)
Bank charges and fees	40,657	39,115
General and administrative (Note 10)	25,402	114,588
Information technology services	61,593	153,758
Management fees	120,000	-
Professional fees (Note 10)	560,605	613,117
Vehicles and travel	3,204	787
	<u>1,323,104</u>	<u>4,328,128</u>
Loss before undernoted items and income taxes	<u>(711,703)</u>	<u>(3,547,863)</u>
Other income (loss)		
Foreign exchange gain (loss)	(21,824)	145,271
Other income	57,643	2,523
Legal settlement recovery (Notes 13 and 14)	1,294,510	-
	<u>1,330,329</u>	<u>147,794</u>
Net loss before income taxes	<u>618,626</u>	<u>(3,400,069)</u>
Income tax provision (recovery) (Note 9)		
Current	11,186	28,696
Deferred	(5,372)	-
	<u>5,814</u>	<u>28,696</u>
Net income (loss)	<u>\$ 612,812</u>	<u>\$ (3,428,765)</u>
Other comprehensive loss		
Item that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences	(7,486)	250,199
Comprehensive income (loss)	<u>\$ 605,326</u>	<u>\$ (3,178,566)</u>

The accompanying notes form an integral part of these consolidated financial statements

Kings Entertainment Group Inc.
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Interim Consolidated Statements of Changes in Shareholders' Equity
Three months ended March 31, 2023 and 2022
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	Share capital (Note 7)	Share subscription received	Share-based payments reserve (Note 8)	Warrant reserve (Note 7)	Foreign currency translation reserve	Deficit	Total equity
As at December 31, 2022	\$ 14,547,436	\$ -	\$ 2,707,337	\$ 185,506	\$ (158,319)	\$ (15,697,115)	\$ 1,584,845
Net income	-	-	-	-	-	612,812	612,812
Other comprehensive loss	-	-	-	-	(7,486)	-	(7,486)
Total comprehensive income	-	-	-	-	(7,486)	612,812	605,326
As at March 31, 2023	\$ 14,547,436	\$ -	\$ 2,707,337	\$ 185,506	\$ (165,805)	\$ (15,084,303)	\$ 2,190,171
As at December 31, 2021	\$ 8,223,957	\$ 7,075,405	\$ -	\$ 185,506	\$ 12,652	\$ (9,023,537)	\$ 6,473,983
Net loss	-	-	-	-	-	(3,428,765)	(3,428,765)
Other comprehensive income	-	-	-	-	250,199	-	250,199
Total comprehensive loss	-	-	-	-	250,199	(3,428,765)	(3,178,566)
Shares subscriptions converted	7,075,405	(7,075,405)	-	-	-	-	-
Share-based payment	-	-	2,707,337	-	-	-	2,707,337
As at March 31, 2022	\$ 15,299,362	\$ -	\$ 2,707,337	\$ 185,506	\$ 262,851	\$ (12,452,302)	\$ 6,002,754

The accompanying notes form an integral part of these consolidated financial statements

Kings Entertainment Group Inc.
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Interim Consolidated Statements of Cash Flows
Three months ended March 31, 2023 and 2022
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	Three months ended March 31,	
	2023	2022
Operating activities		
Net income (loss)	\$ 612,812	\$ (3,428,765)
Items not affecting cash:		
Deferred tax provision (recovery)	(5,372)	-
Share-based compensation (Note 8)	-	2,707,337
	<u>607,440</u>	<u>(721,428)</u>
Change in non-cash working capital:		
Increase in trade and other receivable	(1,312,760)	10,288
Decrease in due from processors	(45,942)	(6,877)
Decrease (increase) in government remittances recoverable	(11,347)	54,083
Decrease (increase) in prepaid expenses and other assets	5,067	(25,963)
Increase in prepaid issue costs	-	(343,293)
Increase (decrease) in accounts payable and accrued liabilities	180,157	(1,248,597)
Increase in income taxes payable	9,240	(18,648)
Increase (decrease) in government remittances payable	-	8,891
Decrease in deferred revenue	14,812	(45,784)
Increase (decrease) in due to related parties	437	1,357
Cash flows used in operating activities	<u>(552,896)</u>	<u>(2,335,971)</u>
Investing activities		
Proceeds from related parties	18,432	-
Decrease in other loan receivable	1,477,980	-
Cash flows used in investing activity	<u>1,496,412</u>	<u>-</u>
Effect of foreign exchange in cash	(7,465)	287,237
Net change in cash	936,051	(2,048,734)
Cash - beginning of year	1,191,694	7,224,954
Cash - end of year	<u>\$ 2,127,745</u>	<u>\$ 5,176,220</u>

The accompanying notes form an integral part of these consolidated financial statements

Kings Entertainment Group Inc.
(formerly 1242455 B.C. Ltd.)
Notes to the Interim Consolidated Financial Statements
Three months ended March 31, 2023 and 2022
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1. Nature of business

Kings Entertainment Group Inc. (formerly 1242455 B.C. Ltd.) ("Kings" or the "Corporation") was incorporated on February 27, 2020 under the laws of the Province of British Columbia, Canada by a Certificate of Incorporation issued pursuant to the provisions of the Business Corporations Act (British Columbia). The head office and registered and records office of the Corporation is located at Suite 1500 - 1055 West Georgia Street, Vancouver, British Columbia V6E 4N7.

