

Condensed Consolidated Interim Financial Statements

# **NORTHSTAR GAMING HOLDINGS INC.**

Three months ended March 31, 2023 and March 31, 2022  
(Expressed in Canadian dollars)  
(Unaudited)

# NORTHSTAR GAMING HOLDINGS INC.

Condensed Consolidated Interim Statements of Financial Position  
(Expressed in Canadian dollars)  
(Unaudited)

	<u>March 31</u> <u>2023</u>	<u>December 31</u> <u>2022</u>
<b>Assets</b>		
<u>Current assets</u>		
Cash and cash equivalents	\$ 7,065,376	\$ 1,178,977
Restricted cash related to performance guarantee	100,000	100,000
Player deposits on hand	665,588	490,630
Subscription receipts held in escrow (note 12)	-	5,075,000
Proceeds from convertible debenture held in escrow (note 12)	-	7,250,000
Amount due from payment processors	135,187	161
Accounts receivable	607,682	1,394,866
Mark to market on open events (note 8)	4,268	8,203
Prepaid expenses and deposits	784,329	1,053,961
Total current assets	<u>9,362,430</u>	<u>16,551,798</u>
Equipment (note 9)	30,885	30,138
Intangible assets (note 10)	483,809	473,666
	<u>514,694</u>	<u>503,804</u>
<b>Total assets</b>	<b><u>\$ 9,877,124</u></b>	<b><u>\$ 17,055,602</u></b>
<b>Liabilities and Shareholders' Deficit</b>		
<u>Current liabilities</u>		
Accounts payable and accrued liabilities	\$ 5,078,524	\$ 6,401,719
Subscription receipts owed to subscribers (note 12)	-	5,075,000
Due to related party (note 16)	909,408	1,381,103
Liability for player deposits on hand	665,588	490,630
Player loyalty bonuses	50,167	19,400
Convertible debenture (note 12)	-	12,250,000
Current portion redeemable preferred shares (note 11)	1,075,848	6,982,917
Total current liabilities	<u>7,779,535</u>	<u>32,600,769</u>
Redeemable preferred shares (note 11)	6,096,469	-
Total liabilities	<u>13,876,004</u>	<u>32,600,769</u>
<u>Shareholders' deficit</u>		
Share capital (note 4 and 12)	\$ 20,274,890	\$ 5,159,856
Contributed surplus (notes 13 and 14)	5,555,654	420,042
Equity component of redeemable preferred shares (note 11)	955,986	955,986
Accumulated deficit	(30,785,410)	(22,081,051)
Total shareholders' deficit	<u>(3,998,880)</u>	<u>(15,545,167)</u>
<b>Total liabilities and shareholders' deficit</b>	<b><u>\$ 9,877,124</u></b>	<b><u>\$ 17,055,602</u></b>
Going concern (note 2)		
Commitments (note 19)		
Subsequent events (note 20)		

See accompanying notes to the condensed consolidated interim financial statements

# NORTHSTAR GAMING HOLDINGS INC.

Condensed Consolidated Interim Statements of Net Loss and Comprehensive Loss  
(Expressed in Canadian dollars)  
(Unaudited)

	Three months ended March 31 2023	Three months ended March 31 2022
<b>Gaming revenues (note 7)</b>	\$ 3,646,081	\$ -
<b>Cost of revenues</b>		
Operator participant fees	794,212	-
Service providers' fees	1,692,913	-
Gross margin	1,158,956	-
<b>Expenses</b>		
Marketing	4,072,480	747,686
General and administrative (note 18)	2,867,337	1,123,587
Public listing costs (note 4)	2,789,316	-
Amortization and depreciation (notes 9 and 10)	29,471	1,532
Interest expense, net (note 11)	104,711	-
	9,863,315	1,872,805
<b>Loss before income taxes</b>	(8,704,359)	(1,872,805)
Income taxes	-	-
<b>Net loss and comprehensive loss</b>	<b>\$ (8,704,359)</b>	<b>\$ 1,872,805</b>
Loss per common share (notes 4 and 15):		
Basic and diluted	(0.07)	0.02
Weighted average number of common shares outstanding, (note 4 and 15):		
Basic and diluted	123,790,833	82,562,928

See accompanying notes to the condensed consolidated interim financial statements

# NORTHSTAR GAMING HOLDINGS INC.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (Deficit)

(Expressed in Canadian dollars)

(Unaudited)

