

# **KINGS ENTERTAINMENT GROUP INC. (FORMERLY 1242455 B.C. LTD.)**

## **Management's Discussion and Analysis**

**For the three and nine months ended September 30, 2023 and 2022**

(Expressed in United State dollars)

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This Management's Discussion and Analysis ("MD&A") of Kings Entertainment Group Inc. (formerly 1242455 B.C. Ltd.) and its subsidiaries ("Kings" or the "Company") supplements but does not form part of the condensed interim consolidated financial statements and the notes thereto for the three and nine months ended September 30, 2023 and 2022 (collectively referred to hereafter as the "financial statements"). This MD&A provides management's comments on the Company's operations for the three and nine months ended September 30, 2023 and 2022 and the Company's financial condition as at September 30, 2023, as compared with the prior year comparative period.

The financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee. Other information contained in this document has been prepared by management and is consistent with the data contained in the financial statements. All amounts are presented in United States dollars, the Company's presentation currency, unless otherwise stated.

The Company's certifying officers are responsible for ensuring that the financial statements and MD&A do not contain any untrue statements of a material fact or omissions of material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made. The Company's certifying officers certify that the financial statements together with the other financial information included in the filings fairly present in all material respects the financial condition, financial performance and cash flows of the Company as at the date of and for the periods presented in the filings.

In this MD&A, the words "we", "us", or "our", collectively refer to Kings Entertainment Group Inc. (formerly 1242455 B.C. Ltd.) and its subsidiaries. The first, second, third and fourth quarters of the Company's fiscal years are referred to as "Q1", "Q2", "Q3" and "Q4", respectively. The nine months ended September 30, 2023 and 2022 are referred to as "YTD 2023" and "YTD 2022", respectively.

This MD&A takes into account information available up to the approval of the financial statements and MD&A by the Board of Directors on November 28, 2023.

The Company's Board of Directors provides an oversight role with respect to all public financial disclosures by the Company.

Management is responsible for the preparation and integrity of the Company's financial statements, including the maintenance of appropriate information systems, procedures and internal controls. Management is responsible for ensuring that information disclosed externally, including the information contained within the Company's financial statements and MD&A, is complete and reliable.

For a complete understanding of the Company's business environment, risks and uncertainties and the effect of accounting estimates on its results of operations and financial condition, this MD&A should be read together with the Company's financial statements.

Certain statements made may constitute forward-looking statements. Such statements involve a number of known and unknown risks, uncertainties and other factors. Actual results, performance and achievements may be materially different from those expressed or implied by these forward-looking statements.

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This MD&A references non-IFRS financial measures, including those under the headings "Selected Financial Information" and "Limitations of Key Metrics and Other Data" below. The Company believes these non-IFRS financial measures will provide investors with useful supplemental information about the financial performance of its business, enable comparison of financial results between periods where certain items may vary independent of business performance, and allow for greater transparency with respect to key metrics used by management in operating its business and making decisions. Although management believes these financial measures are important in evaluating the Company, they are not intended to be considered in isolation or as a substitute for, or superior to, financial information prepared and presented in accordance with IFRS. Non-IFRS measures are not recognized measures under IFRS and do not have standardized meanings prescribed by IFRS. These measures may be different from non-IFRS financial measures used by other companies, limiting their usefulness for comparison purposes. Moreover, presentation of some of these measures is provided for period-over-period comparison purposes, and investors should be cautioned that the effect of the adjustments provided herein have an actual effect on the Company's operating results.

For purposes of this MD&A, the term "gaming license" refers collectively to all of the different licenses, consents, permits, authorizations, and other regulatory approvals that are necessary to be obtained in order for the recipient to lawfully conduct (or be associated with) gaming in a particular jurisdiction.

A summary of references to currencies other than US dollar is as below:

<b>Currencies</b>	<b>References</b>
Euros	EUR
Canadian dollars	CAD
Mexican pesos	MXN
Great British pounds	GBP
Uruguayan pesos	UYU
Polish zloty	PLN

### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION**

This MD&A may contain forward-looking information and statements (collectively, "forward-looking statements") within the meaning of the Canadian securities legislation and applicable securities laws, including financial and operational expectations and projections. These statements, other than statements of historical fact, are based on management's current expectations and are subject to a number of risks, uncertainties, and assumptions, including market and economic conditions, business prospects or opportunities, future plans and strategies, projections, technological developments, anticipated events and trends and regulatory changes that affect the Group, its subsidiaries and their respective customers and industries. Although the Company and management believe the expectations reflected in such forward-looking statements are reasonable and are based on reasonable assumptions and estimates as of the date hereof, there can be no assurance that these assumptions or estimates are accurate or that any of these expectations will prove accurate. Forward-looking statements are inherently subject to significant business, regulatory, economic and competitive risks, uncertainties and contingencies that could cause actual events to differ materially from those expressed or implied in such statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "would", "should", "believe", "objective", "ongoing", "imply" or the negative of these words or other variations or synonyms of these words or comparable terminology and similar expressions.

By their nature forward-looking statements are subject to known and unknown risks, uncertainties, and other factors which may cause actual results, events or developments to be materially different from any future results, events or developments expressed or implied by such forward-looking statements. Such factors include, among other things, the Company's stage of development, long-term capital requirements and future ability to fund operations, future developments in the Company's markets and the markets in which it expects to compete, risks associated with its strategic alliances and the impact of entering new markets on the Company's operations. Each factor should be considered carefully, and readers are cautioned not to place undue reliance on such forward-looking statements. See the section, "Risk Factors and Uncertainties", below noting that these factors are not intended to represent a complete list of the factors that could affect the Company.