Kings Entertainment Group Inc. is a global B2C service provider specializing in online lotteries and casino-style games under established brands such as www.wintrillions.com, www.trillionaire.com, and www.LottoKings.com. Operating under the Curacao Gaming License, the company offers a seamless transition between lottery and casino gambling experiences, including lottery subscriptions and a variety of browser-based casino games.

Going concern

The Group had an accumulated deficit of \$15,084,303 at December 31, 2022 (December 31, 2022 - \$15,697,115). This conditions indicates a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

Management has developed a plan to address these concerns and improve the Group's financial position, which includes the following key elements:

- (i) Realization of substantial operating cost efficiencies in recent quarters, which have contributed to a stronger cash position and the aim to achieve profitability by the end of 2023.
- (ii) Termination of the proposed business combination with Sports Venture Holdings Inc. ("SVH"), resulting in the repayment of the \$2.5 million advance made by the Group and the reimbursement of \$1.75 million of costs and expenses incurred in connection with the proposed transaction.
- (iii) A strategy to identify and pursue accretive acquisitions, either within the current gaming sector or within a wider strategic scope, including exploring entry into the emerging AI market.

As at December 31, 2022, the Group has a working capital of \$1,145,769 (2021 – \$6,357,233) and despite having a significant cash balance as at December 31, 2021, it may need to raise additional financing to meet current and future obligations and ongoing operating costs.

These financial statements have been prepared on a going concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. Accordingly, they do not give effect to adjustments that would be necessary should the Group be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those presented in these financial statements.

Although management believes that their plan will mitigate the going concern risk and allow the Group to continue its operations for the foreseeable future, there can be no assurance that these measures will be successful. Thus, there is material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

Kings Entertainment Group Inc.
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2. Significant accounting policies

(a) Statement of compliance

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and using the accounting policies described herein. These interim consolidated financial statements were authorized for issuance by Corporation's Directors on May 30, 2023.

(b) Basis of consolidation

These interim consolidated financial statements include the accounts of the Corporation and the entities it controls. An entity is controlled when the Corporation has the ability to direct the relevant activities of the entity, has exposure or rights to variable returns from its involvement with the entity and is able to use its power over the entity to affect its returns from the entity. These interim consolidated financial statements include the accounts of the Corporation and the following entities:

- (i) Legacy Eight Curacao N.V., a corporation incorporated in Curacao, owned 100% by Kings. L8 Curacao also has two wholly owned subsidiaries, Legacy Eight Malta Ltd. ("L8 Malta") and Bulleg Eight Limited ("Bulleg"), incorporated in Malta and Cyprus, respectively.
- (ii) Azteca Messenger Services S.A. de C.V., a corporation incorporated in Mexico, owned 99.82% by Kings;
- (iii) Phoenix Digital Services Ltd., a corporation incorporated in the United Kingdom ("UK"), owned 100% by Kings. Litermi S.A. ("Litermi"), a wholly-owned subsidiary of Phoenix, is incorporated in Uruguay and its financial position and operating results are also included in these interim consolidated financial statements.

All intercompany transactions and balances have been eliminated in these interim consolidated financial statements.

(c) Basis of measurement

These interim consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments that are measured at fair value, as detailed in the Corporation's accounting policies.

(d) Common control transactions

IFRS 3, Business Combinations ("IFRS 3") does not include specific measurement guidance for transfers of businesses or subsidiaries between entities under common control. Accordingly, the Corporation has developed a policy to account for such transactions taking into consideration other guidance in the IFRS framework and pronouncements of other standard-setting bodies. The Corporation's policy is to record assets and liabilities recognized as a result of transactions between entities under common control at the carrying amount on the transferor's financial statements, and to have the interim consolidated statements of financial position, interim consolidated statements of income (loss) and comprehensive income (loss) and statements of cash flows reflect the results of combining entities for all periods presented for which the entities were under the transferor's common control, irrespective of when the combination takes

(e) Functional and presentation currency

These interim consolidated financial statements are presented in United States Dollars ("USD"), which is L8 Curacao's functional currency, as the majority of the financial and operating results included in these interim consolidated financial statements are arising from L8 Curacao. The functional currency of the other entities within the group is as follows:

Kings Entertainment Group Inc.	Canadian Dollar ("CAD")
Legacy Eight Malta Ltd.	Euro ("EUR")
Bulleg Eight Limited	Euro ("EUR")
Azteca Messenger Services S.A. de C.V.	Mexican Peso ("MXN")
Phoenix Digital Services Ltd.	Great Britain Pound ("GBP")
Litermi S.A.	Uruguayan Peso ("UYU")