Three months ended March 31, 2023	Common Shares		Non-voting Common Shares		Contributed Surplus	Equity Component of Redeemable		Accumulated Deficit	Total Shareholders Deficit
	Number	Value	Number	Value		Preferred Shares			
Balance January 1, 2023	105,214,111	\$ 5,159,855	8,471,820	\$ 1	\$ 420,042	\$ 955,986	\$ (22,081,051)	\$ (15,545,167)	
Exercise of warrants (note 12 and 13) on January 20, 2023	4,051,740	402,401	-	-	(55,131)	-	-	347,270	
Shares and warrants issued to former Baden Resources Inc. Shareholders (note 4 and note 12) on March 3, 2023	4,181,430	2,090,715	-	-	370,990	-	-	2,461,705	
Exchange of non-voting shares of NorthStar Gaming Inc. for voting shares of NorthStar Gaming Holdings Inc. (note 4) on March 3, 2023	8,471,820		1 (8,471,820)	(1)	-	-	-	-	
Shares and warrants issued in private placement, net of transaction costs (note 4, 12 and 13) on March 3, 2023	10,150,000	4,260,933	-	-	124,290	-	-	4,385,223	
Shares and warrants issued on conversion of convertible debenture (note 4, 12 and 13) on March 3, 2023	24,500,000	8,205,885	-	-	4,044,115	-	-	12,250,000	
Exercise of warrants (note 12 and 13) on March 31, 2023	282,000	155,100	-	-	(62,040)	-	-	93,060	
Share-based payment expense (note 14)	-	-	-	-	713,388	-	-	713,388	
Net loss for the period	-	-	-	-	-	-	(8,704,359)	(8,704,359)	
Balance March 31, 2023	156,851,101	\$ 20,274,890	-	\$ -	\$ 5,555,654	\$ 955,986	\$ (30,785,410)	\$ (3,998,880)	

Three months ended March 31, 2022	Common Shares		Non-voting Common Shares		Contributed Surplus	Equity Component of Redeemable		Accumulated Deficit	Total Shareholders Equity (deficit)
	Number	Value	Number	Value		Preferred Shares			
Balance January 1, 2022	73,668,000	\$ 1,000	-	\$ -	\$ -	\$ -	\$ (1,884,016)	\$ (1,883,016)	
Shares and warrants issued February 11, 2022, net of transaction costs (notes 12 and 13)	8,103,480	488,550	-	-	55,131	-	-	543,681	
Shares issued March 22, 2022, net of transaction costs (note 12)	23,442,631	4,670,305	-	-	-	-	-	4,670,305	
Shares issued upon exercise of share options (note 14)	-	-	4,395,033	6	-	-	-	6	
Share-based payment expense (note 14)	-	-	-	-	16	-	-	16	
Net loss for the period	-	-	-	-	-	-	(1,872,805)	(1,872,805)	
Balance March 31, 2022	105,214,111	\$ 5,159,855	4,395,033	\$ 5.97	\$ 55,147	\$ -	\$ (3,756,821)	\$ 1,458,187	

See accompanying notes to the condensed consolidated interim financial statements

\* The common share numbers in this statement are retrospectively restated to reflect the share split of 736.68:1 of NorthStar (note 4).

# NORTHSTAR GAMING HOLDINGS INC.

## Condensed Consolidated Interim Statements of Cash Flows

(Expressed in Canadian dollars)

(Unaudited)

	Three months ended March 31 2023	Three months ended March 31 2022
<b>Cash flows used in operating activities</b>		
Net loss for the period	\$ (8,704,359)	\$ (1,872,805)
Adjustments for:		
Non-cash public listing costs (note 4)	2,364,620	-
Depreciation and amortization (notes 9 and 10)	29,471	1,532
Interest accretion expense (note 11)	189,400	-
Share-based payment expense (note 14)	713,388	16
	<u>(5,407,480)</u>	<u>(1,871,257)</u>
Change in non-cash operating working capital:		
Player deposits on hand	(174,958)	-
Amount due from payment processors	(135,026)	-
Accounts receivable	787,184	847,065
Mark to market on open events (note 8)	3,935	-
Prepaid expenses and deposits	269,632	(54,583)
Accounts payable and accrued liabilities (note 11)	(1,323,195)	925,890
Due to related party (note 16)	(471,695)	-
Liability for player deposits on hand	174,958	-
Player loyalty bonuses liability	30,767	-
Change in non-cash working capital	<u>(838,398)</u>	<u>1,718,372</u>
Change in restricted cash	-	-
<b>Net cash flows used in operating activities</b>	<b>(6,245,878)</b>	<b>(152,885)</b>
<b>Net proceeds from financing activities:</b>		
Net proceeds from issuance of common shares and warrants (notes 12 and 13)	11,625,337	5,213,986
Net proceeds from exercise of warrants (note 13)	440,330	-
<b>Net proceeds from financing activities</b>	<u>12,065,667</u>	<u>5,213,986</u>
<b>Cash flows used in investing activities:</b>		
Cash and cash equivalents received on the acquisition of NorthStar Gaming Holdings Inc. (note 4)	106,972	-
Purchase of equipment (note 9)	(2,662)	-
Purchase of intangible assets (note 10)	(37,700)	(131,975)
<b>Net cash flows used in investing activities</b>	<u>66,610</u>	<u>(131,975)</u>
Increase in cash and cash equivalents	5,886,399	4,929,126
Cash and cash equivalents, beginning of period	1,178,977	11,680
Cash and cash equivalents, end of period	<u>\$ 7,065,376</u>	<u>\$ 4,940,806</u>