Shareholders and investors should not place undue reliance on forward-looking statements as the plans, assumptions, intentions or expectations upon which they are based might not occur. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. Unless otherwise indicated by the Company, forward-looking statements in this MD&A describe the Company's expectations as of November 28, 2023 and, accordingly, are subject to change after such date. The Company does not undertake to update or revise any forward-looking statements, except in accordance with applicable securities laws.

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#### **COMPANY OVERVIEW**

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Kings Entertainment Corporation Inc. is a business to consumer service provider that allows users to participate in lotteries and casino-style online games throughout the world all from the comfort of their own homes with a simple login and access. The Company offers an easy transition from lottery to casino gambling that attracts players to easily participate in both game types. Players are of age of majority and are monitored according to requirements under the Curacao Gaming License. Lottokings Group operates through multiple established brands and websites, which include [www.wintrillions.com](http://www.wintrillions.com), [www.trillionaire.com](http://www.trillionaire.com) and [www.LottoKings.com](http://www.LottoKings.com) (the "Brands").

The Brands' sites are a destination for users to participate in lottery jackpots operated by fully regulated and legal lotteries across the world. Users may directly participate in lotteries or purchase shares in a pool of lottery plays by joining lottery teams or syndicates. Users may also utilize lottery subscriptions to participate in every draw of a specific lottery without the stress or worry of ever missing another draw.

In addition to the lottery services, the Company offers a connected experience that enables users to play and switch with ease between scratch cards and casino games. The Company's software technology provides casino games within a user's own web browser, without the need for any download. Users may easily access and enjoy a variety of different casino-style games. The games have several variations with minimum and maximum betting ranges, with winnings automatically credited to a user's account.

Kings' strategy includes promoting the Brands' sites through a variety of international advertisers and through strategic business relationships with online gaming affiliates all in compliance with the Curacao Gaming License.

The development, licensing, and protection of intellectual property is a core part of the Company's business strategy and is a key element to its success. The current intellectual property rights currently provide broad and comprehensive coverage and access for our products and services. The Company's business practices protect our intellectual property rights in our core business through non-disclosure and confidentiality policies and provisions and the use of appropriate intellectual property ownership and assignment provisions and restrictive covenant agreements with, among others, our employees, contractors, consultants, manufacturers, suppliers, customers and stakeholders. The Company actively seeks to protect and enforce its intellectual property rights to prevent unauthorized use by third parties, including through applications for injunctive relief and litigation, as necessary.

Kings continues to invest in building a strong, experienced management team to drive these strategic initiatives. The design, development and distribution of online lotteries and casino-style games requires specialized skills and knowledge. The Company's management team has considerable specialized skill, knowledge and experience in the online gaming industry.

Kings 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 registered head office and the office of the books and records of the Company is located in Vancouver, British Columbia.

#### **HIGHLIGHTS DURING THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2023**

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On March 17, 2023, the Company announced the termination of the proposed business combination with Sports Venture Holdings Inc. ("SVH"). As part of the termination agreement, SVH committed to repay the Company the loan receivable balance of \$1,847,475 (CAD\$2,500,000) and reimburse the Company its costs and expenses incurred in connection with the proposed transaction totalling \$1,294,510 (CAD\$1,750,000). As at September 30, 2023, the Company has been repaid the loan receivable and has been reimbursed for costs associated with the proposed transaction.

On July 14, 2023, the Company acquired 100% ownership of Bright AI (the "Acquisition"), an intellectual property acquisition and development company. Pursuant to the closing of the Acquisition, the Company issued 59,289,392 shares to the shareholders of Bright AI with a fair value of \$0.08 (CAD\$0.10) per share for an aggregate fair value of \$4,516,255. In addition, the Company issued 6,846,350 shares to finders with a fair value of \$0.08 (CAD\$0.10) per share for an aggregate fair value of \$521,507.

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#### ACQUISITION OF BRIGHT AI

On July 14, 2023, the Company acquired 100% ownership of Bright AI, an intellectual property acquisition and development company.

Consideration for the Acquisition comprised 59,289,392 common shares of the Company issued to the shareholders of Bright AI with a fair value of \$4,516,255.

The Acquisition has been accounted for by the Company as a business combination under IFRS 3 *Business Combinations*, with the assets and liabilities acquired recorded at their fair values at the acquisition date. The Company is required to determine the fair value of tangible and identifiable intangible assets acquired and liabilities assumed.

Given the complexity of certain assets and liabilities acquired, primarily intangibles and income tax items, the purchase accounting recorded in the accompanying interim financial statements is preliminary and the amounts presented below are provisional. The Company is completing a full and detailed valuation of the fair value of the net assets acquired using income, market, and cost valuation methods with the assistance of an independent third party. The fair value of assets acquired, and liabilities assumed are subject to change for up to one year from the acquisition date. Additionally, any consequential impact on the deferred tax liabilities, has yet to be finally determined. If new information arises which would impact management's assessment of the fair value at the acquisition date, any adjustments to the allocation of the purchase consideration will be recognized retrospectively and comparative information will be revised. Consequently, the final allocation of the purchase price consideration may result in material adjustments to the amounts shown in these financial statements.

The following table is a preliminary summary of the Company's allocation of the purchase price to the fair values of assets acquired and liabilities assumed at the acquisition date.