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2. Significant accounting policies (continued)

(f) Use of estimates and judgments

The preparation of these interim consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, revenues and expenses during the reporting period, and the disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements. In the process of applying the Corporation's accounting policies, management has made the following significant estimates and judgments, which have the most significant impact on the amounts recognized in the interim consolidated financial statements:

(i) Impairment of financial assets

The Corporation measures impairment losses on financial assets that are subsequently measured at amortized cost. Impairment losses are measured based on the expected credit loss ("ECL") model in accordance with IFRS 9, *Financial Instruments*. The twelve-month or lifetime expected default rates are estimated by management in calculating the expected credit losses.

(ii) Revenue recognition

Under IFRS 15, *Revenue from contracts with customers*, management is required to determine when the control of services or goods are transferred to customers and estimate the variable considerations included in the contracts, if any. Management exercises judgment in determining the point in time control of services or goods are transferred and applies estimates based on information available at each reporting date in determining the amount of variable consideration. Management also applied judgment in determining whether the Corporation acts as principal or agent in its revenue contracts with customers by assessing if the Corporation controls the good or service to be transferred to the customer. See Note 2(i).

(iii) Leases

Under IFRS 16, *Leases*, the Corporation is required to recognize the lease liabilities at the inception of all leases where the entity is a lessee. The lease liability is calculated by discounting all future lease payments required under the lease. Management uses judgment in determining whether it is reasonably certain to exercise the renewal option, if any. Management also estimates the appropriate discount rates used for its leases as described in Note 2(g). Changes in any of these estimates may alter the value of the lease liability.

(iv) Common control transactions

IFRS 3 does not include specific measurement guidance for transfers of businesses or subsidiaries between entities under common control. Accordingly, management has applied judgment to develop a policy to account for such transactions taking into consideration other guidance in the IFRS framework and pronouncements of other standard-setting bodies as described in Note 2(d).

(v) Income taxes

Provisions for income taxes are made using the best estimate of the amount expected to be paid or recovered based on a qualitative assessment of all relevant factors. The Corporation reviews the adequacy of these provisions at the end of each reporting period. However, it is possible that at some future date, an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

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2. Significant accounting policies (continued)

(f) Use of estimates and judgments (continued)

(vi) Determination of functional currencies

When assessing the functional currency for each consolidated entity, management applied judgment in assessing the relevant factors in concluding on the appropriate functional currency.

(g) Leases

In lease arrangements where the Corporation is a lessee, a right-of-use asset and lease liability are recognized at the inception of all leases, except for short-term leases and leases of low-value assets. The lease liability is measured at the present value of the future fixed lease payments, discounted using the incremental borrowing rate of the lessee entity at the commencement date of the lease, or transition date to IFRS if the lease was entered into prior to the transition date. Lease liabilities are subsequently measured at amortized cost with interest expense recognized using the aforementioned discount rate. The associated right-of-use assets are measured at the initial amount of the lease liability, adjusted for any prepayments. Subsequently, the right-of-use assets are amortized on a straight-line basis over the term of the lease.

(h) Revenue recognition

The Corporation generates lottery procurement revenue from two streams: the Messenger stream where the Corporation acts as agent in the transaction and procures lottery tickets on behalf of customers; and the Syndication stream where the customers enter into a betting pool to bet at the winning combination of lotteries. Under the Syndication stream, physical lottery tickets are not purchased.

Under the Messenger Stream, the Corporation recognizes revenue at an amount net of lottery procurement costs and applicable agency fees. The Corporation is considered an agent under this stream of revenue. Revenue is recognized when the physical lottery ticket is purchased and the control of the lottery ticket is transferred to customers simultaneously.

Revenue under the Syndication stream is recognized when control of the services are transferred to the customers. Control of the services are transferred to the customers when the customers have accepted the terms and conditions of the play and entered into the betting pool after payment is made. The revenue is recognized at an amount equal to the transaction price, net of insurance costs and prizes payable, if any.

Refunds might be granted to customers from time to time for lottery procurement revenue. Once a refund request is initiated by a customer, the Corporation will investigate the case and the refund might be approved after such investigation. Liabilities for refunds are accrued at each reporting date and netted against the due from processors balance on the interim consolidated statements of financial position. Refund liabilities are estimated based on a trending historical rate of return as a percentage of revenue; such rate is updated at each reporting date to reflect information available at that point in time.

Casino and scratchcard revenue is recognized at an amount net of the prizes, which are won instantly by customers after the "Play" or an equivalent button is clicked. The revenue is recognized when such button is clicked by customers, which is considered to be the point in time at which the performance obligation is met.