See accompanying notes to the condensed consolidated interim financial statements

# NORTHSTAR GAMING HOLDINGS INC.

Notes to Condensed Consolidated Interim Financial Statements  
Three months ended March 31, 2023 and March 31, 2022  
(Unaudited)

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## 1. Corporate Information:

NorthStar Gaming Holdings Inc., (the “Company”) formerly Baden Resources Inc. (“Baden”) was incorporated in the Province of British Columbia on January, 19, 2020 under the Business Corporations Act of British Columbia. The Company’s shares were listed on the Canadian Securities Exchange (“CSE”) under the symbol “BDN” until March 3, 2023 at which time they were delisted.

As described in note 4, the Company completed a reverse takeover transaction (the “Transaction”) on March 3, 2023, pursuant to a business combination with NorthStar Gaming Inc. (“NorthStar”), a non-reporting issuer. The reverse takeover transaction was accomplished via an amalgamation between NorthStar and a newly incorporated subsidiary of the Company.

On March 8, 2023, the Company was listed as a Tier 2 issuer on the TSX Venture Exchange (“TSXV”) under the symbol BET. The Company’s head office is located at Suite 200, 220 King Street West, Toronto Ontario M5H 1K4.

Immediately prior to the Transaction, the Company, changed its name from Baden to NorthStar Gaming Holdings Inc.

On April 12, 2022, NorthStar Gaming (Ontario) Inc., a wholly-owned subsidiary of NorthStar received its license from the Alcohol and Gaming Commission of Ontario (“AGCO”) and on May 9, 2022 it launched its online gaming site [www.northstarbets.ca](http://www.northstarbets.ca) which offers access to regulated sports betting markets, and a robust and curated casino offering, including the most popular slot offerings and live dealer games.

In connection with the launch of operation of NorthStar Gaming (Ontario) Inc.’s online gaming site, it also entered into an agreement with iGaming Ontario, a subsidiary of the AGCO, effective May 9, 2022. The agreement is for an initial term of 5 years. Under the terms of the agreement, NorthStar Gaming (Ontario) Inc. will operate its online gaming and sports betting site in accordance with the regulations as set out by the AGCO and as included in the agreement. As part of the terms of the operating agreement iGaming Ontario charges the Company fees which are based on a percentage of gross gaming revenue as defined in the iGaming Ontario operating agreement.

The Company has one operating segment for financial reporting purposes. This segment’s gaming revenue is primarily generated from the proceeds of the Company’s online casino and sportsbook.

## 2. Going Concern

These consolidated financial statements have been prepared in accordance with the basis of presentation outlined in note 3 on the assumption that the Company is a going concern and will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

As at March 31, 2023, the Company was in its early stage of operations and therefore, the Company has experienced losses since inception. The Company’s cash resources as at March 31, 2023 are not sufficient to fund its planned business operations over the next 12 months. In order to fund the planned business operations, which includes marketing, product development, obtaining and maintaining i-Gaming licenses and technical infrastructure, and before the Company expects to generate positive cash flow, additional financing will be required.

# **NORTHSTAR GAMING HOLDINGS INC.**

Notes to Condensed Consolidated Interim Financial Statements (continued)  
Three months ended March 31, 2023 and March 31, 2022  
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The Company intends to continue to pursue opportunities to raise additional capital in the form of equity and/or debt to fund its business operations. However, there is no assurance of the success or sufficiency of any these initiatives, additional financing may not be available, or on favourable terms. The failure to raise such financing could result in the delay or indefinite postponement of current business operations.

The above conditions indicate the existence of a material uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern. These condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these condensed consolidated interim financial statements, adjustments may be necessary to the carrying value of assets and liabilities, the reported expenses, these adjustments could be material.

### **3. Summary of Significant Accounting Policies**

#### **a. Statement of compliance**

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") and using the accounting policies as described in note 3.

These condensed interim consolidated financial statements do not include all the disclosures required by International Financial Reporting Standards ("IFRS") for annual consolidated financial statements and accordingly should be read in conjunction with the annual financial statements of NorthStar Gaming Holdings Inc. (formerly Baden Resources Inc.) and the annual consolidated financial statements of NorthStar Gaming Inc., including the notes thereto, for the year ended December 31, 2022, prepared in accordance with IFRS as issued by the IASB. However, as these are the first condensed consolidated interim financial statements after the occurrence of the Transaction (note 4), the accounting policies below reflect the policies used in preparation of these financial statements. Certain amounts in prior-period financial statements have been restated to reflect the impact of the NorthStar share split which occurred immediately prior to the Transaction (note 4).

