

X1 ENTERTAINMENT GROUP INC.

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
(Expressed in Canadian Dollars)**

**FOR THE SIX MONTHS ENDED FEBRUARY 29, 2024
AND FEBRUARY 28, 2023**

X1 ENTERTAINMENT GROUP INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Unaudited)

(Expressed in Canadian Dollars)

AS AT

	February 29, 2024	August 31, 2023
ASSETS		
Current		
Cash	\$ 381,477	\$ 8,359
Accounts receivable	16,525	11,753
Prepaid expenses	27,832	-
	425,834	20,112
Deferred acquisition costs (Note 3)	66,510	-
	\$ 492,344	\$ 20,112
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current		
Accounts payable and accrued liabilities (Note 11)	\$ 292,792	\$ 406,956
Loans payable (Note 7)	-	143,339
Convertible debentures (Note 8)	466,356	-
	759,148	550,295
Shareholders' deficiency		
Share capital (Note 10)	7,462,999	6,962,999
Equity portion of convertible debentures (Note 8)	53,191	-
Reserves (Note 10)	67,470	794,365
Accumulated other comprehensive income (loss)	2,784	(26,915)
Deficit	(7,853,248)	(8,260,632)
	(266,804)	(530,183)
	\$ 492,344	\$ 20,112

Approved and authorized by the Board on April 29, 2024.

"Latika Prasad"

Director

"Adam Giddens"

Director

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

X1 ENTERTAINMENT GROUP INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Unaudited)

(Expressed in Canadian Dollars)

	Three months ended		Six months ended	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
EXPENSES				
Accretion expense (Note 8)	\$ 8,865	\$ -	\$ 13,298	\$ -
Advertising and promotion	-	-	-	18,363
Business development	15,000	75,000	30,000	140,000
Consulting (Note 11)	39,000	117,587	78,000	253,790
Directors' fees (Note 11)	15,000	15,000	30,000	15,000
Foreign exchange	275	2,763	965	8,805
Insurance	-	27,100	-	54,200
Interest expense	4,167	-	9,120	-
Investor relations	-	33,710	-	134,840
Listing fee	10,899	7,821	16,748	15,642
Office and miscellaneous	9,798	10,294	10,991	42,527
Professional fees	38,600	31,511	87,192	69,429
Salaries and wages	-	86,011	-	152,547
Share-based compensation (Notes 10 and 11)	-	448,397	-	899,724
Shareholder communications and filing fees	6,031	14,858	6,621	31,297
Technology marketing and web development	5,000	85,463	5,000	187,838
Transfer agent	3,420	3,362	9,371	6,534
Loss from operations	<u>(156,055)</u>	<u>(958,877)</u>	<u>(297,306)</u>	<u>(2,030,536)</u>
Dissolution of X1 Talent	(22,205)	-	(22,205)	-
Consideration payable recovery (Note 4)	-	60,366	-	60,366
Impairment of domain name (Note 4)	-	(230,877)	-	(230,877)
Net loss for the period from continuing operations	<u>(178,260)</u>	<u>(1,129,388)</u>	<u>(319,511)</u>	<u>(2,201,047)</u>
Net loss for the period from discontinued operations (Note 16)	-	(303,739)	-	(969,702)
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign exchange gain (loss) on translating foreign operations	(28)	(4,977)	7,494	(11,223)
Comprehensive loss for the period	<u>\$ (178,288)</u>	<u>\$ (1,438,104)</u>	<u>\$ (312,017)</u>	<u>\$ (3,181,972)</u>
Basic and diluted loss per common share from continuing operations	\$ (0.01)	\$ (0.12)	\$ (0.03)	\$ (0.23)
Basic and diluted loss per common share from discontinued operations	\$ -	\$ (0.03)	\$ -	\$ (0.10)
Weighted average number of common shares outstanding*	12,262,754	9,515,498	10,889,127	9,515,498

*Share amounts have been updated to reflect the share consolidation – refer to Note 10.