	\$
<b>Consideration</b>	
Fair value of 59,289,392 shares issued to shareholders of Bright AI	4,516,255
	<b>4,516,255</b>
<b>Net assets acquired</b>	
Trade and other receivables	2,033,076
Prepaid expenses and other assets	123
Intangible assets	4,338,584
Accounts payable and accrued liabilities	(2,199,742)
	<b>4,172,041</b>
<b>Goodwill</b>	<b>344,214</b>

Trade and other receivables comprise of receivables generated from sales from its data analytic services to customers.

Intangible assets represent the software and intellectual property developed internally for providing data and information for credit lending.

Accounts payable and accrued liabilities represents Bright AI's payroll and payroll tax liabilities, value-added tax liabilities, and cost relating to operation of the business.

The goodwill generated from the Acquisition related to other intangible assets that did not qualify for separate recognition.

In connection with the Acquisition, the Company issued 6,846,350 common shares with a fair value of \$521,507 to finders in relation to the Acquisition to settle fees for services provided pursuant to the terms of a consulting services agreement. In addition, the Company incurred \$45,150 in legal and consulting costs in order to complete the Acquisition. These transaction costs of \$566,657 have been expensed in accordance with IFRS 3.

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**LIMITATIONS OF KEY METRICS AND OTHER DATA**

The Company's key metrics are calculated using internal data. While these numbers are based on what the Company believes to be reasonable judgments and estimates of customer numbers for the applicable period of measurement, there are certain challenges and limitations in measuring the usage of its product offerings across its customer base. In addition, the Company's key metrics and related estimates may differ from estimates published by third parties or from similarly titled metrics of its competitors due to differences in methodology and access to information.

For important information on the Company's non-IFRS measures, see the information presented in "Key metrics" and "Selected financial information" below. The Company continually seeks to improve its estimates of its active customer base and the level of customer activity, and such estimates may change due to improvements or changes in the Company's methodology.

**SELECTED FINANCIAL INFORMATION**

The following financial data has been derived from the Company's financial statements for the three and nine months ended September 30, 2023 and 2022:

	Q3 2023	Q3 2022	YTD 2023	YTD 2022
	\$	\$	\$	\$
Net loss and comprehensive loss	<b>(546,635)</b>	(580,709)	<b>(395,468)</b>	(4,626,773)
Net loss per share - basic and diluted	<b>(0.01)</b>	(0.01)	<b>(0.01)</b>	(0.07)

The following financial data has been derived from the Company's financial statements:

	September 30, 2023	December 31, 2022
	\$	\$
Total assets	<b>10,179,273</b>	4,187,725
Total liabilities	<b>3,981,245</b>	2,602,880
Working capital	<b>594,826</b>	1,234,687

**SUMMARY OF QUARTERLY RESULTS**

The following table summarizes selected quarterly financial information for the last eight quarters:

	Q3 2023	Q2 2023	Q1 2023	Q4 2022
	\$	\$	\$	\$
Revenue	<b>1,679,325</b>	1,054,936	1,031,222	1,001,065
Net loss and comprehensive loss	<b>(546,635)</b>	(461,645)	612,812	(2,054,207)
EBITDA	<b>(1,091,054)</b>	(466,228)	618,626	(2,054,655)
Adjusted EBITDA	<b>(493,925)</b>	(415,057)	640,450	(1,092,721)

  

	Q3 2022	Q2 2022	Q1 2022	Q4 2021
	\$	\$	\$	\$
Revenue	1,242,162	779,873	1,220,596	1,309,257
Net loss and comprehensive loss	(580,709)	(609,897)	(3,436,167)	(9,354,831)
EBITDA	(581,334)	(586,740)	(3,400,071)	(9,302,991)
Adjusted EBITDA	(1,115,426)	(1,106,144)	(838,005)	(804,798)

The Company's revenue had been decreasing steadily from Q4 2021 to Q2 2022 due to a reduction of lottery procurement revenue. During Q1 2023, revenue remained relatively consistent with Q4 2022. Fluctuations in EBITDA are primarily a result of share-based compensation in connection with issuance of stock options in Q1 2022, additional professional fees incurred as the Company pursued a business combination with SVH in Q4 2022 and legal fees reimbursement the Company recognized during Q1 2023 as a result of termination of proposed business combination with SVH. Higher revenue in Q3 2023 was mainly due to increase in revenue from lottery procurement and from data analytic services to customers.

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**RESULTS OF OPERATIONS**

The Company has two major sources of revenue:

Lottery procurement revenue:

- Messenger stream in which the Company acts as agent in the transaction and procures lottery tickets on behalf of customers;
- Syndication stream in which customers enter into a betting pool to bet at the winning combination of lotteries. Under the Syndication stream, physical lottery tickets are not purchased.

Scratchcard and online casino revenue:

- Instant scratchcard
- Online casino games

	2023	2022	2023	2022
	\$	\$	\$	\$
<b>Revenue</b>				
Lottery procurement revenue	1,397,375	539,252	3,002,142	1,743,492
Online casino and scratchcard revenue	190,315	684,113	671,706	1,468,255
Other revenue	91,635	18,797	91,635	30,884
	<b>1,679,325</b>	1,242,162	<b>3,765,483</b>	3,242,631
<b>Costs</b>				
Processing costs	177,853	135,103	436,090	372,633
License fees	38,327	30,243	99,955	139,436
Commissions	523,075	207,016	1,012,273	734,774
	<b>739,255</b>	372,362	<b>1,548,318</b>	1,246,843
<b>Gross profit</b>	<b>940,070</b>	869,800	<b>2,217,165</b>	1,995,788
<b>Operating expenses</b>				
Bank charges	54,309	49,189	127,299	129,745
Depreciation	7,416	-	7,416	-
Expected credit losses	-	(7,847)	-	(11,909)
General and administrative	434,947	103,936	571,753	332,750
Information technology services	63,643	161,081	180,403	487,134
Management fees	65,800	-	268,212	-
Marketing expenses	258,354	57,183	355,224	442,570
Professional fees	120,934	1,212,942	1,090,650	2,392,923
Salaries and benefits	459,243	451,763	1,371,554	1,345,089
Share-based compensation	-	-	-	2,707,337
Travel	-	-	3,204	11,196
<b>Operating loss</b>	<b>1,464,646</b>	2,028,247	<b>3,975,715</b>	7,836,835
<b>Other income</b>				
Foreign exchange gain (loss)	(30,472)	534,092	(103,467)	1,198,767
Legal fees settlement	-	-	1,294,510	-
Other income	30,651	43,021	195,508	74,135
Transaction costs	(566,657)	-	(566,657)	-
	<b>(566,478)</b>	577,113	<b>819,894</b>	1,272,902
<b>Net loss before income taxes</b>	<b>(1,091,054)</b>	(581,334)	<b>(938,656)</b>	(4,568,145)
Current income tax recovery (expense)	-	6,630	(11,337)	(53,155)
Deferred income tax recovery (expense)	544,419	(6,005)	554,525	(5,473)
<b>Net loss</b>	<b>(546,635)</b>	(580,709)	<b>(395,468)</b>	(4,626,773)
Currency translation differences	(57,667)	(607,408)	(29,111)	(1,062,109)
<b>Comprehensive loss</b>	<b>(604,302)</b>	(1,188,117)	<b>(424,579)</b>	(5,688,882)

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#### **Q3 2023 compared to Q3 2022**

The Company reported a net loss of \$546,635 compared to \$580,709 in the prior year comparable period. The primary drivers of this decrease in the net loss and comprehensive loss were as follows:

- Revenue was \$1,679,325 compared to \$1,242,162 in the prior year comparable period, mainly due to increase in lottery procurement revenue, partly offset by decrease in revenue from online casino and scratchcard as the management is focused on bringing in revenue with higher margin.
- Information technology services was \$63,643 compared to \$161,081 in the prior year comparable period, mainly due to decreased maintenance and upgrade works done on the Company's website.
- Professional fees were \$120,934 compared to \$1,212,942 in the prior year comparable period, mainly due to reduced professional services at corporate level. The Company incurred significant legal and consulting expenses in prior year period related to the proposed transaction with Sport Venture Holdings, which was initiated on May 25, 2022 and terminated on March 17, 2023.
- Deferred income tax recovery was \$544,419 compared to expense of \$6,005 in the prior year comparable period, mainly due to the deferred income tax asset recognized with respect to the acquisition of Bright AI in the current year period.

Offsetting the increase in the net loss and comprehensive loss were decreases to certain expenses as follows:

- General and administrative was \$434,947 compared to \$103,936 in the prior year comparable period, mainly due to incorporating Bright AI's expenditures on rent, insurance and administrative expenses after acquisition.
- Marketing expenses were \$258,354 compared to \$57,183 in the prior year comparable period, mainly due to reduced marketing activities.
- Foreign exchange loss was \$30,472 compared to gain of \$534,092 in the prior year comparable period. The gain/loss represents unrealized gain/loss from conversion of monetary assets and liabilities denominated in a currency other than the subsidiaries' functional currencies.
- Transaction costs were \$566,657 compared to \$nil in the prior year comparable period resulting from legal and professional cost and fair value of shares issued to Finders for the closing of the acquisition of Bright AI.

#### **YTD 2023 compared to YTD 2022**

The Company reported a net loss and comprehensive loss of \$395,468 compared to \$4,626,773 in the prior year comparable period. The primary drivers of this decrease in the net loss and comprehensive loss were as follows:

- Revenue was \$3,765,483 compared to \$3,242,631 in the prior year comparable period, mainly due to increase in lottery procurement revenue, partly offset by decrease in revenue from online casino and scratchcard as the management is focused on bringing in revenue with higher margin.
- Information technology services was \$180,403 compared to \$487,134 in the prior year comparable period, mainly due to decreased maintenance and upgrade works done on the Company's website.
- Marketing expenses were \$355,224 compared to \$442,570 in the prior year comparable period, mainly due to reduced marketing activities.
- Professional fees were \$1,090,650 compared to \$2,392,923 in the prior year comparable period, mainly due to reduced professional services at corporate level. The Company incurred significant legal and consulting expenses in prior year period related to the proposed transaction with Sport Venture Holdings, which was initiated on May 25, 2022 and terminated on March 17, 2023.
- Share-based compensation was \$nil compared to \$2,707,337 in the prior year comparable period, mainly due to the stock options granted to directors and officers on January 24, 2022, which vested immediately.
- Legal fees reimbursement was \$1,294,510 compared to \$nil in the prior year comparable period. The Company received proceeds from compensation of legal costs incurred with the proposed transaction with Sport Venture Holdings, which was initiated on May 25, 2022 and terminated on March 17, 2023.
- Transaction costs were \$566,657 compared to \$nil in the prior year comparable period resulting from legal and professional cost and fair value of shares issued to Finders for the closing of the acquisition of Bright AI.
- Deferred income tax recovery was \$554,525 compared to expense of \$5,473 in the prior year comparable period, mainly due to the deferred income tax asset recognized with respect to the acquisition of Bright AI in the current year period.

Offsetting the decrease in the net loss and comprehensive loss were increases to certain expenses as follows:

- General and administrative was \$571,753 compared to \$332,750 in the prior year comparable period, mainly due to incorporating Bright AI's expenses after acquisition, with offsetting decrease in office rent and insurance expense.
- Foreign exchange loss was \$103,467 compared to \$1,198,767 in the prior year comparable period. The gain/loss represents unrealized gain/loss from conversion of monetary assets and liabilities denominated in a currency other than the subsidiaries' functional currencies.