These condensed interim consolidated financial statements were reviewed, approved and authorized for issue by the Board of Directors on May 24, 2023.

# **NORTHSTAR GAMING HOLDINGS INC.**

Notes to Condensed Consolidated Interim Financial Statements (continued)  
Three months ended March 31, 2023 and March 31, 2022  
(Unaudited)

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## **b. Basis of presentation**

These condensed consolidated interim financial statements have been prepared mainly under the historical cost basis. Other measurement bases used are described in the applicable notes.

## **c. Principles of consolidation**

The accompanying condensed consolidated interim financial statements include the Company and its wholly-owned subsidiaries, NorthStar Gaming Inc. and NorthStar Gaming (Ontario) Inc. on a consolidated basis. All intercompany transactions and balances are eliminated on consolidation.

## **d. Foreign currency translation**

The consolidated financial statements are presented in Canadian dollars. The functional currency is Canadian dollars.

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

## **e. Gaming revenue**

The Company has adopted the following policy for gaming revenue recognition.

Gaming revenue is measured at the fair value of the consideration received. Gaming revenue represents the operating business transactions accounted for under both IFRS 9, Financial Instruments ("IFRS 9") and IFRS 15, Revenue from Contracts with Customers ("IFRS 15").

The Company has assessed that it is the primary obligor in its sports-betting and online casino gaming contracts with its players. The Company offers sports-betting and online casino related transactions, where it generates a net gain or loss on a bet that is determined by an uncertain future event, consequently, these transactions are within the scope of IFRS 9. Revenue is recorded as the gain or loss on betting transactions settled during the period less, free bets, promotional costs, bonuses and fair value adjustments on open bets (unsettled bets). The Company recognizes the gain or loss on a betting transaction as revenue when a bet is settled.

IFRS 15 reflects revenue earned from transactions where the Company administers games amongst players ("administered games").

Significant judgment is needed to determine whether gaming transactions are within the scope of IFRS 9 or IFRS 15. Currently, the Company only offers gaming transactions where the Company takes a position against the player, and thus all transactions are in the scope of IFRS 9. The Company recognizes the net gain or losses on the bets within the revenue line as this represents the Company's sole source of revenue.



# **NORTHSTAR GAMING HOLDINGS INC.**

Notes to Condensed Consolidated Interim Financial Statements (continued)  
Three months ended March 31, 2023 and March 31, 2022  
(Unaudited)

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## **f. Cost of revenues**

Cost of revenues includes direct costs incurred by the Company associated with revenue generation activities and are principally comprised of operator participant fees and service provider fees.

In connection with the launch of operation of the Company's online gaming site, the Company entered into an agreement with iGaming Ontario, a subsidiary of the AGCO, effective May 9, 2022. Operator participant fees reflect fees that the Company pays under the terms of its agreement with iGaming Ontario. These operator participant fees are based on a percentage of gross gaming revenue as defined in the iGaming Ontario operating agreement and are expensed simultaneously as gaming revenue is earned.

Service providers' fees reflect fees that the Company pays to vendors who provide services in respect of its iGaming platform and ancillary services including supplier costs and customer payment transaction fees. Service provider fees are recorded based on the level of transactions and contractual amounts and are expensed as incurred.

## **g. Cash and cash equivalents**

Cash is comprised of cash on hand, cash held in trust accounts and demand deposits. Cash equivalents are short-term, highly liquid investments with maturities within three months when acquired or cashable on demand without penalty and excludes restricted cash related to performance guarantee.

## **h. Restricted cash related to performance guarantee**

Restricted cash represents cash held in a trust account in respect of a performance guarantee and is required under the terms of the license with iGaming Ontario.

## **i. Player deposits on hand**

Player deposits on hand represents cash held on behalf of player deposits.

## **j. Subscription receipts held in escrow/Subscription receipts owed to subscribers**

Subscription receipts held in escrow represent subscription receipts held with a trust company in respect of subscriptions of common shares related to the private placement that was subject to the successful completion of the Transaction (note 4). Given that the Transaction had not occurred at December 31, 2022, subscription receipts owed to subscribers represent the amounts the Company owed to these subscribers, in the event the Transaction, was not successful. The transaction closed on March 3, 2023, at which time subscription receipts held in escrow were released to the Company and subscription receipts owed to subscribers were exchanged for shares (note 4).

# NORTHSTAR GAMING HOLDINGS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
Three months ended March 31, 2023 and March 31, 2022  
(Unaudited)

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## **k. Equipment**

Equipment is stated at cost, net of accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation is calculated using the straight-line basis over the estimated useful life of the asset as follows:

- Computer equipment                      5 years

The useful lives and methods of depreciation and the assets' residual values are reviewed at least annually, and the depreciation charge is adjusted prospectively, if appropriate.

An item of equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the consolidated statement of income or loss when the asset is derecognized.

