

**X1 ENTERTAINMENT GROUP INC.**  
(formerly X1 Esports and Entertainment Ltd.)

**CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)

**FOR THE YEAR ENDED AUGUST 31, 2022**  
**AND**  
**THE PERIOD FROM SEPTEMBER 16, 2020 TO AUGUST 31, 2021**

## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDERS OF X1 ENTERTAINMENT GROUP INC. (FORMERLY X1 ESPORTS AND ENTERTAINMENT LTD.)

#### *Opinion*

We have audited the consolidated financial statements of X1 Entertainment Group Inc. and its subsidiaries (formerly X1 Esports and Entertainment Ltd.) (the "Company"), which comprise:

- the consolidated statements of financial position as at August 31, 2022 and 2021;
- the consolidated statements of loss and comprehensive loss for the year ended August 31, 2022 and the period from September 16, 2020 to August 31, 2021;
- the consolidated statements of cash flows for the year ended August 31, 2022 and the period from September 16, 2020 to August 31, 2021;
- the consolidated statements of changes in shareholders' equity for the year ended August 31, 2022 and the period from September 16, 2020 to August 31, 2021; and
- the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at August 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the year ended August 31, 2022 and the period from September 16, 2020 to August 31, 2021 in accordance with International Financial Reporting Standards ("IFRS").

#### *Basis for Opinion*

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

#### *Material Uncertainty Related to Going Concern*

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company has incurred net loss of \$3,064,521 for the year ended August 31, 2022 and had an accumulated deficit of \$5,079,143 as at that date. As stated in Note 1, this event or condition, along with other matters as set forth in Note 1, indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### *Other Information*

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

#### VANCOUVER

1700-475 Howe St  
Vancouver, BC V6C 2B3  
T: 604 687 1231  
F: 604 688 4675

#### LANGLEY

600-19933 88 Ave  
Langley, BC V2Y 4K5  
T: 604 282 3600  
F: 604 357 1376

#### NANAIMO

201-1825 Bowen Rd  
Nanaimo, BC V9S 1H1  
T: 250 755 2111  
F: 250 984 0886

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

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

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

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

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

### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

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

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

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

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

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

The engagement partner on the audits resulting in this independent auditors' report is Hervé Leong-Chung.

*Smythe LLP*

Chartered Professional Accountants

Vancouver, British Columbia  
December 16, 2022

**VANCOUVER**

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Vancouver, BC V6C 2B3  
T: 604 687 1231  
F: 604 688 4675

**LANGLEY**

600-19933 88 Ave  
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**X1 ENTERTAINMENT GROUP INC.**  
(formerly X1 Esports and Entertainment Ltd.)  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
(Expressed in Canadian Dollars)  
**AS AT AUGUST 31,**

	<b>2022</b>	<b>2021</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 1,624,231	\$ 1,910,019
Accounts receivable	274,233	18,886
Prepaid expenses	517,051	217,947
	<u>2,415,515</u>	<u>2,146,852</u>
<b>Deferred acquisition costs</b> (Note 18)	4,540	-
<b>Intangible assets</b> (Note 7)	322,226	-
<b>Goodwill</b> (Note 8)	281,014	-
	<u>\$ 3,023,295</u>	<u>\$ 2,146,852</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 13)	\$ 478,463	\$ 143,231
Loan payable (Note 9)	36,180	-
Acquisition consideration (Note 10)	193,836	-
	<u>708,479</u>	<u>143,231</u>
<b>Acquisition consideration</b> (Note 10)	30,418	-
<b>Deferred tax liability</b> (Notes 5 and 14)	32,791	-
	<u>771,688</u>	<u>143,231</u>
<b>Shareholders' equity</b>		
Share capital (Note 12)	6,962,999	3,681,055
Obligation to issue shares (Note 12)	-	329,100
Reserves (Note 12)	384,397	-
Accumulated other comprehensive income (loss)	(16,646)	8,088
Deficit	(5,079,143)	(2,014,622)
	<u>2,251,607</u>	<u>2,003,621</u>
	<u>\$ 3,023,295</u>	<u>\$ 2,146,852</u>

Approved and authorized by the Board on December 16, 2022.

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*"Latika Prasad"* Director      *"William O'Hara"* Director

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

**X1 ENTERTAINMENT GROUP INC.**

(formerly X1 Esports and Entertainment Ltd.)

**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Expressed in Canadian Dollars)

	<b>For the year ended August 31, 2022</b>	<b>For the period from September 16, 2020 to August 31, 2021</b>
<b>REVENUE (Note 11)</b>	\$ 390,959	\$ 27,140
<b>EXPENSES</b>		
Advertising and promotion	22,697	14,746
Amortization (Note 7)	4,631	-
Consulting (Note 13)	492,243	119,167
Esports player, team and game expenses	1,156,018	787,895
Foreign exchange	23,778	2,739
Insurance	36,133	-
Investor relations	67,420	-
Listing fee	37,942	-
Office and miscellaneous	307,873	250,137
Professional fees	372,139	126,997
Rent	2,480	56,577
Salaries and wages (Note 13)	416,576	307,133
Share-based compensation (Notes 12 and 13)	316,927	-
Shareholder communications and filing fees	40,690	31,089
Technology marketing and web development	147,134	144,677
Transfer agent	10,799	-
<b>Loss from operations</b>	<u>(3,455,480)</u>	<u>(1,841,157)</u>
Reverse takeover expense (Note 4)	-	(200,605)
<b>Net loss for the period</b>	(3,064,521)	(2,014,622)
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Foreign exchange income (loss) on translating foreign operations	<u>(24,734)</u>	<u>8,088</u>
<b>Comprehensive loss for the period</b>	<u>\$ (3,089,255)</u>	<u>\$ (2,006,534)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ (0.08)</u>	<u>\$ (0.15)</u>
<b>Weighted average number of common shares outstanding</b>	40,746,977	13,018,570

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

**X1 ENTERTAINMENT GROUP INC.**  
(formerly X1 Esports and Entertainment Ltd.)  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian Dollars)

	<b>For the year ended August 31, 2022</b>	<b>For the period from September 16, 2020 to August 31, 2021</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (3,064,521)	\$ (2,014,622)
Non-cash items:		
Amortization	4,631	-
Reverse takeover expense	-	200,605
Share-based payments	316,927	-
Unrealized foreign exchange	4,448	-
Changes in non-cash working capital items:		
Accounts receivable	(40,964)	(18,911)
Prepaid expenses	(299,873)	(178,849)
Accounts payable and accrued liabilities	<u>122,932</u>	<u>100,892</u>
	<u>(2,956,420)</u>	<u>(1,910,885)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of Tyrus, LLC	(57,417)	-
Acquisition of ShiftRLE	(54,011)	-
Cash received from reverse takeover	<u>-</u>	<u>1,839,275</u>
	<u>(111,428)</u>	<u>1,839,275</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Shares issued for cash	3,289,869	1,216,146
Share issuance costs	(445,654)	(25,936)
Obligation to issue shares	-	329,100
Funds received from associated entities prior to reverse takeover	-	317,939
Funds provided to associated entities prior to reverse takeover	-	(13,055)
Pre-acquisition cash funding of Tyrus, LLC	(30,290)	-
Loans issued from related parties	<u>-</u>	<u>150,000</u>
	<u>2,813,925</u>	<u>1,974,194</u>
<b>Effect of foreign exchange on cash</b>	<u>(31,865)</u>	<u>7,435</u>
<b>Change in cash for the period</b>	(285,788)	1,910,019
<b>Cash, beginning of period</b>	<u>1,910,019</u>	<u>-</u>
<b>Cash, end of period</b>	\$ 1,624,231	\$ 1,910,019