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**SOURCES AND USES OF CASH**

	YTD 2023	YTD 2022
	\$	\$
Cash used in operating activities	<b>(1,480,220)</b>	(3,605,349)
Cash used in investing activities	<b>(47,388)</b>	-
Cash provided by financing activities	<b>1,477,980</b>	-
Impact of foreign exchange on cash	<b>(28,390)</b>	1,779,861
Change in cash during the period	<b>(78,018)</b>	(1,825,488)
Cash, beginning of the period	<b>1,191,694</b>	4,369,593
Cash, end of the period	<b>1,113,676</b>	2,544,105

**YTD 2023 compared to YTD 2022**

Cash used in operating activities of \$1,480,220 compared to \$3,605,349 during the prior year comparable period. The Company incurred significant legal and consulting expenses in prior year period related to the proposed transaction with Sport Venture Holdings, which was initiated on May 25, 2022 and terminated on March 17, 2023.

Cash used in investing activities of \$47,388 related to the development expenditures of software and intellectual property developed for providing data and information for credit lending.

Cash provided by financing activities was \$1,477,980 resulted from the repayment of other loan receivable from the borrower in the current period.

**DUE TO AND FROM RELATED PARTIES**

A summary of the Company's due from (to) related parties is as follow:

	September 30, 2023	December 31, 2022
	\$	\$
Due from related party		
Legacy Eight Group Ltd.	<b>373,010</b>	390,555
	<b>373,010</b>	390,555
Due to related parties		
WestOcean S.A.	<b>(69,591)</b>	(69,591)
Former shareholder of Phoenix <sup>(1)</sup>	<b>(19,940)</b>	(19,327)
	<b>(89,531)</b>	(88,918)
	<b>283,479</b>	301,637

1. 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.

During the three and nine months ended September 30, 2023, L8 Curacao advanced \$nil and \$nil, respectively (2022 - \$nil and \$30,000, respectively), to Legacy Eight Group Ltd.

The due from (to) related parties' 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 at September 30, 2023 and December 31, 2022, balances due from related parties and due to related parties have been offset in the 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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A summary of the Company's offsetting of balances due from (to) related parties is as follows:

	Ledonford Ltd.	Legacy Eight Group Ltd.	R.S. World Services Ltd.	WestOcean S.A.	Former shareholder of Phoenix	Total
	\$	\$	\$	\$	\$	\$
Due from related party	1,213,532	998,377	879,816	9,888,643	-	12,980,368
Due to related party	-	(170,037)	(38,916)	(12,467,996)	(19,940)	(12,696,889)
Balance offset	(1,213,532)	(455,330)	(840,900)	2,509,762	-	-
<b>Balance, September 30, 2023</b>	<b>-</b>	<b>373,010</b>	<b>-</b>	<b>(69,591)</b>	<b>(19,940)</b>	<b>283,479</b>
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	(1,213,544)	(437,871)	(859,398)	2,510,813	-	-
<b>Balance, December 31, 2022</b>	<b>-</b>	<b>390,555</b>	<b>-</b>	<b>(69,591)</b>	<b>(19,327)</b>	<b>301,637</b>

During the three and nine months ended September 30, 2023, L8 Curacao advanced \$nil and \$nil, respectively (2022 - \$nil and \$30,000, respectively), to Legacy Eight Group Ltd.

**RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION**

The Company 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 Company, and include executives and non-executive directors.

A summary of the Company's related party transactions is as follows:

	2023	2022	2023	2022
	\$	\$	\$	\$
Chief Executive Officer ("CEO") <sup>(1)</sup>	<b>28,300</b>	-	<b>115,800</b>	-
Chief Financial Officer ("CFO") <sup>(2)</sup>	<b>22,500</b>	22,500	<b>67,500</b>	67,500
Director <sup>(3)</sup>	<b>56,957</b>	48,625	<b>154,207</b>	136,459
Former officers <sup>(2) (4)</sup>	-	38,460	<b>105,000</b>	157,100
	<b>107,757</b>	109,585	<b>442,507</b>	361,059

1. The compensation paid to the CEO is included in management fees in profit and loss.
2. The compensation paid to the former Chief Operating Officer ("COO") and CFO is included in salaries and benefits in profit and loss. COO left the Company in July 2022.
3. The compensation paid to directors is included in salaries and benefits in profit and loss.
4. The Chief Marketing Officer's ("CMO") compensation is included in professional fees in profit and loss.

A summary of the Company's fair value of stock options issued to key management personnel as part of the share-based compensation is as follows:

	Q3 2023	Q3 2022	YTD 2023	YTD 2022
	\$	\$	\$	\$
CEO	-	-	-	318,318
CFO	-	-	-	63,664
Director	-	-	-	133,693
Former officers	-	-	-	82,763
	-	-	-	598,438

As at September 30, 2023, a total of \$84,832 (December 31, 2022 - \$nil) was due to the related parties and included in accounts payable and accrued liabilities. The amounts are unsecured, non-interest-bearing and have no fixed term of repayment.

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For the three and nine months ended September 30, 2023 and 2022

**OUTSTANDING SHARE DATA**

As at the date of this MD&A, the Company had the following issued and outstanding:

	September 30, 2023	MD&A Date
	#	#
Common shares issued and outstanding	134,599,242	134,599,242
Warrants	10,012,000	10,012,000
Options	1,067,880	1,067,880

**LIQUIDITY, CAPITAL RESOURCES AND GOING CONCERN**

As at September 30, 2023, cash balance was \$1,113,676 (December 31, 2022 - \$1,191,694).