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

X1 ENTERTAINMENT GROUP INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited)
(Expressed in Canadian Dollars)
FOR THE SIX MONTHS ENDED,

	February 29, 2024	February 28, 2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period from continuing operations	\$ (319,511)	\$ (2,201,047)
Non-cash items:		
Accretion expense	13,298	-
Accrued interest expense	9,120	-
Consideration payable recovery	-	(60,366)
Dissolution of X1 Talent	22,205	-
Impairment of domain name	-	230,877
Share-based compensation	-	899,724
Unrealized foreign exchange	(103)	-
Changes in non-cash working capital items:		
Accounts receivable	(4,772)	18,775
Prepaid expenses	(27,832)	374,277
Accounts payable and accrued liabilities	(161,299)	127,169
Net cash used in operating activities from continuing operations	<u>(468,894)</u>	<u>(610,591)</u>
Net cash generated by (used in) operating activities from discontinued operations	<u>7,493</u>	<u>(711,256)</u>
	<u>(461,401)</u>	<u>(1,321,847)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of ShiftRLE	-	(32,777)
Acquisition of Octane	-	(57,194)
Deferred acquisition costs	<u>(19,375)</u>	<u>-</u>
Net cash used in investing activities from continuing operations	<u>(19,375)</u>	<u>(89,971)</u>
Net cash used in investing activities from discontinued operations	<u>-</u>	<u>(131,110)</u>
	<u>(19,375)</u>	<u>(221,081)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Private placement	500,000	-
Convertible debentures	353,894	-
Loan funds	<u>-</u>	<u>35,000</u>
Net cash generated financing activities from continuing operations	<u>853,894</u>	<u>35,000</u>
Net cash used in financing activities from discontinued operations	<u>-</u>	<u>(37,220)</u>
	<u>853,894</u>	<u>(2,220)</u>
Change in cash for the period	373,118	(1,545,148)
Cash, beginning of period	<u>8,359</u>	<u>1,624,231</u>
Cash, end of period	<u>\$ 381,477</u>	<u>\$ 79,083</u>

During the six months ended February 29, 2024, the Company settled \$146,106 in existing debt through the issuance of convertible debentures (Note 8) and had \$47,135 in deferred acquisition costs in accounts payable and accrued liabilities (Note 3).

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

X1 ENTERTAINMENT GROUP INC.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

(Unaudited)

(Expressed in Canadian Dollars)

	<u>Share Capital</u>		Equity Portion of Convertible Debentures	Reserves	Accumulated Other Comprehensive Income (Loss)	Deficit	Total
	Number*	Amount					
Balance, August 31, 2022	9,515,501	\$ 6,962,999	\$ -	\$ 384,397	\$ (16,646)	\$ (5,079,143)	\$ 2,251,607
Share-based compensation	-	-	-	899,724	-	-	899,724
Comprehensive loss for the period	-	-	-	-	(11,223)	(3,170,749)	(3,181,972)
Balance, February 28, 2023	9,515,501	6,962,999	-	1,284,121	(27,869)	(8,249,892)	(30,641)
Forfeited options	-	-	-	(229,546)	-	229,546	-
Share-based compensation recovery	-	-	-	(260,210)	-	-	(260,210)
Comprehensive loss for the period	-	-	-	-	954	(240,286)	(239,332)
Balance, August 31, 2023	9,515,501	6,962,999	-	794,365	(26,915)	(8,260,632)	(530,183)
Private placement	7,142,857	500,000	-	-	-	-	500,000
Issuance of convertible debentures	-	-	53,191	-	-	-	53,191
Cancelled and forfeited options	-	-	-	(726,895)	-	726,895	-
Dissolution of X1 Talent	-	-	-	-	22,205	-	22,205
Comprehensive loss for the period	-	-	-	-	7,494	(319,511)	(312,017)
Balance, February 29, 2024	16,658,358	\$ 7,462,999	\$ 53,191	\$ 67,470	\$ 2,784	\$ (7,853,248)	\$ (266,804)

*On November 6, 2023, the Company completed a share consolidation on the basis of 1 new common share for 5 old common shares – refer to Note 10. For accounting purposes, recognition of the share consolidation has been made retroactively such that all share and per share numbers have been adjusted to reflect the share consolidation.