**Supplemental cash flow information**

	<b>For the year ended August 31, 2022</b>	<b>For the period from September 16, 2020 to August 31, 2021</b>
Deferred acquisition costs in accounts payable and accrued liabilities	\$4,540	-
Intangible asset acquisition costs in accounts payable and accrued liabilities	\$4,403	-
Agent's options issued	\$67,470	-
Related party loans settled through share issuance	-	\$150,000
Taxes paid	-	-
Interest paid	-	-

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

**X1 ENTERTAINMENT GROUP INC.**

(formerly X1 Esports and Entertainment Ltd.)

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

(Expressed in Canadian Dollars)

	<u>Share Capital</u>		Obligation to issue shares	Reserves	Accumulated Other Comprehensive Income (Loss)	Deficit	Total
	Number	Amount					
<b>Balance, September 16, 2020 (incorporation)</b>	1	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ 1
Cancellation of incorporation share	(1)	(1)	-	-	-	-	(1)
Shares issued for debt settlement	10,000,000	150,000	-	-	-	-	150,000
Shares issued for reverse take-over	1	1	-	-	-	-	1
Obligation to issue shares acquired in reverse take-over	-	-	2,340,844	-	-	-	2,340,844
Private placement	28,257,687	3,556,990	(2,340,844)	-	-	-	1,216,146
Share issuance costs	-	(25,936)	-	-	-	-	(25,936)
Obligation to issue shares	-	-	329,100	-	-	-	329,100
Comprehensive loss for the period	-	-	-	-	8,088	(2,014,622)	(2,006,534)
<b>Balance, August 31, 2021</b>	<b>38,257,688</b>	<b>3,681,055</b>	<b>329,100</b>	<b>-</b>	<b>8,088</b>	<b>(2,014,622)</b>	<b>2,003,621</b>
Shares issued for acquisition of Tyrus, LLC	555,555	110,102	-	-	-	-	110,102
Shares issued for acquisition of ShiftRLE	333,333	65,997	-	-	-	-	65,997
Initial public offering	6,914,820	3,111,669	-	-	-	-	3,111,669
Private placement	1,449,428	507,300	(329,100)	-	-	-	178,200
Share issuance costs	66,667	(513,124)	-	67,470	-	-	(445,654)
Share-based compensation	-	-	-	316,927	-	-	316,927
Comprehensive loss for the year	-	-	-	-	(24,734)	(3,064,521)	(3,089,255)
<b>Balance, August 31, 2022</b>	<b>47,577,491</b>	<b>\$ 6,962,999</b>	<b>\$ -</b>	<b>\$ 384,397</b>	<b>\$ (16,646)</b>	<b>\$ (5,079,143)</b>	<b>\$ 2,251,607</b>

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



# **X1 ENTERTAINMENT GROUP INC.**

(formerly X1 Esports and Entertainment Ltd.)

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

**FOR THE YEAR ENDED AUGUST 31, 2022 AND PERIOD FROM SEPTEMBER 16, 2020 TO AUGUST 31, 2021**

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### **1. NATURE OF OPERATIONS AND GOING CONCERN**

X1 Entertainment Group Inc. (with its subsidiaries, collectively, the “Company” or “X1”) (formerly X1 Esports and Entertainment Ltd.) is a video games and media portfolio company. X1 was incorporated under the *Company Act* (British Columbia) on January 9, 2020. The Company completed a reverse takeover transaction on April 16, 2021, as further described below, and the continuing entity for accounting purposes was incorporated under the *Companies Act* (Malta) on September 16, 2020. The Company maintains its registered office at Royal Centre, 1500 – 1055 West Georgia Street, PO Box 11117, Vancouver, British Columbia, Canada V6E 4N7. The Company’s principal place of business is 615 – 800 West Pender Street, Vancouver, British Columbia, Canada V6C 2V6.

On June 30, 2022, the common shares of the Company commenced trading on the Canadian Securities Exchange under the symbol “XONE”. The Company is also listed on the OTCQX under the symbol “XOEEF”.

These consolidated financial statements have been prepared on a going concern basis, which contemplates that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company reported a net loss for the year ended August 31, 2022 of \$3,064,521 (September 16, 2020 to August 31, 2021 – \$2,014,622) and as of that date had an accumulated deficit of \$5,079,143 (2021 – \$2,014,622). The Company’s ability to continue as a going concern is dependent upon its ability to raise funds primarily through the issuance of shares or achieve profitable operations. The outcome of these matters cannot be predicted at this time. If the Company is unable to obtain additional financing, management may be required to curtail certain expenses. These material uncertainties may cast significant doubt about the Company’s ability to continue as a going concern. Accordingly, these consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

#### *Reverse Takeover*

On April 16, 2021, the Company issued 10,000,000 common shares to acquire all of the issued and outstanding common shares of Rix.GG Europe Ltd. (“Rix”). After completion of the transaction, the shareholders of Rix held approximately 99.99% of the Company. Accordingly, Rix is considered to have acquired the Company with the transaction being accounted for as a reverse takeover of the Company by Rix shareholders (the “RTO”) (Note 4).

As Rix is deemed to be the acquirer for accounting purposes, these consolidated financial statements represent a continuation of the financial position and financial performance of Rix prior to the acquisition of X1. The results of operations of X1 and its pre-existing subsidiaries are included from April 16, 2021, the deemed date of acquisition of X1, onwards. The Company’s consolidated financial statements are presented from the date of September 16, 2020 being the incorporation date of Rix.

#### *Significant Acquisitions*

On August 4, 2022, the Company completed the acquisition of the issued and outstanding membership interests of Tyrus, LLC (“Tyrus Acquisition”). The Tyrus Acquisition is accounted for in accordance with IFRS 3, *Business Combinations* (“IFRS 3”), as the operations of Tyrus constitute a business (Note 5). The financial results of Tyrus have been consolidated since the acquisition date of August 4, 2022.

On August 10, 2022, the Company completed the asset purchase agreement to acquire the assets of ShiftRLE (“Shift”). The assets of Shift did not constitute a business pursuant to IFRS 3 and have been accounted for as an asset acquisition (Note 6).