## **l. Intangible assets**

Intangible assets with finite lives 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.

Other costs such as enhancements and routine maintenance are expensed as incurred.

Amortization is calculated using the straight-line basis over the estimated useful life of the asset as follows:

- Software (including licenses and integration) 5 years
- Domain names                                      5 years

## **m. Accrued player loyalty bonuses**

Accrued player loyalty bonuses reflect the liability for incentive points that are earned based on the volume of play and redeemable for complimentary bets or wagers and/or cash, by players. This is recognized as a liability and is measured at the amount payable on demand.

## **n. Redeemable preferred shares**

The Company's redeemable preferred shares are classified as a compound financial instrument with a liability component as they are redeemable in cash by the holders and have an equity conversion feature. The redeemable preferred shares that allow the holder to request a redemption in common shares at a fixed price per common share results in a compound financial instrument with an equity and a liability component. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity

# NORTHSTAR GAMING HOLDINGS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is accreted to the redemption value using the effective interest rate method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition. Interest, losses and gains relating to the financial liability are recognized as period costs.

## **o. Convertible debenture**

On December 19, 2022 the Company issued a convertible debenture. The convertible debenture allows the holder to convert the debenture into 24,500,000 common shares, 12,250,000 A warrants and 12,250,000 B warrants. The debenture carries interest at 8% which will be waived by the holder if the Transaction occurs within 90 days of the date of issue. The conversion feature of the convertible debenture requires the Company to deliver, in the future, a combination of shares and warrants. As a result, the conversion feature does not meet the definition of equity, the convertible debenture is therefore a financial liability in its entirety and is measured at fair value through profit and loss ("FVTPL"). On conversion, the value ascribed to the separate equity instruments will be allocated using the relative fair value method. The debenture was converted on March 3, 2023 (note 4).

## **p. Share capital**

Voting common shares and non-voting common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share purchase options are recognized as a reduction from equity, net of any tax effects. For unit offerings that consist of multiple categories of shares, the proceeds from the issuance of units are allocated between voting common shares and share purchase warrants using the relative fair value method (note 3 (o) and note 3 (r)).

## **q. Share-based payments**

The Company grants stock options to its employees, directors and consultants. Stock options vest over time in tranches and expire after various periods of time. For employees, and consultants providing services in exchange for share-based payments with vesting conditions, the fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Share-based compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest with the offsetting entry to contributed surplus. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

If and when stock options are exercised, consideration received is credited to share capital and the fair value attributed to these options is transferred from contributed surplus to share capital.

# NORTHSTAR GAMING HOLDINGS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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## r. Warrants

All warrants issued under a unit financing arrangement are valued on the date of grant using the Black-Scholes pricing model, net of related issuance costs. Warrants meeting equity classification have been classified as an equity instrument within contributed surplus as they have a fixed exercise price, denominated in Canadian dollars, as well as a fixed number of equity instruments for which the exercise price will be exchanged for.

If and when warrants are exercised, consideration received is credited to share capital and the fair value attributed to these warrants is transferred from contributed surplus to share capital. Expired warrants are removed from contributed surplus and credited directly to retained earnings or deficit.

## s. Loss per share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similarly to basic loss per share except that the weighted average number of shares outstanding is increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The average number of shares is calculated by assuming that outstanding conversions were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting period.

## t. Taxes

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable or recoverable is based on taxable profit or loss for the year. Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their corresponding tax bases (known as temporary differences).

Deferred tax liabilities are generally recognized for all temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future years when the carrying amount of the asset or liability is recovered or settled (taxable temporary differences).

Deferred tax assets are generally recognized for all temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future years when the carrying amount of the asset or liability is recovered or settled (deductible temporary differences) – but only to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. Any adjustments are recognized in profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (tax loss) of the years in which it expects the deferred tax asset to be realized or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting year.

# NORTHSTAR GAMING HOLDINGS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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## u. Financial Instruments

### Financial assets

#### Initial Recognition and Measurement

The Company recognizes a financial asset when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

#### Classification and subsequent measurement

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss. The Company determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Financial assets are classified as follows:

- Amortized cost – Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of cash, and due from related party.
- Fair value through other comprehensive income – Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income is calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Company does not hold any financial assets measured at fair value through other comprehensive income.
- Mandatorily at fair value through profit or loss – Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Company does not hold any financial assets mandatorily measured at fair value through profit or loss.
- Designated at fair value through profit or loss – On initial recognition, the Company may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different basis. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Company does not hold any financial assets designated at fair value through profit or loss.

#### Business model assessment

The Company assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed and information is provided to management. Information considered in this assessment includes stated policies and objectives.

# NORTHSTAR GAMING HOLDINGS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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(Unaudited)

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## Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Company considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Company's claim to cash flows, and any features that modify consideration for the time value of money.