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

X1 ENTERTAINMENT GROUP INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

FOR THE SIX MONTHS ENDED FEBRUARY 29, 2024 AND FEBRUARY 28, 2023

1. NATURE OF OPERATIONS AND GOING CONCERN

X1 Entertainment Group Inc. (with its subsidiaries, collectively, the “Company” or “X1”) was a portfolio company that had targeted assets across gaming, esports, media, and entertainment industries and is currently evaluating possible acquisitions. X1 was incorporated under the *Business Corporations Act* (British Columbia) on January 9, 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.

The Company trades on the Canadian Securities Exchange (“CSE”) under the symbol “XONE”. The Company is also listed on the OTCQX under the symbol “XOEEF”. On November 6, 2023, the Company completed a share consolidation on the basis of 1 new common share for 5 old common shares. For accounting purposes, recognition of the share consolidation has been made retroactively such that all share and per share numbers have been adjusted to reflect the share consolidation.

On August 4, 2022, the Company completed the acquisition of the issued and outstanding membership interests of Tyrus, LLC. On October 19, 2022, Tyrus was renamed to ‘X1 Talent Corp.’ (“X1 Talent”). On April 6, 2023, the Company announced the wind-down of X1 Talent Corp. operations.

On August 10, 2022, the Company completed the asset purchase agreement to acquire the assets of ShiftRLE (“Shift”). On September 28, 2022, the Company completed the asset purchase agreement to acquire the assets of Octane.GG (“Octane”). The assets of Octane were incorporated into the Shift platform after acquisition. On March 17, 2023, the Company sold the consolidated assets of Shift (Note 4).

In the year ended August 31, 2023, the Company ceased operations of Rix.GG Europe Ltd. (“Rix”) which holds and operates its esports franchise. The Company discontinued operations of its Esports segment (consisting of Forward Agency Ltd., Mechanics Agency Ltd. and Rix.GG Europe Ltd.) and Talent Management segment (consisting of X1 Talent Corp.) (Note 16). During the six months ended February 29, 2024, the Company dissolved X1 Talent.

During the six months ended February 29, 2024, the Company entered into a definitive agreement with SKRR Exploration Inc. (“SKRR”) on the Manson Bay Project (Note 3).

Going Concern

These condensed consolidated interim 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 from continuing operations for the period ended February 29, 2024 of \$319,511 (February 28, 2023 - \$2,201,047) and at that date had an accumulated deficit of \$7,853,248 (August 31, 2023 - \$8,260,632). The Company will need to raise additional funds in the short term to continue to be able to operate, meet its commitments and execute on its acquisitions as it moves towards profitable operations. Although the Company has been able in the past to obtain financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms that are acceptable to the Company. These material uncertainties may cast significant doubt about the Company’s ability to continue as a going concern. Accordingly, these condensed consolidated interim 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.

X1 ENTERTAINMENT GROUP INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

FOR THE SIX MONTHS ENDED FEBRUARY 29, 2024 AND FEBRUARY 28, 2023

2. BASIS OF PREPARATION

Statement of compliance

These condensed interim consolidated financial statements are prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* under International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). These condensed interim consolidated financial statements follow the same accounting policies and methods of application as the most recent annual consolidated financial statements of the Company. These condensed interim consolidated financial statements do not contain all of the information required for full annual financial statements. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the Company’s most recent annual consolidated financial statements, which were prepared in accordance with IFRS as issued by the IASB.

Basis of presentation

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

Basis of consolidation

The condensed consolidated interim 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
X1 Talent Corp. (formerly Tyrus, LLC)*	US dollar	United States

* Dissolved on December 1, 2023.

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 condensed consolidated interim 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 condensed consolidated interim financial statements and the reported expenses during the year. 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.

X1 ENTERTAINMENT GROUP INC.

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(Unaudited)

(Expressed in Canadian Dollars)

FOR THE SIX MONTHS ENDED FEBRUARY 29, 2024 AND FEBRUARY 28, 2023

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

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

The key areas of judgment applied in the preparation of the condensed consolidated interim 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. The acquisition of Octane was considered to be an asset acquisition (Note 4).

- 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.

- 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 an 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. The recoverable amount of the cash-generating unit ("CGU") is 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.