# X1 ENTERTAINMENT GROUP INC.

(formerly X1 Esports and Entertainment Ltd.)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

**FOR THE YEAR ENDED AUGUST 31, 2022 AND PERIOD FROM SEPTEMBER 16, 2020 TO AUGUST 31, 2021**

### 1. NATURE OF OPERATIONS AND GOING CONCERN (cont'd...)

#### COVID-19

Since January 2020, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility. The duration and enduring impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

The Company has tailored operations within its gaming division to comply with government health measures. Although the Company's business is largely conducted online, several in-person esports tournaments Rix could participate in have been cancelled due to public health restrictions.

### 2. BASIS OF PREPARATION

#### Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

#### Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

#### Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The functional currency of the parent company is the Canadian dollar.

Subsidiary	Functional Currency	Jurisdiction
Forward Agency Ltd.	UK Pound Sterling	England and Wales
Mechanics Agency Ltd.	UK Pound Sterling	England and Wales
Rix.GG Europe Ltd.	Euro	Malta
Tyrus, LLC	US dollar	United States

All material intercompany transactions have been eliminated upon consolidation. A subsidiary is an entity over which the Company has control, where control indicates exposure or rights to variable returns and the ability to affect those returns through power over the investee.

#### Use of judgments and estimates

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported expenses during the period. Actual results could differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

**FOR THE YEAR ENDED AUGUST 31, 2022 AND PERIOD FROM SEPTEMBER 16, 2020 TO AUGUST 31, 2021**

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## **2. BASIS OF PREPARATION (cont'd...)**

### **Use of judgments and estimates (cont'd...)**

The key areas of judgment applied in the preparation of the consolidated financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay its ongoing operating expenditures and to meet its liabilities for the ensuing year, involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

- Business combinations

Judgment is used in determining who is the acquiror and whether an acquisition is a business combination or an asset acquisition. The assessment required management to assess the relative ownership interests pursuant to the transaction and the inputs, processes and outputs of the entity or assets being acquired at the time of acquisition. Pursuant to the assessment, the acquisition was deemed to be an RTO of X1 which was considered to be asset acquisition as X1 did not meet the definition of a business (Note 4). The acquisition of Tyrus was considered to be a business acquisition (Note 5). The acquisition of Shift was considered to be an asset acquisition (Note 6).

- Functional currency determination

The functional currency of the Company and its subsidiaries is the currency of their respective primary economic environment, and the Company reconsiders the functional currency if there is a change in events and conditions, which determined the primary economic environment.

- Income taxes

At the end of each reporting period, the Company assesses whether the realization of deferred tax benefits is sufficiently probable to recognize deferred tax assets. This assessment requires the exercise of judgment on the part of management with respect to, among other things, benefits that could be realized from available income tax strategies and future taxable income, as well as other positive and negative factors. The recorded amount of total deferred tax assets could be reduced if estimates of projected future taxable income and benefits from available income tax strategies are lowered, or if changes in current income tax regulations are enacted that impose restrictions on the timing or extent of the Company's ability to utilize deferred tax benefits.

- Recoverability of trade receivables

Determining the recoverability of trade receivables requires management to make assumptions about the historical patterns for probability of default, the timing of collection, customer-specific payment history, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

- Intangible assets and goodwill impairment testing

Factors which could indicate impairment include: significant underperformance of an asset relative to historical or projected operating results, significant changes in the manner in which in asset is used, and significant negative industry or economic trends.

The Company tests goodwill and indefinite lived intangible assets for impairment on an annual basis. For the 2022 reporting period, the recoverable amount of the cash-generating unit ("CGU") was determined based on value-in-use calculations which require the use of assumptions. An impairment loss is recognized for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell or value-in-use. The calculations use cash flow projections based on financial budgets and estimate inputs approved by management covering a four-year period. Significant inputs include customer growth rates, pricing increases, and long-term inflation.

## **X1 ENTERTAINMENT GROUP INC.**

(formerly X1 Esports and Entertainment Ltd.)

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

**FOR THE YEAR ENDED AUGUST 31, 2022 AND PERIOD FROM SEPTEMBER 16, 2020 TO AUGUST 31, 2021**

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## **2. BASIS OF PREPARATION**

### **Use of judgments and estimates (cont'd...)**

- Identification and valuation of intangible assets acquired in business combinations

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of intangible assets. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, management develops the fair value using appropriate valuation techniques which are based on a forecast of the total expected future net cash flows. In determining the fair value of the intangible assets at the acquisition date, the Company's significant assumptions include the future net cash flows, attrition rates and the discount rate applied.

- Estimated useful lives of long-lived assets

The Company estimates the useful lives of intangible assets based on estimates with respect to customer attrition rates.

- Recognition of revenue on a gross versus net basis

Customer contracts are evaluated to determine whether the Company acts as the principal or agent under the specific terms of each arrangement. To the extent that the Company acts as the principal in an arrangement, revenues are reported on a gross basis; revenue and expenses are recognized in their respective financial statement line items. If the Company acts as the agent, revenues are reported on a net basis; revenues are presented net of any direct expenses to service the contract.

Determination of principal or agent classification is based on an evaluation of whether the nature of the Company's promise is a performance obligation to provide specific goods or services to the customer (principal), or to arrange for those services to be provided to the customer by a third party (agent). The most significant factor for the Company's analysis is to consider whether the Company is primarily responsible for fulfilling the promise to provide the specified good or service.

- Share-based compensation

The fair value of non-cash compensation which may impact the value of assets acquired and goodwill in a business combination at acquisition dates or the fair value of employee share-based compensation is limited by the Black-Scholes option pricing model and fair value estimates that incorporate market data involving uncertainty in estimates used by management. The Black-Scholes option pricing model has subjective assumptions including the expected volatility of the Company's share price, expected exercise dates and forfeiture rates.

- Contingent consideration

Estimates are made in determining the fair value of contingent consideration. Management exercises judgment in estimating the probability and timing of when future cash flows are expected to be achieved, which is used as the basis for estimating fair value. Future performance results that differ from management's estimates could result in changes to liabilities recorded, which are recorded as they arise through profit or loss.

# X1 ENTERTAINMENT GROUP INC.

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### 3. SIGNIFICANT ACCOUNTING POLICIES

#### Currency Translation

IFRS requires that the functional currency of each entity in the consolidated group be determined separately in accordance with the indicators as per International Accounting Standards ("IAS") 21 *The Effects of Changes in Foreign Exchange Rates* and should be measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is the Canadian dollar; the functional currencies of the subsidiaries are highlighted above under *Basis of consolidation*. The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency.

Under IFRS, the results and financial position of all the Company's entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of the consolidated statement of financial position;
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the date of the transaction); and
- all resulting exchange differences are recognized as a separate component of equity.

#### Financial instruments

##### Financial assets

The Company classifies its financial assets in the following categories: fair value through profit or loss, amortized cost or fair value through other comprehensive income. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

##### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are initially recognized at fair value with changes in fair value recorded in profit or loss.