## Impairment

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets, other than financial assets measured at fair value through profit or loss. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions. The Company applies the simplified approach for receivables. Using the simplified approach, the Company records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Company assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts and breaches of borrowing contracts such as default events or breaches of borrowing covenants. For financial assets assessed as credit-impaired at the reporting date, the Company continues to recognize a loss allowance equal to lifetime expected credit losses.

For financial assets measured at amortized cost, loss allowances for expected credit losses are presented in the consolidated statements of financial position as a deduction from the gross carrying amount of the financial asset.

Financial assets are written off when the Company has no reasonable expectations of recovering all or any portion thereof.

## Derecognition of financial assets

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

## **Financial liabilities**

### Recognition and initial measurement

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

### Classification and subsequent measurement

# NORTHSTAR GAMING HOLDINGS INC.

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Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability are recognized in profit or loss.

## Derecognition of financial liabilities

The Company derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

#### **4. Reverse Take-Over Transaction, Private Placement and Conversion of Convertible Debenture**

##### Reverse Take-Over Transaction

On June 29, 2022, Baden and NorthStar entered into an Arrangement Agreement to execute an amalgamation by way of a reverse take-over. The Transaction closed on March 3, 2023. The Transaction was an arm's length transaction and resulted in a reverse take-over and change of control of the Company (formerly Baden), by the shareholders of NorthStar.

##### As part of the Transaction:

- Immediately prior to the Transaction, all of NorthStar's outstanding common shares were subdivided on a 1 for 736.68 basis.
- NorthStar's common shares outstanding following the share split were exchanged for post-consolidation common shares of the Company on a one for one basis. Accordingly, common shares of pre-close NorthStar were exchanged for 117,737,671 common shares of the Company (formerly Baden).
- In addition, the NorthStar Redeemable Preferred Shares were also exchanged on a one-for-one basis for redeemable preferred shares of the Company and all of the outstanding convertible securities of NorthStar, in accordance with their terms, ceased to represent a right to acquire NorthStar common shares and instead now provide the right to acquire common shares of the Company on a one-for-one basis post-consolidation and on the same economic terms and conditions.
- The Company, formerly Baden, also completed a consolidation of its outstanding common shares immediately before the Transaction on a 3.333333:1 basis.
- Under the Transaction, former security holders of the Company, formerly Baden, were issued 4,181,430 common shares of the Company and 1,222,680 warrants having an exercise price of \$0.33 and 600,000 warrants having an exercise price of \$0.43. All outstanding options of the Company (formerly Baden) outstanding prior to the Transaction were cancelled prior to the execution of the Transaction.

Given that the Company, formerly Baden, did not meet the definition of a business, prior to the Transaction, the reverse take-over is accounted for as an asset acquisition of Baden, by NorthStar. Accordingly, the comparative figures presented are those of NorthStar for the respective comparative periods in 2022 and all per share numbers have been restated on a retroactive basis to reflect NorthStar's pre-transaction share split.

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The fair value of the net assets acquired under the Transaction on March 3, 2023 and the public listing cost expensed are summarized as follows:

Fair value of 4,181,430 common shares issued (a)	\$2,090,715
Fair value of 1,222,680 warrants exercisable at \$0.33 issued (b)	268,990
Fair value of 600,000 warrants exercisable at \$0.43 issued (c)	102,000
<b>Total Purchase Price</b>	<b>\$2,461,705</b>
Cash and cash equivalents	\$106,971
Accounts receivable	6,171
Accounts payable and accrued liabilities	(16,057)
<b>Net assets assumed</b>	<b>\$97,085</b>
Public listing costs expensed	2,364,620
	<b>2,461,705</b>

- (a) The total consideration has been estimated based on \$0.50 per common share.
- (b) The fair value on the date of the Transaction of each warrant exercisable at \$0.33 issued to former Baden warrant holders has been estimated at \$0.22 resulting in a total estimated fair value of \$268,990. The estimated fair value of these warrants was calculated using the Black-Scholes option pricing model with the following assumptions: i) share price \$0.50, ii) exercise price \$0.33 iii) the expected life of each warrant of 0.73 years; iv) the risk-free rate of 3.85%; v) the dividend yield of nil; and vi) expected volatility of 71%. These are highly subjective assumptions and any change in the assumptions can materially affect the fair value estimate.
- (c) The fair value on the date of the Transaction of each warrant issued to former Baden warrant holders, exercisable at \$0.43 has been estimated at \$0.17 resulting in a total estimated fair value of \$102,000. The estimated fair value of these warrants was calculated using the Black-Scholes option pricing model with the following assumptions: i) share price \$0.50, ii) exercise price \$0.43 iii) the expected life of each warrant is 0.73 years; iv) the risk-free rate is 3.85%; v) the dividend yield is nil; and vi) expected volatility is 71%. These are highly subjective assumptions and any change in the assumptions can materially affect the fair value estimate.