- 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 condensed consolidated interim 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.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

FOR THE SIX MONTHS ENDED FEBRUARY 29, 2024 AND FEBRUARY 28, 2023

2. BASIS OF PREPARATION

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

- Discontinued operations

A discontinued operation is a component of the Company that either has been abandoned, disposed of, or is classified as held for sale, and: (i) represents a separate major line of business or geographical area of operation; (ii) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operation.

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

- Identification and valuation of intangible assets

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.

- Share-based payments

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.

- Non-monetary transactions

The Company measures an asset exchanged or transferred in non-monetary transactions at the more reliably measurable of the fair value of the asset given up and the fair value of the asset received.

- Convertible debentures

Convertible debentures are separated into their liability and equity components using the residual method. The fair value of the liability component at the time of issue is determined based on the estimated borrowing rate for a similar instrument without the conversion feature, which is subject to measurement uncertainty.

X1 ENTERTAINMENT GROUP INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

FOR THE SIX MONTHS ENDED FEBRUARY 29, 2024 AND FEBRUARY 28, 2023

3. MANSON BAY PROJECT

On February 7, 2024, the Company entered into a definitive asset purchase agreement (the “Definitive Agreement”) with SKRR pursuant to which the Company has agreed to acquire 100% legal and beneficial interest in thirteen contiguous mineral claims totalling 4,293 hectares in the province of Saskatchewan, known as the Manson Bay Project (the “Property”) for a consideration of 1,000,000 common shares in the capital of the Company. The price of each common share will be based on a concurrent financing.

Pursuant to the terms and conditions of the Definitive Agreement, the Company has agreed to acquire (i) 100% of SKRR’s rights, title, and interest in the Property, and (ii) all data and information in the possession of SKRR with respect to the Property and the activities conducted thereon (the “Data and Information”, and together with the Property, the “Purchased Assets”).

The Company’s acquisition of the Purchased Assets (the “Transaction”) is subject to a number of customary conditions including, but not limited to, meeting all conditions required by the CSE to receive approval of the Transaction.

Following the completion of the Transaction, the Company will be a mineral exploration company primarily engaged in exploration of the Property, and the identification and acquisition of additional mineral exploration properties. The Property, which is in the exploration stage, will be the Company’s first material mineral property.

As at February 29, 2024, the Company had incurred \$66,510 (August 31, 2023 - \$nil) in costs with respect to the Definitive Agreement which has been deferred.

4. SHIFTRLE AND OCTANE.GG

On September 28, 2022, the Company completed an asset purchase agreement (“APA”) to acquire the assets of Octane. Octane is an online statistical and news outlet focused on the popular video game Rocket League. Under the concentration test of IFRS 3, *Business Combination*, the transaction was determined to be an asset acquisition with substantially all of the fair value attributable to the domain name of Octane as the purchased assets are concentrated in the domain name of Octane and therefore not a business pursuant to the concentration test.

Pursuant to the APA, the Company acquired 100% of the assets comprising Octane and have the benefit of ongoing services by the key personnel of Shift for an aggregate price of US\$35,000 in cash payments, due within 45 days of closing (fully paid).

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

Consideration and intangible asset acquired:	
Cash (US\$35,000 fully paid)	\$ 47,509
Transaction costs	<u>14,225</u>
Value of Domain Name	<u>\$ 61,734</u>

The assets of Octane were incorporated into the Company’s Shift platform after acquisition. Shift is an online news outlet focused on the popular video game Rocket League.

In the year ended August 31, 2023, the Company entered into an agreement to sell the assets of Shift, inclusive of Octane.gg, in exchange for the vendors, and ongoing service providers, forgoing any termination payments in connection with their consulting agreements at a fair value of US\$35,250 (\$48,412) in accordance with Level 3 of the fair value hierarchy. Consequently, the Company has recognized an impairment against domain name assets of \$230,877 and recovery of consideration payable on earnout payments of \$60,366 in the three- and six-months period ended February 28, 2023.