As at September 30, 2023, trade and other receivable increased to \$2,434,936 (December 31, 2022 - \$435,966) comprising mainly of receivables generated from sales from its data analytic services to customers.

As at September 30, 2023, due from processors increased to \$733,197 (December 31, 2022 - \$524,816) in normal course of business.

As at September 30, 2023, government remittance recoverable increased to \$84,662 (December 31, 2022 - \$68,516).

Prepaid expenses and other assets as at September 30, 2023 increased to \$209,600 (December 31, 2022 - \$138,595) mainly due to D&O liability insurance renewal.

Deferred tax assets on September 30, 2023 increased to \$594,415 (December 31, 2022 - \$45,262). The balance relates to the deferred income tax asset recognized with respect to the acquisition of Bright AI in the current year period and net losses for tax purpose in L8 Curacao, which resulted in tax losses available for carry forward, and there is a reasonable expectation that L8 Curacao will generate taxable income to utilize the losses.

The due from related parties balance decreased to \$283,479 as at September 30, 2023 (December 31, 2022 - \$301,637) due to repayment from Legacy Eight Group and fluctuations in foreign exchange rates.

Accounts payable and accrued liabilities as at September 30, 2023 increased to \$3,873,225 (December 31, 2022 - \$2,377,943), mainly due to accounts payable acquired in the Acquisition comprising of Bright AI's payroll and payroll tax liabilities, value-added tax liabilities and cost relating to operation of the business. Income taxes payable decreased to \$31,653 (December 31, 2022 - \$96,734). The Company made payment of income taxes during the nine months ended September 30, 2023 in the amount of \$63,466 (2022 - \$nil).

The deferred revenue balance represents users' prepaid account balances that have not been utilized yet and consideration collected prior to procurement of lottery tickets. As at September 30, 2023, such balance decreased to \$76,367 (December 31, 2022 - \$128,203). Fluctuations in this account depend on timing of lottery tickets purchased and collection of the consideration during the quarter.

The Company's principal sources of liquidity are its cash generated from operations and advances from related party. Currently available funds consist primarily of cash on deposit with financial institutions. The Company calculates its working capital requirements from continuing operations as follows:

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#### FINANCIAL RESULTS

##### EBITDA

The primary non-IFRS financial measure which the Company uses is Adjusted EBITDA. When internally analyzing underlying operating performance, management excludes certain items from EBITDA (earnings before interest, tax, depreciation, and amortization).

With the exception of EBITDA and Adjusted EBITDA, the financial data has been prepared to conform with IFRS as issued by the IASB. These accounting principles have been applied consistently across for all reporting periods.

	Q3 2023	Q3 2022	YTD 2023	YTD 2022
	\$	\$	\$	\$
Net loss for the period	(546,635)	(580,709)	(395,468)	(4,626,773)
Add (deduct):				
Current income tax provision	-	(6,630)	11,337	53,155
Deferred income tax provision (recovery)	(544,419)	6,005	(554,525)	5,473
EBITDA loss	(1,091,054)	(581,334)	(938,656)	(4,568,145)
Share-based compensation	-	-	-	2,707,337
Foreign exchange gain (loss)	30,472	(534,092)	103,467	(1,198,767)
Transaction cost	566,657	-	566,657	-
Adjusted EBITDA loss	(493,925)	(1,115,426)	(268,532)	(3,059,575)

#### OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as at September 30, 2023 or at the date of this MD&A.

#### CONTINGENT LIABILITIES

The Company has no contingent liabilities as at September 30, 2023 or at the date of this MD&A.

#### PROPOSED TRANSACTIONS

On May 25, 2022, the Company announced that it had entered into an arm's length business combination agreement (the "Definitive Agreement") dated May 24, 2022 with SVH to combine SVH and the Company (the "Business Combination"). In connection with the Business Combination, the Company has agreed to make available to SVH a senior secured non-interest-bearing credit facility of up to \$3,694,950 (CAD\$5,000,000). The credit facility is due on demand. During the year ended December 31, 2022, pursuant to this credit facility, the Company advanced a loan receivable to SVH of \$1,477,980 (CAD\$2,000,000). On March 17, 2023, the Company announced the termination of the proposed Business Combination, noting that subsequent to December 31, 2022 and until the termination date, the Company had advanced an additional loan receivable of \$369,495 (CAD\$500,000).

#### INTERNATIONAL FINANCIAL REPORTING STANDARDS

The financial statements have been prepared in accordance with IFRS as issued by the IASB. The Company's significant accounting policies are described in the audited annual financial statements for the years ended December 31, 2022 and 2021 except as follows:

##### a) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration of each business combination is measured, at the date of the exchange, as the aggregate of the fair value of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Under the guidance of IFRS 10 *Consolidated Financial Statements*, control is established by having power over the acquiree, exposure or rights to variable returns from the investor's involvement with the acquiree, and the ability to use its power over the acquiree to affect the amount of the acquirer's returns. The acquiree's identifiable assets, liabilities, and contingent liabilities are recognized at their fair value at the acquisition date.

## **KINGS ENTERTAINMENT GROUP INC. (formerly 1242455 B.C. LTD.)**

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#### **b) Goodwill**

The Company allocates goodwill arising from business combinations to each cash generating unit ("CGU") or group of CGUs that are expected to receive the benefits from the business combination. The carrying amount of the CGU or group of CGUs to which goodwill has been allocated is tested annually for impairment or when there is an indication that the goodwill may be impaired. Any impairment is recognized as an expense immediately. Should there be a recovery in the value of a CGU, any impairment of goodwill previously recorded is not subsequently reversed.