The fair value of consideration paid exceeds the fair value of net assets assumed by \$2,364,620 which is treated as public company listing costs and expensed in the three months ended March 31, 2023. Public listing costs for the three months ended March 31, 2023 also include \$424,696 of accounting and legal expenses related to the Transaction. The public listing costs have been included in the condensed consolidated interim statement of loss and comprehensive loss.

## Private Placement

Immediately prior to the closing of the Transaction, subscription receipts received and held in escrow as at December 31, 2022, for common shares at a price of \$0.50 per share, totalling



# NORTHSTAR GAMING HOLDINGS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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\$5,075,000 were released from escrow and were exchanged for the issuance of 10,150,000 post-split common shares of the Company as the escrow conditions have been met upon successful completion of the Transaction.

Proceeds released from escrow on the close of the Transaction, were net of agency cash fees of \$304,500, and \$160,000 in broker legal fees. Additionally, the Company issued 609,000 broker warrants to the agents with an exercise price of \$0.50. The value of each broker warrant has been estimated at \$0.20 resulting in a total estimated fair value of \$121,800 and is classified in contributed surplus. The estimated fair value of broker warrants was calculated using the Black-Scholes option pricing model with the following assumptions: i) share price \$0.50, ii) exercise price \$0.50 iii) the expected life of each warrant is 2 years; iv) the risk-free rate is 3.85%; v) the dividend yield is nil; and vi) expected volatility is 71%. These are highly subjective assumptions and any change in the assumptions can materially affect the fair value estimate.

In addition, NorthStar incurred \$219,278 in respect of accounting and legal fees in respect of the Private Placement.

## Conversion of Convertible Debenture

Immediately prior to the closing of the Transaction, the convertible debenture, as noted in 3(o) that was entered into with Playtech plc on December 19, 2022, was converted into a total of 24,500,000 common shares of the Company, as well as 12,250,000 A warrants which are exercisable at \$0.85 for a period of 5 years from March 3, 2023 and 12,250,000 B warrants which are exercisable at \$0.90 for a period of 5 years from March 3, 2023. Also concurrent with the conversion, the remaining, \$7,250,000 of proceeds from the convertible debenture which was held in escrow, were released.

The value of each A warrant, exercisable at \$0.85, has been estimated at \$0.25 resulting in a total estimated fair value of \$3,057,167. The estimated fair value of warrants was calculated using the Black-Scholes option pricing model with the following assumptions: i) share price \$0.50, ii) exercise price \$0.85 iii) the expected life of each warrant is 5 years; iv) the risk-free rate is 3.85%; v) the dividend yield is nil; and vi) expected volatility is 71%. These are highly subjective assumptions and any change in the assumptions can materially affect the fair value estimate.

The value of each B warrant, exercisable at \$0.90, has been estimated at \$0.24 resulting in a total estimated fair value of \$2,980,013. The estimated fair value of warrants was calculated using the Black-Scholes option pricing model with the following assumptions: i) share price \$0.50, ii) exercise price \$0.90 iii) the expected life of each warrant is 5 years; iv) the risk-free rate is 3.85%; v) the dividend yield is nil; and vi) expected volatility is 71%. These are highly subjective assumptions and any change in the assumptions can materially affect the fair value estimate.

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Upon conversion, the carrying value of the convertible debenture was derecognized and recorded in equity components using the relative fair value of common shares and warrants issued. The value allocated to the common shares issued was \$8,205,885, while the value allocated to the A warrants and B warrants was \$2,047,899 and \$1,996,216.

## 5. Use of estimates and judgments

In the preparation of the consolidated financial statements, management has made judgements and estimates that affect the application of the Company's accounting policies and reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the Company's accounting policies and the key source of estimation uncertainty are the same as those described in the last annual financial statements, except for the following:

### Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following notes:

- Note 2 – Ability of the Company to continue as a going concern.
- Note 3(e) – Significant judgment is needed to determine whether sports betting and online casino gaming transactions are within the scope of IFRS 9 or IFRS 15. To date, the Company only provides sports betting and online casino gaming transactions where it takes a position against the player, and thus all transactions are in the scope of IFRS 9. The Company has applied judgement when determining the primary obligor in respect of the Company's sports-betting and casino gaming contracts with its players.
- Note 4 – Accounting for the business combination and reverse take-over transaction.
- Note 10 – Recognition of software intangible assets.
- Note 13 – Classification of warrants as either a component of equity or a liability. Warrants have been classified as an equity instrument as they have a fixed exercise price, denominated in Canadian dollars, as well as a fixed number of equity instruments for which the exercise price will be exchanged for.