X1 ENTERTAINMENT GROUP INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

FOR THE SIX MONTHS ENDED FEBRUARY 29, 2024 AND FEBRUARY 28, 2023**5. INTANGIBLE ASSETS**

	Domain Name	Customer Relationships	Total
Cost			
Balance, August 31, 2022	\$ 217,555	\$ 109,302	\$ 326,857
Acquisition (Note 4)	61,734	-	61,734
Disposal (Notes 4 and 16)	(279,289)	-	(279,289)
Impairment	-	(109,302)	(109,302)
Balance, August 31, 2023 and February 29, 2024	\$ -	\$ -	\$ -
Accumulated amortization			
Balance, August 31, 2022	\$ -	\$ 4,631	\$ 4,631
Amortization	-	14,312	14,312
Impairment	-	(18,943)	(18,943)
Balance, August 31, 2023 and February 29, 2024	\$ -	\$ -	\$ -
Net book value			
Balance, August 31, 2023	\$ -	\$ -	\$ -
Balance, February 29, 2024	\$ -	\$ -	\$ -

During the year ended August 31, 2023, the Company determined indicators of impairment existed with respect to the customer relationships in X1 Talent leading to a test of a recoverable amount, which resulted in an impairment expense of \$109,302 in accordance with Level 3 of the fair value hierarchy.

During the three- and six-months period ended February 28, 2023, the Company recognized a loss on sale of domain name of \$230,877, after selling Shift for \$48,412 (Note 4).

6. GOODWILL

Goodwill	
Balance, August 31, 2022	281,014
Impairment (Note 16)	(281,014)
Balance, August 31, 2023 and February 29, 2024	\$ -

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.

Goodwill impairment testing is based on a value in use ("VIU") approach and is completed for the X1 Talent 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%.

X1 ENTERTAINMENT GROUP INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

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FOR THE SIX MONTHS ENDED FEBRUARY 29, 2024 AND FEBRUARY 28, 2023**6. GOODWILL (cont'd...)**

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. The Company determined indicators of impairment existed with respect to goodwill leading to an impairment charge, which resulted in an impairment expense of \$281,014 in accordance with Level 3 of the fair value hierarchy recognized in the three- and six-months period ended February 28, 2023. Ongoing challenges in X1 Talent persisted and culminated in the Company winding down operations of X1 Talent during the year ended August 31, 2023.

7. LOANS PAYABLE

With the acquisition of X1 Talent, the Company assumed a loan payable to a third party of \$36,180 (US\$27,595). The loan was non-interest bearing and repaid during the year ended August 31, 2023.

During the year ended August 31, 2023, the Company received loans from a third party and a director of the Company. The interest on the principal amount was at a rate of 10% per annum and the amounts are due on demand. The loans were settled during the six months ended February 29, 2024, through the issuance of convertible debentures (Note 8).

Loans payable

Balance, August 31, 2022	\$	36,180
Foreign exchange		102
Funds received		137,817
Funds repaid		(36,180)
Interest expense		5,420
		<u>5,420</u>
Balance, August 31, 2023	\$	143,339
Foreign exchange		(103)
Settlement (Note 8)		(146,106)
Interest expense		2,870
		<u>2,870</u>
Balance, February 29, 2024	\$	-

8. CONVERTIBLE DEBENTURES**5% Convertible debentures**

Principal amount: \$500,000		
Liability amount, upon recognition	\$	446,809
Accretion expense		13,298
Accrued interest payable		6,249
		<u>6,249</u>
Balance, February 29, 2024	\$	466,356

On November 15, 2023, the Company completed a non-brokered private placement of unsecured convertible debentures ("Debentures") for gross proceeds of \$500,000 (the "Offering"). A portion of the Offering, \$146,106, was completed through the distribution of Debentures in settlement of existing loans (Note 7).

The Debentures mature on the date (the "Maturity Date") that is 12 months from the date of issuance (the "Closing Date"). The principal amount of Debentures may be converted into units of the Company ("Units"), in whole or in part, at the option of the holder, at any time following the Closing Date but on or before the Maturity Date, into Units at a price of \$0.055 per Unit (such date of conversion being referred to herein as the "Conversion Date").