##### *Amortized cost*

Financial assets are classified at amortized cost if both of the following criteria are met and the financial assets are not classified or designated as fair value through profit and loss: 1) the Company's objective for these financial assets is to collect their contractual cash flows and 2) the asset's contractual cash flows represent 'solely payments of principal and interest'. The Company's cash and accounts receivable are recorded at amortized cost as they meet the required criteria.

##### *Fair value through other comprehensive income ("OCI")*

For financial assets that are not held for trading, the Company can make an irrevocable election at initial recognition to classify the instruments at fair value through other comprehensive income ("FVOCI"), with all subsequent changes in fair value being recognized in other comprehensive income. This election is available for each separate investment. Under this category, fair value changes are recognized in OCI while dividends are recognized in profit or loss. The Company does not have any financial assets designated as FVOCI.

##### Financial liabilities

Financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method.

Financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include accounts payable and accrued liabilities, loan payable and acquisition consideration payable.

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### **3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

#### **Financial instruments (cont'd...)**

##### Impairment of financial instruments

The Company recognizes a loss allowance on a forward-looking basis at an amount equal to the lifetime expected credit loss ("ECL") on its trade receivables. The Company is substantially paid in advance for its services.

ECLs on trade receivables are calculated based on the expected credit loss for clients according to an aging analysis. When determining ECLs, the Company considers the historic credit losses observed by the Company, customer-specific payment history and economic conditions. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience, informed credit assessment and forward-looking information.

Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 60 days past due.

Impairment losses on trade receivables are recorded to the statement of loss and comprehensive loss. Subsequent recoveries of amounts previously written off are credited against the same line item.

##### Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs in making the measurements. The levels of the fair value hierarchy are defined as follows.

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Inputs for the asset or liability that are not based on observable market data.

The Company's financial instruments classified as Level 1 in the fair value hierarchy are cash, accounts receivable, accounts payable and accrued liabilities, and loan payable. Their carrying values approximate their fair values due to the short-term maturity of these instruments.

There were no movement between fair value levels during the year ended August 31, 2022.

#### **Intangible assets**

Intangible assets that are acquired separately are measured on initial recognition at cost, which comprises its purchase price plus any directly attributable costs of preparing the asset for its intended use. Following initial recognition, intangible assets with finite lives are carried at cost less accumulated impairment and accumulated amortization on a straight-line basis over the following periods:

Customer lists	2 years
Domain name	Indefinite life

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Indefinite-life intangible assets

#### **Goodwill**

Goodwill represents the excess of the acquisition cost in a business combination over the fair value of the Company's share of the identifiable net assets acquired. Goodwill is carried at cost less accumulated impairment losses.

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### **3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

#### **Impairment of non-financial assets**

The carrying amounts of intangible assets with finite useful lives are reviewed at the end of each reporting period to determine whether there are any indicators of impairment. Indicators of impairment may include a significant decline in asset market value, material adverse changes in the external operating environment which affect the manner in which the asset is used or is expected to be used, obsolescence, or legal impairment of the asset. If any such indicators exist, then the recoverable amount of the asset is estimated. Intangible assets with indefinite useful lives are not amortized but are tested for impairment at least annually or whenever there is an indicator that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the CGU to which the asset belongs.

When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

#### **Provisions**

Provisions represent liabilities of the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Where material, provisions are measured at the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

#### **Share capital**

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on estimated fair value of the common shares at the time the units are priced, and any excess is allocated to warrants.

Shares issued as consideration for goods or services provided to those other than employees or others providing similar services are measured at the fair value of the goods or services received, except where the fair value cannot be measured reliably, in which case they are measured at the fair value of the equity instruments granted.

#### **Share-based payments**

The Company has a stock option plan as described in Note 12(d). Share-based payments to employees are measured at the fair value of the instruments issued using the Black-Scholes option pricing model and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to reserve.

Consideration received on the exercise of stock options is recorded as share capital and the related reserve is transferred to share capital. Charges for options that are forfeited before vesting are reversed from reserve. For those unexercised options that expire, the recorded value is transferred to deficit.

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### **3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

#### **Business combinations**

On the acquisition of a business, the acquisition method of accounting is used, whereby the purchase consideration is allocated to the identifiable assets and liabilities on the basis of fair value of the date of acquisition. Provisional fair values allocated at a reporting date are finalized as soon as the relevant information is available, within a period not to exceed twelve months from the acquisition date with retroactive restatement of the impact of adjustment to those provisional fair values effective as at the acquisition date. Incremental costs related to acquisitions are expensed as incurred. When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date. The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, *Financial Instruments*, or IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

#### **Loss per share**

Basic loss per share is calculated by dividing the loss available to common shareholders by the weighted average number of shares outstanding in the period. For all periods presented, the loss available to common shareholders equals the reported loss. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. In the Company's case, diluted loss per share is the same as basic loss per share, as the effects of including all outstanding options and warrants would be anti-dilutive. Shares subject to escrow restrictions are excluded from the weighted average number of common shares unless their release is subject only to the passage of time.

#### **Income taxes**

The Company's deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax assets also result from unused loss carry-forwards, resource related pools and other deductions. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.



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#### **3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

##### **Revenue Recognition**

The Company reviews its revenue streams and major contracts with customers using the IFRS 15, *Revenue from Contracts with Customers*, five step model as follows:

- Identify the contract with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price, which is the total consideration provided by the customer;
- Allocate the transaction price among the performance obligations in the contract based on their relative fair values; and
- Recognize revenue when the relevant criteria are met for each performance obligation.

##### **(a) Prize Money**

The Company generates revenue through participation in esports tournaments. These arrangements predominantly contain a single performance obligation and revenue is recognized at a single point in time when the performance obligation is achieved, which is typically the date of the Company's esports player placing in an esports tournament. Prize money has been recorded on a gross basis as the Company has contractual agreements with the esports player to exclusively participate under the Rix brand, which includes a buyout clause if the player was to be sold to another esports company.

##### **(b) Player Transfers**

The Company generates revenue through the sale of esports player contracts to other esports companies. The Company's performance obligations are defined in each agreement with its customers. The transaction prices allocated to performance obligations are set out in each agreement as a fixed fee for the performance obligation rendered. Performance obligations typically include the transfer of the esports player and a fixed fee based on the esports player's participation in a later esports event. Transaction prices are recognized as revenue in the period when the performance obligation has been satisfied and collection is reasonably assured.

##### **(c) Talent fees**

The Company receives talent fees revenue for representing talent which is recognized over the service period.

##### **(d) Content revenue**

Revenue from content contracts whereby the Company facilitates influencer and content creator services for customers are recognized over the period during which services are performed.