For all of the above revenue streams, payment by customers is made at the point of revenue recognition, and such payments are expected to be collected from various payment processors subsequently. Consideration received in advance of satisfaction of performance obligations is recognized as deferred revenue on the interim consolidated statements of financial position.

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2. Significant accounting policies (continued)

(i) Income taxes

Current tax assets and/or liabilities comprise those claims from, or obligations to, the taxation authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the interim consolidated financial statements. The calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Corporation has a right and intention to offset current tax assets and liabilities from the same taxation authority. Changes in deferred tax assets or liabilities are recognized as a component of the income tax provision (recovery) in profit or loss, except for income tax related to the components of other comprehensive loss or equity, in which case the tax expense is recognized in other comprehensive loss or equity, respectively.

(j) Foreign currency translations

Foreign currency transactions are translated into an entity's functional currency at exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into functional currencies at the exchange rate in effect at the interim consolidated statements of financial position dates. Foreign exchange gains and losses from translating foreign currency into Corporation's functional currency are included in the interim consolidated statements of income (loss) and comprehensive income (loss).

The assets and liabilities of individual entities with a functional currency other than USD are translated into USD at exchange rates on the date of the interim consolidated statements of financial position. Income and expenses, and cash flows of foreign operations are translated into USD using average exchange rates. Exchange differences resulting from translating foreign operations are recognized in the foreign currency translation reserve and accumulated in equity.

(k) Financial instruments

The Corporation aggregates its financial instruments into classes based on their nature and characteristics. Management determines the classification when the instruments are initially recognized. On initial recognition, financial assets are initially measured at fair value and are classified as fair value through profit or loss ("FVTPL"), amortized cost, or fair value through other comprehensive income. All financial liabilities are initially measured at fair value and designated upon inception as FVTPL or amortized cost.

The Corporation's accounting policy for each class is as follows:

(i) Fair value through profit or loss

Financial instruments classified as measured at fair value through profit or loss are reported at fair value at each reporting date, and any change in fair value is recognized in the interim consolidated statements of income (loss) and comprehensive income (loss) in the period during which the change occurs. In these interim consolidated financial statements, cash has been classified as a financial asset subsequently measured at fair value through profit or loss.

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2. Significant accounting policies (continued)

(k) Financial instruments (continued)

(ii) Amortized cost

This category includes financial assets that are held within a business model with the objective of holding the financial assets in order to collect contractual cash flows, and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. Unless they meet certain exceptions, all financial liabilities are classified as subsequently measured at amortized cost.

Financial instruments classified in this category are measured at amortized cost using the effective interest method. Transaction costs are included in the amount initially recognized. In these interim consolidated financial statements, trade and other receivables, amounts due from processors, amounts due from related parties, other loan receivable, accounts payable and accrued liabilities and amounts due to related parties have been classified as financial instruments measured at amortized cost.

(iii) Fair value through other comprehensive income

Financial instruments classified and measured at fair value through other comprehensive income are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income (loss).

(iv) Impairment of financial assets

For financial assets measured at amortized cost, the Corporation recognizes loss allowances for ECLs. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all cash flows that the Corporation expects to receive, discounted at an approximation of the original effective interest rate. ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Corporation applies the simplified approach in calculating ECLs for trade and other receivables and amounts due from processors. Under the simplified approach, the Corporation recognizes a loss allowance based on lifetime ECLs at each reporting date and does not track changes in credit risk for amounts due from processors.

(v) Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the interim consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(vi) Fair value hierarchy

All financial instruments measured at fair value after initial recognition are categorized into one of three hierarchy levels for disclosure purposes. Each level reflects the significance of the inputs used in making the fair value measurements.

- Level 1: Fair value is determined by reference to quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: Valuations use inputs based on observable market data, either directly or indirectly, other than the quoted prices.
- Level 3: Valuations are based on inputs that are not based on observable market data.

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2. Significant accounting policies (continued)

The following is the summary of financial instruments, not measured at fair value, as at March 31, 2023 and December 31, 2022, for which fair value is disclosed:

	Financial assets at amortized cost	Financial liabilities at amortized cost	Total
March 31, 2023			
<i>Financial assets:</i>			
Trade and other receivables	\$ 1,748,726	\$ -	\$ 1,748,726
Due from processors	570,758	-	570,758
Due from related parties	372,123	-	372,123
Balance at March 31, 2023	2,691,607	-	2,691,607
<i>Financial liabilities:</i>			
Accounts payable and accrued liabilities	-	2,558,100	2,558,100
Due to related parties	-	89,355	89,355
Balance at March 31, 2023	\$ -	\$ 2,647,455	\$ 2,647,455
December 31, 2022			
<i>Financial assets:</i>			
Trade and other receivables	\$ 435,966	\$ -	\$ 435,966
Due from processors	524,816	-	524,816
Due from related parties	390,555	-	390,555
Other loan receivable	1,477,980	-	1,477,980
Balance at December 31, 2022	2,829,317	-	2,829,317
<i>Financial liabilities:</i>			
Accounts payable and accrued liabilities	-	2,377,943	2,377,943
Due to related parties	-	88,918	88,918
Balance at December 31, 2022	\$ -	\$ 2,466,861	\$ 2,466,861

The carrying values of the Corporation's trade and other receivable, due from processors, other loan receivable, accounts payable and accrued liabilities and due to related parties approximate their fair value due to their short-term nature. The carrying value of balance due from related parties approximate fair value as the Corporation has an intention to net settle these balances with future amounts due to the related parties.