The Debentures bear interest at a rate of 5.0% per annum from the Closing Date, payable on the earlier of the Maturity Date or the Conversion Date. The Company has the right to pay all accrued and unpaid interest either in cash or in Units at a price of \$0.055 per unit, in its sole discretion, and on the Maturity Date also has the right to convert the principal amount of the Debentures into Units rather than repay in cash.

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FOR THE SIX MONTHS ENDED FEBRUARY 29, 2024 AND FEBRUARY 28, 2023**8. CONVERTIBLE DEBENTURES (cont'd...)**

Each Unit will consist of one common share (a "Share") and one Share purchase warrant (a "Warrant"). Each Warrant will entitle the holder thereof to acquire one additional Share (a "Warrant Share") at a price of \$0.055 per Warrant Share for a period of 24 months from the date of issuance.

For accounting purposes, the Debentures are separated into their liability and equity components using the residual method. The fair value of the liability component at the time of issue is determined based on an estimated rate of 17.50% for debentures without the conversion feature. The fair value of the equity component is determined as the difference between the face value of the convertible debenture and the fair value of the liability component. After initial recognition, the liability component is carried on an amortized cost basis and will be accreted to its face value over the term to maturity of the convertible debentures at an effective rate of 17.50%.

During the six months ended February 29, 2024, the Company incurred interest expense of \$6,249 and accretion expense of \$13,298 on the convertible debentures, which has been recorded on the condensed consolidated interim statement of operations and comprehensive loss.

9. ACQUISITION CONSIDERATION

The following details the balances of acquisition consideration payments due related to the X1 Talent and Shift acquisitions in the year ended August 31, 2023:

Opening liability, August 31, 2022	\$	224,254
Payable (paid) pursuant to X1 Talent acquisition		(131,110)
Payable (paid) pursuant to Shift acquisition		(32,778)
Fair value of Shift Earnout payment ⁽¹⁾		<u>(60,366)</u>
Balance, August 31, 2023 and February 29, 2024	\$	-

⁽¹⁾ 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. During the year ended August 31, 2023, Shift generated revenue of \$nil, which resulted in no earnout payout; further, the Company entered into an agreement to sell the assets of Shift which curtails any possibility of future earnings and reduces the earn-out payment estimation to \$nil.

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FOR THE SIX MONTHS ENDED FEBRUARY 29, 2024 AND FEBRUARY 28, 2023**10. SHARE CAPITAL AND RESERVES**

a) Authorized share capital

Unlimited number of common shares without par value.

On November 6, 2023, the Company completed a share consolidation on the basis of 1 new common share for 5 old common shares. For accounting purposes, recognition of the share consolidation has been made retroactively such that all share and per share numbers have been adjusted to reflect the share consolidation.

b) Issued share capital

Period ended February 29, 2024

On January 25, 2024, the Company completed a non-brokered private placement of 7,142,857 units (the "Units") at a price of \$0.07 for gross proceeds of \$500,000. Each Unit is comprised of one common share in the capital of the Company (a "Share") and one share purchase warrant (a "Warrant"). Each Warrant entitles the holder thereof to acquire one additional Share (a "Warrant Share") at a price of \$0.10 per Warrant Share for a period of 24 months from the date of closing.

Year ended August 31, 2023

There were no shares issued during the year ended August 31, 2023.

c) Warrants

Warrants have been updated to reflect the share consolidation.

Warrant transactions are summarized as follows:

	Number of Warrants		Weighted Average Exercise Price
Balance, August 31, 2022 and 2023	1,396,297	\$	3.50
Issued	<u>7,142,857</u>		0.10
Balance outstanding and exercisable, February 29, 2024	<u>8,539,154</u>	\$	0.66

Warrants outstanding as at February 29, 2024:

	Number outstanding	Number exercisable	Exercise price	Expiry date
Warrants	1,396,297	1,396,297	\$ 3.50	June 29, 2024
	<u>7,142,857</u>	<u>7,142,857</u>	<u>\$ 0.10</u>	January 25, 2026
	<u>8,539,154</u>	<u>8,539,154</u>		

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d) Stock options and share-based payments

Stock options have been updated to reflect the share consolidation.

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. An option shall be granted as fully vested unless a vesting schedule is imposed by the Board as a condition of the grant date.