The Company performed an agent versus principal analysis to determine if content revenue is to be recorded on a net or gross basis. There is a two-step process in determining if a company is acting as a principal or agent in a contract with a customer:

1. Identify the specified goods or services to be provided to the customer; and
2. Assess whether it controls each specified good or service before that good or service is transferred to the customer using the following guidelines;
  - a. The Company has a primary responsibility for fulfilling the promise to provide the specified goods or services to the customer;
  - b. The Company has inventory risk before the specified good or service has been transferred to a customer, or after transfer of control to a customer; and
  - c. The Company has discretion in establishing the price for the specified good or service.

The Company determined it is acting as an agent and should record revenue on a net basis.

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#### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

##### Revenue Recognition (cont'd...)

- (e) Royalties from in-game purchases

The Company receives royalty revenue from in-game purchases on Rix based items in the Rocket League game. Revenue is recognized in the period when the purchase was made.

#### 4. ACQUISITION OF RIX.GG EUROPE LTD.

As described in Note 1, the Company acquired Rix effective April 16, 2021. For accounting purposes, the transaction has been accounted for as an RTO with Rix deemed to be the accounting acquiror and X1, the legal acquiror deemed to be the accounting acquiree. At the date of acquisition X1 did not meet the definition of a business and the transaction has been accounted for as an acquisition of net assets, rather than a business combination. The transaction is accounted for in accordance with IFRS 2 *Share-based Payments* and IFRS 3. As the Company did not qualify as a business according to the definition in IFRS 3 as there were no substantive processes in place, the acquisition does not constitute a business combination; rather, it is treated as an issuance of shares by Rix for the net liabilities of the Company with Rix as the continuing entity.

As a result of this transaction, a reverse takeover transaction cost of \$200,605 has been recorded. This reflects the difference between the estimated fair value of Rix's shares deemed to have been issued to X1's shareholders, plus transaction costs incurred, less the net fair value of the assets of X1 acquired.

In accordance with reverse acquisition accounting:

- i) The assets and liabilities of Rix are included in the statement of financial position at their carrying values.
- ii) The net liabilities of the Company have been measured at their fair value of \$200,604.

Fair value of share-based consideration allocated:		
Deemed issuance of 1 common share	\$	1
Identifiable net liabilities acquired:		
Cash		1,839,275
Prepaid expenses		39,328
Balances outstanding with associated entities		304,884
Accounts payable and accrued liabilities		(43,248)
Obligation to issue shares		(2,340,844)
Total RTO expense	\$	200,605

#### 5. ACQUISITION OF TYRUS, LLC

On August 4, 2022, the Company closed the definitive acquisition agreement with Tyrus, LLC ("Tyrus"). Tyrus is an influencer management firm empowering gamers, content creators and influencers.

Pursuant to the terms of a membership interest purchase agreement (the "MIPA"), the Company acquired 100% of the issued and outstanding membership interest of Tyrus. The purchase price is comprised of the following:

- i) US\$150,000 in cash payments due within 60 days of closing (fully paid subsequent to year end);
- ii) the issuance of 555,555 common shares of the Company ("Tyrus Shares") (issued); and
- iii) a Bonus Payment of US\$100,000, payable if Tyrus reaches net revenues of US\$1,750,000 in its first full year of revenue, which may be settled in cash or common shares at the option of the Company.

The Tyrus Shares are subject to contractual resale restrictions that result in 25% of the Tyrus Shares being released six months following the closing date and 25% being released at six month intervals thereafter. The value of the Tyrus Shares is estimated using an option model to estimate the discount related to the lack of marketability of the shares from the contractual restriction. The following assumptions were used in the option model: share price of \$0.34, expected life of 1 to 2.5 years, expected volatility of 110%, risk free interest rate of 3.25% and a dividend yield of 0%.

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#### 5. ACQUISITION OF TYRUS, LLC (cont'd...)

The following table summarizes assets and liabilities acquired and consideration paid or payable under the MIPA:

<b>Consideration:</b>	
Cash (US\$50,000 paid, US\$100,000 paid subsequent to year end)	\$ 193,425
Fair value of 555,555 common shares issued <sup>(1)</sup>	110,102
Bonus Payment <sup>(2)</sup>	-
	<u>\$ 303,527</u>

<sup>(1)</sup> The fair value of the common shares issued were valued at \$110,102 as determined by the market price when issued being \$0.20 per share, less a discount for lack of marketability as described above.

<sup>(2)</sup> The fair value of the Bonus Payment is measured as the present value of the estimated payment relative to forecasted revenue anticipated to be received within the measurement period. The Bonus Payment will either be achieved pursuant to the revenue definition of the MIPA at a payment value of US\$100,000 or will not be payable within a year of the acquisition. The Bonus Payment was estimated to have a fair value of \$nil to be remeasured at each reporting date.

<b>Fair value of identifiable net assets acquired:</b>	
Cash	\$ 4,898
Accounts receivable	210,725
Customer relationships	109,302
Goodwill	281,014
Accounts payable and accrued liabilities	(203,747)
Pre-acquisition funding	(30,290)
Loan payable	(35,584)
Deferred tax liability	<u>(32,791)</u>
	<u>\$ 303,527</u>

Trade receivables have been recorded at fair value being the contractual amounts receivable less identified bad debts.

Goodwill represents intangible assets that cannot be measured directly such as the assembled workforce and is not expected to be deductible for tax purposes.

A pre-tax discount rate of 12% was used in the fair value assumptions for the customer relationships. Management used a combination of market values and cost-based measurements to estimate fair value for the customer relationships of \$109,302 in accordance with Level 3 of the fair value hierarchy.

Tyrus has contributed a net loss of \$40,278 (US\$29,977) for the period from August 4 to August 31, 2022 to the consolidated net loss and comprehensive loss of the Company.

#### 6. ACQUISITION OF SHIFTRLE

On August 10, 2022, the Company completed an asset purchase agreement ("APA") to acquire the assets of ShiftRLE ("Shift"). Shift is an online news outlet focused on the popular video game Rocket League. Under the concentration test of IFRS 3, the transaction was determined to be an asset acquisition with substantially all of the fair value attributable to the domain name of Shift.

Pursuant to the APA, the Company acquired 100% of the assets comprising Shift and have the benefit of ongoing services by the key personnel of Shift for an aggregate price of:

- (i) US\$50,000 in cash payments, due within 45 days of closing (fully paid subsequent to year end);
- (ii) 333,333 common shares of the Company ("Shift Shares") (issued); and
- (iii) a 7% share of gross revenues Shift earns in the first (36) months following Closing to a maximum of US\$250,000 (the "Earnout").

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The Earnout, payable annually, may be paid in cash or common shares at the election of the Company, at a deemed price equal to the fourteen-day trading price prior to the payment date or such other price as may be required by the policies of the Exchange. The Shift Shares are subject to a contractual resale restriction that will result in 25% of the Shift Shares being released six months following the closing date, and 25% being released at six month intervals thereafter. The value of the Shift Shares is estimated using an option model to estimate the discount related to the lack of marketability of the shares from the contractual restriction. The following assumptions were used in the option model: share price of \$0.34, expected life of 1 to 2.5 years, expected volatility of 110%, risk free interest rate of 3.18% and a dividend yield of 0%.