#### **SIGNIFICANT ESTIMATES AND JUDGMENTS**

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The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and further periods if the revision affects both current and future periods.

The judgements used in the preparation of the financial statements are consistent with those applied and disclosed in the annual audited consolidated financial statements for the years ended December 31, 2022 and 2021 except as follows:

##### **a) Assessment of the transactions as asset acquisitions or business combinations**

Management applied judgement relating to the acquisition of Bright AI to assess whether the acquisition was an asset acquisition or business combination. Management applied a three-element process to determine whether a business or an asset was purchased, considering inputs, processes and outputs of the acquisition in order to reach a conclusion. The Company has determined the operations constitute a business by assessing that the following exist: Inputs – tangible and intangible assets, Processes – business operations, management and staff, Outputs – revenue generating from data operations. The acquisition method of accounting requires management to measure the fair value of consideration transferred and net assets acquired. To measure the fair value of consideration transferred and assets acquired at acquisition date, management is required to make certain judgements and assumptions, including but not limited to the selection of the most appropriate valuation methodology, assessment of economic viability of the intangible assets, future operating costs, capital expenditures, discount rates, future sales prices, and long-term foreign exchange rates. Preliminary measurements of assets and liabilities acquired may be adjusted retrospectively if new information becomes available. These adjustments are made until the final measurements are determined within one year of the acquisition date.

Significant assumptions about the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of the Company's assets and liabilities in the next year are consistent with those applied and disclosed in the annual audited consolidated financial statements for the years ended December 31, 2022 and 2021 except as follows:

##### **b) Valuation of net assets acquired in business combinations**

Estimates were made as to the fair value of assets and liabilities acquired in business combinations. In certain circumstances, such as the valuation of intangible assets, the Company will rely on independent third-party valuers. The Company measured all assets acquired and liabilities assumed at their acquisition date fair values.

##### **c) Review of asset carrying values and impairment assessment**

The assessment of the fair value of goodwill, intangible assets, property, plant and equipment requires the use of estimates and assumptions for long-term prices, discount rates, foreign exchange rates, capital requirements, and operating performance. Changes in any of the estimates or assumptions used in determining the fair values could impact the impairment analysis.

Each asset or CGU is evaluated every reporting period to determine whether there are any indicators of impairment. If any such indicators exist, which is often judgment-based, a formal estimate of the recoverable amount is performed and an impairment charge is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or CGU of assets is measured at the higher of fair value less cost to dispose ("FVLCTD") or value in use ("VIU").

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The evaluation of asset carrying values for indications of impairment includes consideration of both external and internal sources of information, including such factors as market and economic conditions, product/service sales prices and volumes, discount rates, operating costs, taxes and future capital expenditures. The determination of FVLCTD and VIU requires management to make estimates and assumptions on all these factors. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be further impaired or the impairment charge reversed with the impact recorded in profit or loss.

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

The carrying values of the Company's trade and other receivable, due from processors, 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 Company has an intention to net settle these balances with future amounts due to the related parties.

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments are summarized below.

### a) 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 Company's main credit risk relates to its amounts due from processors balance. The Company 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 September 30, 2023, 92% (December 31, 2022 - 91%) of the amounts due from processors balance is owing from four processors (December 31, 2022 - four processors).

The Company 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 September 30, 2023 and December 31, 2022 were determined as follows for amounts due from processors balances based upon the Company's historical default rates over the expected life of the balances, adjusted for forward looking estimates.

A summary of the Company's due from processors, net is as follows:

	September 30, 2023	December 31, 2022
	\$	\$
Carrying amount, net of refund liability	734,056	525,675
Lifetime expected credit loss	(859)	(859)
	733,197	524,816

### b) Liquidity risk

Liquidity risk is the risk that the Company 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 Company'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.

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As at September 30, 2023 and December 31, 2022, all of the Company's financial liabilities are due within 12 months from the date of these financial statements. To address the settlement of these liabilities, the Company maintains a prudent level of cash and cash equivalents. As of September 30, 2023, the Company held cash and cash equivalents balances of \$1,113,676 (December 31, 2022 - \$1,191,694) and current liabilities of \$3,981,245 (December 31, 2022 - \$2,602,880). The Company 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.

#### c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Company is not exposed to equity price risk.

#### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. If interest rates increase, the Company will incur more interest expense. The sensitivity of the Company's profit or loss to changes in the interest rate would be as follows: a 1% change in the interest rate would change the Company's profit or loss by approximately \$225.

#### Foreign 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 September 30, 2023, a 10% appreciation (depreciation) of foreign currencies against USD will result in an increase (decrease) in income and comprehensive income of \$94,463 (December 31, 2022 - \$77,525).

A summary of the Company's financial assets and liabilities that are denominated in currencies other than USD is as follows:

	CAD	EUR	MXN	UYU	PLN	Other
	\$	\$	\$	\$	\$	\$
Cash	695,720	105,997	103,564	28,072	62,714	6,638
Due from processors	1,718	395,411	268,562	-	-	85,004
Government remittance recoverable	-	18,388	52,389	13,824	-	60
Trade and other receivables	-	-	-	-	1,970,080	3,585
Accounts payable and accrued liabilities	(231,045)	-	-	(756,644)	(2,149,137)	753
Income taxes recoverable (payable)	-	(2,116)	(16,377)	7,488	-	(20,648)

#### **RISK FACTORS AND UNCERTAINTIES**

The Company is subject to many risks that may affect future operations over which the Company has little control. These risks include, but are not limited to, intense competition in the resource industry, market conditions and the Company's ability to access new sources of capital, mineral property title, results from property exploration and development activities, and currency fluctuations. The Company has incurred losses since inception and there is no expectation that this situation will change in the foreseeable future.