Stock option transactions are summarized as follows:

	Number of Options		Weighted Average Exercise Price
Balance, August 31, 2022	762,601	\$	2.35
Forfeited	(370,000)		2.25
Granted	<u>50,000</u>		2.25
Balance, August 31, 2023	442,601		2.43
Cancelled	(360,000)		2.25
Forfeited	<u>(20,000)</u>		2.25
Balance outstanding and exercisable, February 29, 2024	62,601	\$	3.50

Stock options outstanding as at February 29, 2024:

	Number outstanding	Number exercisable	Exercise price	Expiry date
Options	62,601	62,601	\$ 3.50	June 29, 2024

As at February 29, 2024, the outstanding stock options had a weighted average remaining life of 0.33 (August 31, 2023 – 3.41) years.

During the six months ended February 29, 2024, the Company granted nil (2023 – 50,000) stock options with a weighted average fair value of \$nil (2023 – \$0.29) per option. The Company recognized share-based payments expense of \$nil (2023 - \$899,724) for options granted and vesting during the period.

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:

	Six months ended February 29, 2024	Six months ended February 28, 2023
Risk-free interest rate	n/a	3.77%
Expected life of options	n/a	5 years
Expected annualized volatility	n/a	125%
Dividend rate	-	-
Forfeiture rate	-	-

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10. SHARE CAPITAL AND RESERVES (cont'd...)

e) Escrowed shares

As at February 29, 2024, there were 1,349,044 (August 31, 2023 – 1,798,725) common shares held in escrow in connection with the public listing in June 2022. 299,788 common shares were released from escrow upon listing and every six months thereafter 15% of the common shares are released from escrow.

11. RELATED PARTY TRANSACTIONS

Key management personnel comprises the officers and directors of the Company. Amounts paid or accrued to key management personnel are as follows:

	Six months ended February 29, 2024		Six months ended February 28, 2023	
Consulting fees ⁽¹⁾	\$	78,000	\$	205,290 ⁽²⁾
Directors' fees	\$	30,000	\$	15,000
Share-based compensation	\$	-	\$	620,738

(1) Consulting fees include fees to the former CEO's of \$21,000 (2023 - \$135,057).

(2) Consulting fees include fees to the former CFO of \$nil (2023 - \$15,250).

As at February 29, 2024, \$134,464 (August 31, 2023 – \$191,756) 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. The Company has loans payable to a director of \$nil (August 31, 2023 - \$59,763) as at February 29, 2024 (Note 7).

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

Cash, accounts payable and accrued liabilities, loans payable and convertible debentures are carried at amortized cost. With the exception of convertible debentures, 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. The settlement value of the convertible debentures as at February 29, 2024 was \$506,249 which equals the principal and accrued interest.

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. 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. Accounts receivable are written off where there is no reasonable expectation of recovery due to supporting indicators. The Company considers these collectible in the short term and credit risk with respect to these amounts to be low.

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12. 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 February 29, 2024, the Company had working capital deficiency of \$333,314 (August 31, 2023 – \$530,183). The Company's financial obligations are limited to accounts payable and accrued liabilities and acquisition consideration payable. Accounts payable and accrued liabilities are substantively due within 30 days. The Company's remaining undiscounted contractual obligation for the convertible debentures is \$506,249 (August 31, 2023 - \$nil) which are due on November 15, 2024.

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 February 29, 2024, 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

Following the wind-down of foreign operations, the Company's exposure to foreign currency risk has been substantially reduced. Financial instruments denominated in foreign currencies are not substantial. As at February 29, 2024, the Company has not hedged its exposure to currency fluctuations. The Company assessed its foreign currency risk as low as at February 29, 2024.

13. 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' deficiency of \$266,804 (August 31, 2023 – \$530,183). 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 six months ended February 29, 2024. The Company is not subject to externally imposed capital requirements.