The following table summarizes the consideration paid and payable and asset acquired under the APA:

**Consideration and intangible asset acquired:**

Cash (US\$25,000 paid, US\$25,000 paid subsequent to year end)	\$	63,945
Fair value of 333,333 common shares <sup>(1)</sup>		65,997
Earnout payment <sup>(2)</sup>		58,885
Transaction costs		<u>28,728</u>
<b>Value of Domain Name</b>	<b>\$</b>	<b><u>217,555</u></b>

<sup>(1)</sup> The fair value of the common shares issued were valued at \$65,997 as determined by the market price when issued being \$0.20 per share, less a discount for lack of marketability as described above.

<sup>(2)</sup> The fair value of the Earnout payment is measured as the present value of the estimated revenue share relative to forecasted revenue anticipated to be received within the earnout period. The Earnout is payable to a maximum of US\$250,000 and has been measured at a present value of \$58,885 to be remeasured at each reporting date.

**7. INTANGIBLE ASSETS**

	Domain Name	Customer Relationships	Total
<b>Cost</b>			
Balance, September 16, 2020 and August 31, 2021	\$ -	\$ -	\$ -
Acquisition (Notes 5 and 6)	<u>217,555</u>	<u>109,302</u>	<u>326,857</u>
Balance, August 31, 2022	\$ 217,555	\$ 109,302	\$ 326,857
<b>Accumulated amortization</b>			
Balance, September 16, 2020 and August 31, 2021	\$ -	\$ -	\$ -
Amortization	<u>-</u>	<u>4,631</u>	<u>4,631</u>
Balance, August 31, 2022	\$ -	\$ 4,631	\$ 4,631
<b>Net book value</b>			
Balance, August 31, 2021	\$ -	\$ -	\$ -
Balance, August 31, 2022	\$ 217,555	\$ 104,671	\$ 322,226

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<b>Balance, September 16, 2020 and August 31, 2021</b>	\$	-
Tyrus acquisition (Note 5)		<u>281,014</u>
<b>Balance, August 31, 2022</b>	<b>\$</b>	<b>281,014</b>

The Company performs an impairment test annually on August 31 each year or at each reporting date, if there is an indication of impairment. The recoverable amount of goodwill is determined based on the greater of the value in use and the fair value less costs to sell of the Company's cash generating unit. For the purposes of impairment testing, goodwill is allocated to the Company's cash-generating units which represent the lowest level within the Company at which goodwill is monitored for internal management purposes, which is not higher than the Company's operating segments.

No impairment of goodwill was identified as a result of the Company's most recent impairment test as at August 31, 2022. Goodwill impairment testing is based on a value in use ("VIU") approach and is completed for the Tyrus CGU. The recoverable amount is determined by management's experience and future expectations of the business performance are used to make a best estimate of the expected revenue and cash flows for a four-year period. The revenue growth rate in that period is based upon management's current and long-term forecasts and is a key driver within the test. The recoverable amount was estimated using annual revenue growth rates averaging 5%. A discount rate was applied of 12%.

Other key assumptions in the analysis, include the discount and terminal growth rate. The discount rate applied in the model is a pre-tax rate that reflects the time value of money and risk associated with the business. The terminal growth rate of 5% is based on the long-term growth prospects of the business beyond a five-year term. As at August 31, 2022, a sensitivity analysis was also performed for the VIU model and it was determined that reasonable changes to key assumptions would not result in an impairment loss.

**9. LOAN PAYABLE**

With the acquisition of Tyrus, the Company assumed a loan payable to a third party of \$36,180 (US\$27,595). The loan is non-interest bearing and matures on July 1, 2023. The loan was repaid subsequent to year end.

**10. ACQUISITION CONSIDERATION**

The following details the balances of acquisition consideration payments due:

	August 31, 2022	August 31, 2021
Cash payable for Tyrus <sup>(1)</sup>	\$ 131,110	\$ -
Fair value of Tyrus Bonus Payment <sup>(2)</sup>	-	-
Cash payable for Shift <sup>(3)</sup>	32,778	-
Fair value of Shift Earnout payment <sup>(4)</sup>	<u>60,366</u>	<u>-</u>
Balance, end of period	224,254	-
Less: Shift Earnout payable longer than one year	<u>(30,418)</u>	<u>-</u>
<b>Current liability, end of period</b>	<b>\$ 193,836</b>	<b>\$ -</b>

<sup>(1)</sup> Paid subsequent to year end.

<sup>(2)</sup> The fair value of the Tyrus Bonus Payment is the present value of the estimated future revenue of Tyrus relative to a Bonus Payment Target.

<sup>(3)</sup> Paid subsequent to year end.

<sup>(4)</sup> The fair value of the Earnout payment is the present value of the estimated revenue share relative to forecasted revenue anticipated to be earned within the earnout period.

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<b>Revenue</b>	For the year ended August 31, 2022	For the period from September 16, 2020 to August 31, 2021
Content revenue	\$ 17,910	\$ -
Merchandise sales	4,303	-
Player transfer	51,010	20,223
Prize money	248,057	6,917
Royalties from in-game purchases	16,317	-
Talent fees	53,362	-
	<u>\$ 390,959</u>	<u>\$ 27,140</u>

During the year ended August 31, 2022, the Company received \$91,387 (2021 - \$nil) in content revenue and remitted \$73,477 (2021 - \$nil) back to the talent.

**12. SHARE CAPITAL AND RESERVES**

## a) Authorized share capital

Unlimited number of common shares without par value.

## b) Issued share capital

*Year ended August 31, 2022*

On October 27, 2021, the Company completed a private placement of 1,449,428 common shares at a price of \$0.35 per common share for gross proceeds of \$507,300 of which \$329,100 had been received as an obligation to issue shares in the period from September 16, 2020 to August 31, 2021. The Company incurred share issuance costs of \$1,555.

On June 28, 2022, the Company completed its initial public offering ("Offering") and concurrent listing of the common shares in the capital of the Company on the Canadian Securities Exchange. Research Capital Corporation (the "Agent") acted as lead agent and sole bookrunner for the Company in connection with Offering.

The Offering completed with the issuance of 6,914,820 units (each a "Unit") for gross proceeds of \$3,111,669. Each Unit was issued at a price of \$0.45 and consisted of one common share and one share purchase warrant. Each warrant will be exercisable for a period of 24 months at a price of \$0.70 per share.

As compensation for services rendered by the agents in connection with the Offering, the Company paid a cash commission of \$140,854 and issued an aggregate of 313,007 non-transferable agent's options to acquire up to 313,007 common shares at a price of \$0.70 per common share until June 29, 2024. In addition, the Company paid a corporate finance fee of \$30,000, which was paid through the issuance of 66,667 Units, plus applicable taxes paid in cash. The Company incurred other share issuance costs of \$303,245.