For a detailed listing of the risks and uncertainties faced by the Company, please refer to the Company's MD&A for the years ended December 31, 2022 and 2021.

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For the three and nine months ended September 30, 2023 and 2022

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#### **STRATEGIC PROCESS**

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Kings' strategy includes promoting the Brand sites through a variety of international advertisers and through strategic business relationships with online gaming affiliates all in compliance with the Curacao Gaming License. The Company's growth strategy will be implemented based on the business objectives:

##### **Upgrade the Company's website**

The Company has made significant upgrades to the LottoKings and WinTrillions websites providing users with a significantly improved experience on mobile distribution platforms and re-working the user journey to make the process of using the site as simple, intuitive and friction-free as possible. The 'look and feel' of the site has been re-worked to make the site content more modern and attractive with the goal of increasing user conversion rates for first-time visitors and engagement for existing users. Additionally, the site has made new products available to users, adding new casino and instant-win game content all of which will be compliant with the Curacao Gaming License.

##### **Launch native mobile apps**

The Company will launch mobile apps on both the iOS and Android operating systems. The app will provide users to access functionality comparable to the Company's desktop sites in a native mobile format, including allowing users to check results from draws and set alerts for jackpots meeting user specified minimum thresholds. Multiple versions of the app may be launched, corresponding to different brands owned by the Company. These apps will result in a more seamless user experience for the Company's mobile users and allow the Company to convert additional users to its platform through its presence on various app stores.

##### **Expand the Company's lottery games offering**

The Company will increase the variety of lottery games available through its platform. This will increase user choice and make the Company's offering more competitive in the marketplace. It will also provide a boost to the Company's user acquisition efforts by allowing the Company to reach a previously untapped pool of users who may be aware of the new lottery games the Company plans to offer, however may not have otherwise been aware of the Company's sites or services.

##### **Upgrade the Company's "back end" functionality**

The Company will make upgrades to its "back end" systems – the internal systems underlying the Company's various websites. This will improve the user experience for visitors of the websites by increasing their responsiveness and allowing the Company's staff to address user concerns more effectively. It will also allow the Company to scale its operations more effectively by allowing its systems to onboard and support higher numbers of users. Additionally, the upgrades will increase the ease through which the Company may comply with the requirements of various gaming licenses from jurisdictions other than Curacao, allowing it to expand its offering to such jurisdictions more easily if it chooses to do so in the future.

##### **Create 'satellite sites' and upgrade SEO efforts**

The Company will create 'satellite sites' advertising its services in various Latin American jurisdictions. These sites will contain SEO-optimized content related to lottery jackpots and other associated matters and will attempt to steer users to the main websites through which the Company offers its products and services. The Company will begin this strategy by creating a few websites in certain targeted jurisdictions and monitoring the results. Subsequently, the Company plans to expand its offering throughout Latin America depending on the success of the targeted websites. In conjunction with this effort, the Company will employ a SEO consultant tasked with overhauling the Company's SEO efforts including improving its organic search engine optimization activities.

##### **Advertising campaign based on LottoHub app**

The Company has developed a native app focusing on general lottery content under the name "LottoHub." The app contains general information on various lotteries, including jackpots, drawing dates, and costs to enter. The app is designed in a manner aimed at converting users who initially use the app as a free lottery information resource into paying customers on the Company's other properties. The LottoHub app does not allow users to purchase lottery tickets directly. This allows the app to be marketed through various platforms that restrict direct advertising of gambling services, such as Facebook and Instagram. The Company then engages in a paid advertising campaign on these platforms, with the aim of increasing its user base and converting users to its other properties. The app was launched in February 2022.

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#### **Acquire complementary businesses and properties**

The Company intends to engage in an acquisition strategy focused on acquiring business and technologies that will complement the Company's business. In particular, the Company will target other business engaged in substantially the same business as the Company, with an established brand name and customer base, whose operations may be easily integrated with those of the Company. The Company will also seek out assets that may assist its marketing strategy, including existing apps or media platforms with a connection to lotteries and an established user base that may be re-purposed to direct users to the Company's platforms.

#### **REGULATORY UPDATES IN VARIOUS GEOGRAPHIES**

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The Company does not provide gaming, betting or lottery products in jurisdictions other than the one indicated below.

##### **Curacao**

L8 Curacao holds a valid Curacao Gaming License, which allows it to provide online gaming products and services, including its gaming platform, from its home jurisdiction. The Curacao Gaming License has few restrictions on what markets L8 Curacao's websites may be accessed for real money play. L8 Curacao is in compliance with the applicable restrictions. The lotteries in which L8 Curacao permits its users to participate through its online platform are operated in full legal compliance with the laws of their home jurisdiction, and in many cases operated by a government entity. L8 Curacao does not allow players that are resident in Canada or the United States to purchase any gaming, betting or lottery services or products from its websites.

#### **OUTLOOK**

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The Company's continued to invest in various marketing channels, especially on social media, during Q3 2023. The Company's gross margin stayed strong and is looking to facilitate its top line through enhanced marketing activities.

#### **OTHER INFORMATION**

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Additional information about the Company is available on the Company's website at [www.kingsentertainment.games](http://www.kingsentertainment.games) and at [www.sedarplus.ca](http://www.sedarplus.ca).