14. REVENUE

	Three months ended February 29, 2024	Three months ended February 28, 2023	Six months ended February 29, 2024	Six months ended February 28, 2023
Revenue				
Content revenue	\$ -	\$ 32,494	\$ -	\$ 71,856
Prize money	-	5,882	-	25,192
Royalties from in-game purchases	-	504	-	3,212
Talent fees	-	49,937	-	207,441
	<u>\$ -</u>	<u>\$ 88,817</u>	<u>\$ -</u>	<u>\$ 307,701</u>

During the six months ended February 29, 2024, the Company received \$nil (2023 - \$359,277) in content revenue and remitted \$nil (2023 - \$287,421) back to the talent.

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Through March 2023, the business of the Company was the development of esports teams and digital media talent management, which was considered two business segments.

Revenues, in Canadian dollars, in each of these geographic location for the six months ended February 29, 2024 and February 28, 2023 are as follows:

Esports

Revenue by geographic location	Six months ended February 29, 2024	Six months ended February 28, 2023
United States	\$ -	\$ 19,994
All other countries	-	8,410
	\$ -	\$ 28,404

Talent Management

Revenue by geographic location	Six months ended February 29, 2024	Six months ended February 28, 2023
United States	\$ -	\$ 232,114
All other countries	-	47,183
	\$ -	\$ 279,297

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FOR THE SIX MONTHS ENDED FEBRUARY 29, 2024 AND FEBRUARY 28, 2023**16. DISCONTINUED OPERATIONS**

During the year ended August 31, 2023, the Company considered its Esports segment and Talent Management segment to have met the definition of discontinued operations and as such, assets, liabilities, and results of operations that can be distinguished operationally and for financial reporting purposes from the rest of the Company have been terminated and reported separately in the condensed consolidated interim financial statements. Factors that led to the abandoning of the Esports segment and Talent Management segment included the reduction in internal workforce and missed revenue targets.

Esports

For the three and six months ended February 29, 2024 and February 28, 2023, the loss from discontinued operations relate to the following:

Esports	Three months ended February 29, 2024	Three months ended February 28, 2023	Six months ended February 29, 2024	Six months ended February 28, 2023
Revenue (Note 14)	\$ -	\$ 6,386	\$ -	\$ 28,404
EXPENSES				
Advertising and promotion	-	6	-	199
Esports player, team and game expenses	-	67,936	-	159,409
Foreign exchange	-	(1,631)	-	(923)
Office and miscellaneous	-	15,959	-	49,158
Professional fees	-	15,545	-	31,030
Salaries and wages	-	35,709	-	82,722
Technology marketing and web development	-	4,224	-	12,609
Loss from discontinued operations	\$ -	\$ (131,362)	\$ -	\$ (305,800)

Cash flows generated by discontinued operations for the six months ended February 29, 2024 and February 28, 2023 are as follows:

Esports	2024	2023
CASH FLOWS	\$	\$
Operating activities	7,493	(379,740)
Investing activities	-	-
Financing activities	-	-
Cash flows from discontinued operations	\$ 7,493	\$ (379,740)

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For the three and six months ended February 29, 2024 and February 28, 2023, the loss from discontinued operations relate to the following:

Talent Management	Three months ended February 29, 2024	Three months ended February 28, 2023	Six months ended February 29, 2024	Six months ended February 28, 2023
Revenue (Note 14)	\$ -	\$ 82,431	\$ -	\$ 279,297
EXPENSES				
Amortization	-	-	-	14,312
Bad debt expense	-	18,828	-	32,977
Consulting	-	45,994	-	110,511
Office and miscellaneous	-	42,536	-	99,287
Salaries and wages	-	144,077	-	337,293
Technology marketing and web development	-	3,373	-	10,237
Loss from operations	-	172,377	-	325,320
Impairment of goodwill (Note 6)	-	-	-	281,014
Impairment of intangibles (Note 5)	-	-	-	90,359
Tax recovery	-	-	-	(32,791)
Loss from discontinued operations	\$ -	\$ (172,377)	\$ -	\$ (663,902)

Cash flows used by discontinued operations for the six months ended February 29, 2024 and February 28, 2023 are as follows:

Talent Management	2024	2023
CASH FLOWS	\$	\$
Operating activities	-	(331,516)
Investing activities	-	(131,110)
Financing activities	-	(37,220)
Cash flows from discontinued operations	\$ -	\$ (499,846)