(l) Share-based payments

The Corporation has granted stock options to buy common shares of the Corporation to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee. The fair value of stock options has been measured on the date of grant, using the Black-Scholes option pricing model, and is recognized as an expense over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital. When vested options are forfeited or are not exercised at the expiry date, the amount previously recognized is transferred to deficit.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payments. Otherwise, share-based payments are measured at the fair value of goods or services received.

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2. Significant accounting policies (continued)

(m) Provisions and contingent liabilities

In accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, a provision is recognized to cover probable outflows of resources that can be estimated and that result from present obligations resulting from past events. In the case where a potential obligation resulting from past events exists, but where occurrence of the outflow of resources is not probable or the estimate is not reliable, these contingent liabilities are disclosed. The provisions are measured based on management's best estimates of the outcome on the basis of facts known at the reporting date.

(n) Future accounting pronouncements

The Corporation has evaluated the impact of future accounting pronouncements and does not expect them to have a material impact on its interim consolidated financial statements.

3. Due from processors

Due from processors consists of the following:

	March 31, 2023	December 31, 2022
Due from processors	\$ 579,268	\$ 539,955
Less: chargebacks and reversals	(7,651)	(14,280)
Less: expected credit losses	(859)	(859)
	<u>\$ 570,758</u>	<u>\$ 524,816</u>

Chargebacks and reversals payable to processors are offset against amounts due from processors as there is a legally enforceable right to settle the amounts with processors on a net basis, and management has the intention to settle the balances on a net basis.

4. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consists of the following:

	March 31, 2023	December 31, 2022
Trade payables	\$ 2,045,324	\$ 1,933,845
Customer claims payable	136,601	132,746
Payroll accrual	75,693	112,899
Accrued expenses	300,482	198,453
	<u>\$ 2,558,100</u>	<u>\$ 2,377,943</u>

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5. Due from (to) related parties

Related parties consist of entities under common control. The amounts due from (to) related parties consist of the following:

	March 31, 2023	December 31, 2022
Legacy Eight Group Ltd.	\$ 372,123	\$ 390,555
Total due from related parties	372,123	390,555
WestOcean S.A.	(69,591)	(69,591)
Former shareholder of Phoenix (a)	(19,764)	(19,327)
Total due to related parties	(89,355)	(88,918)
	\$ 282,768	\$ 301,637

(a) The former shareholder of Phoenix sold all of his shares in Phoenix to Legacy Eight Ltd., parent corporation of L8 Curacao in February 2021. The former shareholder of Phoenix is also the corporate secretary of Legacy Eight Group Ltd., the parent corporation of Legacy Eight Ltd.

The due from (to) related party balances relate to amounts owed for funds provided for working capital needs by the related parties. These balances are non-interest bearing with no fixed term of repayment.

As of March 31, 2023 and December 31, 2022, balances due from related parties and due to related parties have been offset in the interim consolidated statements of financial position as the parties have an intention to settle on a net basis and an agreement has been established between the related parties that provides a legal enforceable right to offset the recognized amounts.

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5. Due to and from related parties (continued)

The following table illustrates offsetting of balances due (from) related parties:

	Ledonford Limited	Legacy Eight Group Ltd.	R.S. Real World Services Limited	WestOcean S.A.	Former shareholder of Phoenix	Total
As at March 31, 2023						
Due from related party	\$ 1,213,544	\$ 932,828	\$ 879,781	\$ 9,887,685	\$ -	\$ 12,913,838
Due to related party	-	(104,395)	(38,917)	(12,467,996)	(19,762)	(12,631,070)
Balance offset per Debt Offset Agreement	(1,213,544)	(456,311)	(840,864)	2,510,719	-	-
Net balance	\$ -	\$ 372,122	\$ -	\$ (69,592)	\$ (19,762)	\$ 282,768
As at December 31, 2022						
Due from related party	\$ 1,213,544	\$ 932,828	\$ 898,315	\$ 9,887,592	\$ -	\$ 12,932,279
Due to related party	-	(104,402)	(38,917)	(12,467,996)	(19,327)	(12,630,642)
Balance offset per Debt Offset Agreement	(1,213,544)	(437,871)	(859,398)	2,510,813	-	-
Net balance	\$ -	\$ 390,555	\$ -	\$ (69,591)	\$ (19,327)	\$ 301,637

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6. Share capital

Authorized

Unlimited number of common shares

Issued

	March 31, 2023	December 31, 2022
68,463,500 Common shares	\$ 14,547,436	\$ 14,547,436

The common shares of the Corporation as at March 31, 2023 consists of 20,674,500 (December 31, 2022 - 20,674,500) common shares of the Corporation issued for cash consideration prior to the RTO, 30,000,000 (December 31, 2022 - 30,000,000) common shares issued in the RTO transaction and 17,789,000 common shares issued subsequently from the conversion receipts from the RTO.