The agent's options were valued at \$67,470 using the following Black-Scholes inputs: risk-free interest rate of 3.14%, volatility of 110% and expected life of 2 years. The expected volatility assumption is based on comparable public companies as the Company has limited trading history. The risk-free interest rate assumption is based on yield curves on Canadian government zero-coupon bonds with a remaining term equal to the stock options' expected life.

On August 4, 2022, the Company issued 555,555 common shares in connection to the acquisition of Tyrus (Note 5). On August 10, 2022, the Company issued 333,333 common shares in connection to the acquisition of Shift (Note 6).

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## b) Issued share capital (cont'd...)

*Period from September 16, 2020 to August 31, 2021*

During the period from September 16, 2020 to August 31, 2021, the Company repurchased its incorporation share for \$1 and cancelled the common share.

On March 5, 2021, the Company issued 10,000,000 common shares at \$0.015 to settle debt with related parties totalling \$150,000 (Note 13).

On April 16, 2021, the Company acquired all of the issued and outstanding shares of X1 for the deemed issuance of 1 common share of the Company in the reverse takeover transaction (Note 4). As the financial statements are considered a continuance of the operations of Rix due to the reverse takeover, all share numbers, share prices, and exercise prices in these consolidated financial statements have been adjusted, on a retroactive basis, to reflect this exchange.

On April 20, 2021, the Company completed a private placement totalling 13,000,000 shares at \$0.05 per share, for gross proceeds of \$650,000.

On May 21, 2021, the Company completed a private placement totalling 12,166,000 shares at \$0.15 per share, for gross proceeds of \$1,824,900.

On June 9, 2021, the Company completed a private placement totalling 434,250 common shares at \$0.35 per share for a value of \$151,988.

On June 25, 2021, the Company completed a private placement totalling 2,273,237 common shares at \$0.35 per share for a value of \$795,632.

On July 5, 2021, the Company completed a private placement totalling 384,200 common shares at \$0.35 per share for a value of \$134,470.

## c) Warrants

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, September 16, 2020 and August 31, 2021	-	\$ -
Issued	<u>6,981,487</u>	0.70
<b>Balance outstanding, August 31, 2022</b>	<b>6,981,487</b>	<b>\$ 0.70</b>

Warrants outstanding as at August 31, 2022:

	Number outstanding	Number exercisable	Exercise price	Expiry date
<b>Warrants</b>	<u>6,981,487</u>	<u>6,981,487</u>	<u>\$ 0.70</u>	June 29, 2024
	6,981,487	6,981,487		

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## d) Stock options and share-based payments

The Company has a stock option plan under the policies of the CSE which will not exceed 10% of the issued common shares of the Company. The stock option exercise price under each stock option shall not be less than the market value of the Company's common shares on the date of grant.

Stock option transactions are summarized as follows:

	Number of Options		Weighted Average Exercise Price
Balance, September 16, 2020 and August 31, 2021	-	\$	-
Granted	3,500,000		0.45
Issued	<u>313,007</u>		0.70
Balance outstanding, August 31, 2022	<u>3,813,007</u>	\$	<u>0.47</u>

Stock options outstanding as at August 31, 2022:

	Number outstanding	Number exercisable	Exercise price	Expiry date
<b>Options</b>	313,007	313,007	\$ 0.70	June 29, 2024
	<u>3,500,000</u>	<u>-</u>	<u>\$ 0.45</u>	June 29, 2027
	<u>3,813,007</u>	<u>313,007</u>		

As at August 31, 2022, the outstanding stock options had a weighted average remaining life of 4.16 (2021 – n/a) years.

During the year ended August 31, 2022, the Company granted 3,500,000 (2021 - \$nil) stock options with a weighted average fair value of \$0.38 (2021 – n/a) per option. The Company recognized share-based compensation expense of \$316,927 (2021 - \$nil) for options granted during the year and expects to recognize \$1,022,089 in future reporting periods when options vest.

Share-based payments expense is estimated using the Black-Scholes option pricing model. The expected volatility assumption is based on comparable public companies as the Company has limited trading history. The risk-free interest rate assumption is based on yield curves on Canadian government zero-coupon bonds with a remaining term equal to the stock options' expected life. The Company uses historical data to estimate option exercise, forfeiture and employee termination within the valuation model. The Company has not paid and does not anticipate paying dividends on its common shares.

The following weighted average assumptions were used for the Black-Scholes option-pricing model valuation of stock options vesting during the periods:

	Year ended August 31, 2022	Period from incorporation on September 30, 2020 to August 31, 2021
Risk-free interest rate	3.17%	-
Expected life of options	5 years	-
Expected annualized volatility	125%	-
Dividend rate	-	-
Forfeiture rate	-	-



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## e) Escrowed shares

As at August 31, 2022, there were 14,379,328 (2021 – n/a) common shares held in escrow as follows:

- i) 555,555 common shares held in escrow in connection with the Tyrus acquisition as described in Note 5. Every six months following the acquisition date, 25% of the common shares are released from escrow;
- ii) 333,333 common shares held in escrow in connection with the Shift acquisition as described in Note 6. Every six months following the acquisition date, 25% of the common shares are released from escrow;
- iii) 13,490,440 common shares held in escrow in connection with the public listing as described in Note 12(b). 1,498,938 common shares were released from escrow upon listing and every six months thereafter 15% of the common shares are released from escrow.

**13. RELATED PARTY TRANSACTIONS**

Key management personnel comprises the officers and directors of the Company. Payments to key management personnel are as follows;

	For the year ended August 31, 2022	For the period from September 16, 2020 to August 31, 2021
Consulting fees	\$ 320,082	\$ 42,983
Salaries and wages	\$ 52,627	\$ 6,211
Share-based compensation	\$ 229,481	\$ -

As at August 31, 2022, \$19,063 (2021 – \$7,487) was included in accounts payable and accrued liabilities owing to key management personnel. Amounts recorded in accounts payable are non-interest bearing and subject to normal trade terms.

In April 2021, Rix settled balances due to related parties totaling \$150,000 through the issuance of 10,000,000 common shares of Rix (Note 12).

**14. INCOME TAXES**

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 27.00% to income before income taxes. The reasons for the differences are as follows:

	For the year ended August 31, 2022	For the period from September 16, 2020 to August 31, 2021
Net loss before income tax	\$ (3,064,521)	\$ (2,014,622)
Statutory income tax rate	27.00%	27.00%
Expected income tax recovery	\$ (827,000)	\$ (544,000)
Foreign income tax rate difference, change in foreign exchange rates and other	(443,000)	(68,000)
Share issuance costs	(120,000)	(6,000)
Permanent differences	96,000	110,000
Adjustment to prior year's provision versus statutory returns	(91,000)	-
Changes in benefits not recognized	1,385,000	508,000
Income tax expense (recovery)	\$ -	\$ -

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The Company recognizes tax benefits on losses or other deductible amounts where it is probable the Company will generate future taxable income. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	August 31, 2022	August 31, 2021
Deferred tax assets:		
Non-capital losses	\$ 1,341,000	\$ 503,000
Share issue costs and other	<u>100,000</u>	<u>5,000</u>
	1,441,000	508,000
Unrecognized deferred tax assets	(1,441,000)	(508,000)
Deferred tax (liabilities):		
Intangible assets	<u>(33,000)</u>	<u>-</u>
Net deferred tax liability	<u>\$ (33,000)</u>	<u>\$ -</u>

As at August 31, 2022, the Company has Canadian non-capital losses of \$1,614,000 that may be applied to reduce future taxable income. If these losses are not used to offset future income, they will expire through the year ended August 31, 2042. Additionally, the Company has tax losses in the United Kingdom of \$558,000 which may be carried forward indefinitely subject to certain limitations. Tax losses in Malta total \$2,283,000 and may be carried forward indefinitely.