Following the satisfaction of all escrow release conditions an aggregate of 17,789,000 subscription receipts, originally issued at CAD \$0.50 per subscription receipt, were automatically converted into an aggregate of 17,789,000 common shares. The Corporation incurred costs of \$751,926 that were directly related to the issuance of subscription received and, accordingly, have been recognized as a reduction in share capital upon conversion of subscription receipts to common shares.

7. Warrant reserve

As at March 31, 2023, the Corporation has 1,067,880 (December 31, 2022 - 1,067,880) agent warrants outstanding. The fair value of these warrants was determined to be \$185,506 (December 31, 2022 - \$185,506) using the Black-Scholes option pricing model using a weighted average exercise price of CAD \$0.50, 113% volatility rate, 0% forfeiture rate, a dividend yield of nil, a 0.23% risk free return and a 2 year term. The weighted average remaining contractual life of the outstanding warrants at the end of the reporting period is 0.1 years. The exercise prices for the outstanding warrants are the same as used in the valuation.

During the reporting period, there were no new warrants granted, exercised, forfeited, or expired. The reconciliation of changes in the number of warrants outstanding during the reporting period shows no change, with the opening and closing balances remaining at 1,067,880.

8. Share-based payments reserve

On January 24, 2022, The Corporation granted 10,012,000 stock options to directors, officers, employees and consultants, with an exercise price of CAD \$0.50 and expiry of 5 years from the date of grant. The stock options vested immediately upon grant. During the year ended December 31, 2022, the Corporation has recognized an expense of \$2,707,337 for these share-based payments. The weighted average remaining contractual life of the outstanding options at the end of the reporting period is 3.85 years. The exercise prices for the outstanding options are the same as used in the valuation.

The fair value of the 10,012,000 stock options was estimated using the Black-Scholes option pricing model assuming a weighted average risk free interest rate of 1.63%, a dividend yield of nil, 0% forfeiture rate, a weighted average expected annual volatility of the Corporation's share price of 132% and an expected life of 5 years. The fair value of the stock options was determined to be CAD \$0.40 per option. The expected volatility assumption is based on historical volatility over the same period as the expected life of the option using an appropriate level for price observations. The risk-free interest rate is based on the implied yield currently available on zero-coupon government issues denominated in the currency of the market in which the underlying shares primarily trade, over the same period as the expected life of the option.

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9. Income taxes

The reconciliation between the income tax provision at the Canadian statutory income tax rate of 27.0% (2022 - 27.0%) to the income tax provision (recovery) recorded in the interim consolidated statements of income (loss) and comprehensive income (loss) for the three-month period ended March 31, 2022 and March 31, 2021 is as follows:

	Three months ended March 31,	
	2023	2022
Income (loss) before income taxes	\$ 618,626	\$ (3,400,069)
Expected income tax provision at the statutory rate	167,029	(918,019)
Foreign tax rate differential	65,494	14,384
Recognition of previously unrecognized losses	(235,170)	-
Unrecognized tax benefits	1,979	9,399
Tax effect of permanent differences	6,482	922,932
Income tax provision	\$ 5,814	\$ 28,696

The Corporation's income tax provision is allocated as follows:

	Three months ended March 31,	
	2023	2022
Current tax provision	\$ 11,186	\$ 28,696
Deferred tax provision	(5,372)	-
Income tax provision	\$ 5,814	\$ 28,696

The Corporation's deferred tax asset arises from non-capital losses carried forward from previous periods.

The deferred tax assets are recognized only to the extent that the specific entity will have future taxable profits available against which the unused tax losses can be utilized. The change in deferred tax assets is as follows:

	Three months ended March 31,	
	2023	2022
Balance at the beginning of the year	\$ 45,262	\$ 20,387
Deferred income tax recovery (provision) recognized from losses available	5,372	(7,400)
Balance at the end of the year	\$ 50,634	\$ 12,987

As at March 31, 2023 and December 31, 2022, the Corporation has the following unused tax losses for future use, for which no deferred tax asset was recognized:

	Expiry	March 31, 2023	December 31, 2022
Unused tax losses in Malta	Indefinitely	\$ 54,584	\$ 60,991
Unused tax losses in Mexico	2033	3,121	-
Unused tax losses in Cyprus	2025	6,931	6,857
Unused tax losses in Cyprus	2026	19,973	19,761
Unused tax losses in Cyprus	2027	17,144	17,951
Unused tax losses in Cyprus	2028	8,689	-
Unused tax losses in Curacao	2028	543,358	543,358
Unused tax losses in Curacao	2031	476,000	476,000
Unused tax losses in Curacao	2032	1,243,757	1,243,757
Unused tax losses in Curacao	2033	268,597	-
Unused tax losses in Canada	2042	2,177,827	3,037,791
		\$ 4,819,981	\$ 5,406,466

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10. Related party balances and transactions

During the three-month period ended March 31, 2023, the Corporation had the following related party transactions:

Related party transactions between L8 Curacao and Legacy Eight Group:

During the three-month period ended March 31, 2023, L8 Curacao advanced \$Nil to Legacy Eight Group Ltd. (Three-month period ended March 31, 2023 - \$30,000).

As at March 31, 2023 and December 31, 2022, balances due from related parties and due to related parties have been offset in the interim consolidated statements of financial position as the parties have an intention to settle on a net basis and an agreement has been established between the related parties that provides a legal enforceable right to offset the recognized amounts (Note 5).

The Corporation has identified its directors and senior officers as key management personnel. Key management personnel are those persons responsible for planning, directing and controlling the activities of the Corporation, and include executives and non-executive directors. The following table illustrates the compensation paid to key management personnel during the three-month periods March 31, 2023 and March 31, 2022:

	Three months ended March 31,	
	2023	2022
Current officers		
Chief Executive Officer (a)	\$ 65,000	\$ 75,000
Chief Marketing Officer (c)	55,000	-
Chief Financial Officer (b)	7,500	7,500
Former officers		
Chief Operating Officer (b)	-	35,100
Chief Marketing Officer (c)	-	27,000

(a) The Chief Executive Officer ("CEO") is on contract, the compensation paid to the CEO is included in the interim consolidated statements of income (loss) and comprehensive income (loss).

(b) Compensation paid to the Chief Operating Officer ("COO") and Chief Financial Officer ("CFO") is included in salaries and benefits in the interim consolidated statement of income (loss) and comprehensive income (loss). COO has left the Corporation in July 2022.

(c) The Chief Marketing Officer's ("CMO") compensation is included in professional fees in the interim consolidated statements of income (loss) and comprehensive income (loss).

10. Related party balances and transactions (continued)

The following table illustrates the fair value of stock options issued to key management personnel as part of the share-based compensation during the years ended March 31, 2023 and March 31, 2022:

	Three months ended March 31,	
	2023	2022
Current officers:		
Chief Executive Officer (a)	\$ -	\$ 338,012
Chief Financial Officer (b)	-	20,281
Directors	-	141,965
Former officers		
Chief Operating Officer (b)	-	67,602
Chief Marketing Officer (c)	-	67,602

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11. Financial instruments

The significant financial risks to which the Corporation is exposed are liquidity, credit, and currency risk.

(a) Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by cash or another financial asset. The primary sources of liquidity risk are accounts payable and accrued liabilities, and amounts due to related party. The Corporation's ability to meet its obligations depends on the receipt of funds from its operations. Management monitors its working capital to ensure the obligations under current liabilities are met on a timely basis.

As at March 31, 2023 and December 31, 2022, all of the Corporation's financial liabilities are due within 12 months from the date of the interim consolidated statements of financial position. To address the settlement of these liabilities, the Corporation maintains a prudent level of cash and cash equivalents. As of March 31, 2023, and December 31, 2022, the Corporation held cash balances of \$2,127,745 and \$1,191,694 million, respectively. Although the cash balance as of March 31, 2023, is lower than the current liabilities, the Corporation has implemented effective cash management strategies and is actively pursuing opportunities to optimize its working capital, reduce costs, and generate additional cash flow to ensure timely settlement of its financial obligations.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Corporation's main credit risk relates to its amounts due from processors balance. The Corporation does not provide credit to its customers, however, credit risks arise as the payments might not be collectible from processors. The maximum credit risk is the carrying value of the amounts due from processors. As at March 31, 2022, 92% (December 31, 2022 - 91%) of the amounts due from processors balance is owing from four processors (December 31, 2022 - four processors).

The Corporation has applied the simplified approach to providing for expected credit losses, which permits the use of a lifetime expected credit loss provision for all amounts due from processors balances, which are of similar nature to trade receivables. To measure the expected credit losses, a full allowance is provided for a processor balance when there is doubt about the processor's future capacity to fulfill its payment obligations. For the remaining amounts due from processor balances, each processors' ability of fulfilling the payments in the future are evaluated specifically based on the information available on the date of the interim consolidated statements of financial position. The loss allowances at March 31, 2023 and December 31, 2022 were determined as follows for amounts due from processors balances based upon the Corporation's historical default rates over the expected life of the balances, adjusted for forward looking estimates.