**15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT****Financial instruments**

Cash, accounts receivable, accounts payable and accrued liabilities and loan payable are carried at amortized cost. The Company considers that the carrying amount of these financial assets and liabilities measured at amortized cost to approximate their fair value due to the short-term nature of the financial instruments.

Acquisition consideration payable is comprised of cash components which approximate their fair value due. Valuations of the Bonus Payment due to Tyrus and Earnout payment due to Shift are subject to estimates with respect to revenue forecasts and discount rates under level 3 measurements. The Bonus Payment due to Tyrus has a maximum payment of US\$100,000. The Earnout payment due to Shift is measured at 7% of revenues generated by those assets which are not currently generating income to a maximum of US\$250,000.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

**Financial risk factors***Credit risk*

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets, including cash and accounts receivable. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions. As the Company's policy is to limit cash holdings to instruments issued by major international banks financial institutions, the credit risk is considered by management to be negligible. Accounts receivable include amounts due from the Government of Canada for input tax credits, which are not considered financial instruments, and talent management receivables. The Company considers these collectible in the short term and credit risk with respect to these amounts to be moderate.

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#### 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)

##### Financial risk factors (cont'd...)

###### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to pay financial instrument liabilities as they come due. As at August 31, 2022, the Company had working capital of \$1,707,036 (2021 – \$2,003,621). The Company's financial obligations are limited to accounts payable and accrued liabilities, loan payable, and consideration payable. Accounts payable and accrued liabilities are substantively due within 30 days. The loan payable was payable July 1, 2023 but was settled subsequent to year end. Cash components of consideration payable were due within approximately 35 days and have been paid subsequent to year end with the Earnout payments under the Shift Acquisition having annual payment dates from the closing of the transaction.

###### *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. As at August 31, 2022, the Company's financial assets and financial liabilities are not exposed to interest rate risk due to their short-term nature and maturity.

###### *Foreign currency risk*

The Company's has engaged a number of vendors in Europe and United States as that's where the main business activities of the Company are held. As such, the Company is exposed to foreign currency risk. Fluctuations in the exchange rate between the Canadian dollar with the Euro, UK Pound Sterling, and United States dollar may have an adverse effect on the Company's business and costs to proceed with preferred vendors.

As at August 31, 2022, the Company's net foreign denominated financial assets are as follows:

		Foreign currency		Canadian dollar equivalent
Euro	€	35,143	\$	46,252
United States Dollar	\$	(157,001)	\$	(205,844)
UK Pound Sterling	£	29,506	\$	44,970

Based on the above net exposures, a 5% change in the Canadian dollar to Euro and the Canadian dollar to UK Pound Sterling would increase the Company's comprehensive loss by approximately \$2,313 and \$1,978, respectively. A 5% change in the Canadian dollar to United States dollar would decrease the Company's comprehensive loss by approximately \$10,292. As at August 31, 2022, the Company has not hedged its exposure to currency fluctuations. The Company assessed its financial currency risk as moderate as at August 31, 2022.

#### 16. CAPITAL MANAGEMENT

The Company's capital management policy is to maintain a strong but flexible capital structure that optimizes the cost of capital, creditor and market confidence while sustaining the future development of the business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. The Company's capital structure includes shareholders' equity of \$2,251,607 (2021 – \$2,003,621). In order to maintain or adjust the capital structure, the Company may from time to time issue shares, seek debt financing and adjust its capital spending to manage current and working capital requirements. The Company did not change its capital management policy during the year period ended August 31, 2022. The Company is not subject to externally imposed capital requirements.

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The business of the Company is development of esports teams and digital media which is considered one business segment.

The Company's non-current assets are situated as follows:

<b>August 31, 2022</b>	<b>Canada</b>	<b>United States</b>	<b>Total</b>
Customer relationships	\$ -	\$ 104,671	\$ 104,671
Domain name	217,555		217,555
Goodwill	-	281,014	281,014
	<u>\$ 217,555</u>	<u>\$ 385,685</u>	<u>\$ 603,240</u>

Revenues, in Canadian dollars, in each of these geographic location for the year ended August 31, 2022 and period from September 16, 2020 to August 31, 2021 as follows:

<b>Revenue by geographic location</b>	<b>For the year ended August 31, 2022</b>	<b>For the period from September 16, 2020 to August 31, 2021</b>
Germany	\$ 89,246	\$ -
United States	274,761	25,792
All other countries	<u>26,952</u>	<u>1,348</u>
	<u>\$ 390,959</u>	<u>\$ 27,140</u>

**18. SUBSEQUENT EVENTS***Acquisition of Octane.GG*

On October 4, 2022, the Company completed an asset purchase agreement ("Octane APA") to acquire the assets of Octane.GG ("Octane"). Octane is an online statistical and news outlet focused on the popular video game Rocket League.

Pursuant to the Octane APA, the Company acquired 100% of the assets comprising Octane, intellectual property and non-compete clauses, for an aggregate price of US\$35,000 cash, of which US\$17,500 is payable at closing (paid) and US\$17,500 payable within 45 days after closing (completed).

As at August 31, 2022, the Company had incurred \$4,540 in costs with respect to the Octane APA which has been deferred.

*Tyrus name change*

On October 19, 2022, Tyrus was renamed to 'X1 Talent Corp.'

*Stock option grant*

On November 7, 2022, the Company granted 250,000 options to consultants of the Company to purchase common shares of the Company at an exercise price of \$0.45 per common share. The options vest 1/3 on the first, second and third anniversary of the Tyrus and Shift acquisition dates, respectively. The options expire five years following the date of grant.

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**18. SUBSEQUENT EVENTS** (cont'd...)

*Cessation of Rix's operations*

On December 9, 2022, the Company announced that it will cease operations of Rix which holds and operates its esports franchise. Rix currently has one team competing in League of Legends: Wild Rift. Rix will no longer compete in Wild Rift effective March 9, 2023 as a result of Riot Games' recent announcement that it will discontinue support for Wild Rift esports operations outside of Asia. As this team represents the sole team competing in the esports industry within the Rix franchise, the operations supporting the team are being terminated as well.