Due from processors, net consists of the following:

	March 31, 2023	December 31, 2022
Carrying amount, net of refund liability	\$ 571,617	\$ 525,675
Lifetime expected loss	(859)	(859)
Due from processors	\$ 570,758	\$ 524,816

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11. Financial instruments (continued)

(c) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises from financial instruments, primarily cash, amounts due from processors, amounts due from related party, accounts payable and accrued liabilities and amounts due to related party, denominated in a currency other than the functional currency of the entity. All entities included in these interim consolidated financial statements do not use derivative financial instruments to manage its currency risk. As at March 31, 2023, a 5% appreciation (depreciation) of foreign currencies against USD will result in an increase (decrease) in income and comprehensive income of \$38,580 (December 31, 2022 - 77,525).

As at March 31, 2023 and December 31, 2022, the following balances were denominated in currencies other than USD:

Financial instruments	Foreign Currency	March 31, 2023 In USD	December 31, 2022 In USD
Cash	EUR	\$ 27,785	\$ 40,939
Cash	MXN	14,185	621
Cash	GBP	6,278	2,086
Cash	UYU	1,543	1,440
Cash	CAD	1,970,601	824,587
Due from processors	MXN	228,181	235,159
Due from processors	EUR	183,756	211,310
Due from processors	BRL*	31,203	31,043
Due from processors	COP*	17,830	9,945
Due from processors	CAD	1,718	1,718
Trade and other receivable	EUR	1,976,264	1,879,681
Trade and other receivable	GBP	2,604	6,854
Other loan receivable	CAD	-	1,477,980
Accounts payable and accrued liabilities	GBP	4,938	29,241
Accounts payable and accrued liabilities	EUR	2,062,555	2,007,946
Accounts payable and accrued liabilities	UYU	367,074	322,969
Accounts payable and accrued liabilities	CAD	1,255,786	812,702

*BRL - Brazilian Real

(d) Capital management

The Corporation's objective when managing capital is ensuring sufficient liquidity to support its financial obligations and execute its operating and strategic plans. For the purpose of capital management, capital as at March 31, 2022 includes shareholders' equity of \$2,190,171 (December 31, 2022 - \$1,584,845). The Corporation manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of underlying assets. Each consolidated entity is not subject to externally imposed capital requirements. Management reviews its capital management approach on an ongoing basis.

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12. Geographic information

The Corporation has only one reportable segment being lottery procurement and online casino and scratchcard. The geographic segmentation of the Corporation's revenues is as follows:

	Mexico	Brazil	Other Latin American countries (a)	Other (a)	Total
Three-month period ended March 31, 2023					
Lottery procurement revenue	\$ 191,657	\$ 31,943	\$ 375,329	\$ 199,643	\$ 798,572
Online casino and scratchcard revenue	11,633	11,633	147,733	61,651	232,650
	Mexico	Brazil	Other Latin American countries (a)	Other (a)	Total
Three-month period ended March 31, 2022					
Lottery procurement revenue	\$ 230,977	\$ 55,434	\$ 406,518	\$ 230,978	\$ 923,907
Online casino and scratchcard revenue	41,183	14,708	229,450	8,825	294,166

(a) "Other Latin American countries" and "Other" categories represent Latin American and non-Latin American countries with insignificant revenue which have been grouped together.

13. Proposed business combination

On May 25, 2022 the Corporation announced that it had entered into an arm's length business combination agreement (the "Definitive Agreement") dated May 24, 2022 with Sports Venture Holdings Inc. ("SVH") to combine SVH and the Corporation (the "Business Combination"), which has been terminated during three-month period ended March 31, 2022.

In connection with the Business Combination, the Corporation has agreed to make available to the Sports Venture Holdings Inc. a senior secured non-interest bearing credit facility of up to \$3,694,950 (\$5,000,000 CAD). During the year ended December 31, 2022, the Corporation advanced a loan to Sports Venture Holdings Inc. During the three months ended March 31, 2023, the Corporation incurred additional balances of \$295,596 (\$500,000 CAD) under the credit facility. The loan bore no interest, was unsecured, and was repayable on demand.

On March 17, 2023, Kings Entertainment Group Inc. announced the termination of the proposed business combination with Sports Venture Holdings Inc. ("SVH"), initially agreed upon on May 24, 2022. As part of the termination agreement, SVH has committed to repay Kings the full amount of the \$1,847,475 (\$2,500,000 CAD) advance and reimburse the Company for \$1,293,233 (\$1,750,000 CAD) million of its costs and expenses incurred in connection with the proposed transaction. The Company has received repayment of the \$1,847,475 (\$2,500,000 CAD) advance. As at March 31, 2023, the balance outstanding is \$Nil (December 31, 2022 - \$1,477,980 (\$2,000,000 CAD)).

14. Subsequent events

Subsequent to the three-month period ended March 31, 2023, as part of the termination agreement, SVH has reimbursed the Company for \$1,293,233 (CAD \$1,750,000) of its legal costs and expenses incurred in connection with the proposed transaction.