### Assumption and estimation uncertainties

Information about assumption and estimation uncertainties at the reporting date that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year is included in the following notes:

- note 8 – Mark to market on open events. These are estimated using the amount of the wagers and the published odds for such wagers at the date of the financial statements.
- note 9 and note 10 – Estimated useful lives of long-lived assets (equipment and intangible assets).
- note 4 and note 13 – Fair value of warrants. The Company uses the Black-Scholes option pricing model for valuation of the warrants issued to purchasers of its share capital. Option pricing models require the input of subjective assumptions including expected price volatility, risk-free interest rate, and forfeiture rate. Changes in the input assumptions can

# NORTHSTAR GAMING HOLDINGS INC.

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materially affect the fair value estimate which correspondingly affects the Company's equity reserves.

- note 14 – Fair value of share-based payments. The fair value of all share-based payments granted are determined using the Black-Scholes option pricing model which incorporates assumptions regarding risk-free interest rates, dividend yield, expected volatility, estimated forfeitures, and the expected life of options.

## 6. **New and revised IFRS Standards applied for the first time and New and revised IFRS Standards in issue but not effective**

The Company's accounting policies as described in Note 3, *Significant Accounting Policies*, have been applied consistently to all periods presented in these condensed consolidated interim financial statements.

The following new standards, interpretation or amendment were adopted for the first time on January 1, 2023:

### IAS 1 – *Presentation of Financial Statements* ("IAS 1")

In February 2021, the IASB issued amendments to IAS 1 to assist entities in determining which accounting policies to disclose in the financial statements. The amendments to IAS 1 require that an entity disclose its material accounting policies, instead of its significant accounting policies. The amendments apply to annual reporting periods beginning on or after January 1, 2023. There was no material impact from the adoption of this amendment on the Company's condensed consolidated interim financial statements.

In January 2020, IAS 1 was amended to provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or non-current is based solely on a company's right to defer settlement at the reporting date. The right needs to be unconditional and must have substance. The amendments also clarify that the transfer of a company's own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument. The amendments are effective for annual periods beginning on January 1, 2023 and are to be applied retrospectively. There was no material impact from the adoption of this amendment on the Company's condensed consolidated interim financial statements.

# NORTHSTAR GAMING HOLDINGS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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At the date of authorization of these financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

*Amendments to IAS 1 – Classification of Liabilities as Current or Non-current.* The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, revenue or expense, or the information disclosed about those items. The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are applied retrospectively for annual periods beginning on or after January 1, 2023, with early application permitted. The Company did not early adopt the amendments. The Company is currently assessing the impact of the amendments; however, does not expect any significant implications.

## 7. Gaming revenues

The Company's revenue disaggregated by line of business is as follows:

	Three months ended March 31, 2023	Three months ended March 31, 2022
Gaming revenue from wagered games (sports-betting and casino transactions)	\$ 3,646,081	\$ -
Gaming revenue from administered games	-	-
<b>Gaming revenue</b>	<b>\$3,646,081</b>	<b>\$ -</b>

## 8. Mark to market on open events

The mark to market on open events is a derivative financial asset as of March 31, 2023 of \$4,268 (December 31, 2022 – derivative financial asset of \$8,203) in respect of the mark to market on open events. This represents the net asset position of all bets placed and open as of March 31, 2023. This is valued using Level 2 inputs in the fair value hierarchy (note 17).

# NORTHSTAR GAMING HOLDINGS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)

Three months ended March 31, 2023 and March 31, 2022

(Unaudited)

## 9. Equipment

<b>Cost</b>	<b>Computer Equipment</b>	<b>Total</b>
Balance, December 31, 2021	\$ 30,649	\$ 30,649
Additions	7,642	7,642
Balance, December 31, 2022	38,291	38,291
Additions	2,662	2,662
Balance, March 31, 2023	\$ 40,953	\$ 40,953
<b>Depreciation</b>		
Balance, December 31, 2021	\$ 1,314	\$ 1,314
Charge for the period	6,839	6,839
Balance, December 31, 2022	8,153	8,153
Charge for the period	1,915	1,915
Balance, March 31, 2023	\$ 10,068	\$ 10,068
<b>Net Book Value</b>		
At December 31, 2022	\$ 30,138	\$ 30,138
At March 31, 2023	\$ 30,885	\$ 30,885

# NORTHSTAR GAMING HOLDINGS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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## 10. Intangible asset

Cost	Domain		Total
	Software	Names	
Balance, December 31, 2021	\$ 32,283	\$ 21,560	\$ 53,843
Additions	473,002	10,038	483,040
Balance, December 31, 2022	505,285	31,598	536,883
Additions	37,700	-	37,700
Balance, March 31, 2023	\$ 542,985	\$ 31,598	\$ 574,583
<b>Amortization</b>			
Balance, December 31, 2021	\$ -	\$ -	\$ -
Charge for the period	59,004	4,213	63,217
Balance, December 31, 2022	59,004	4,213	63,217
Charge for the period	25,977	1,580	27,557
Balance, March 31, 2023	\$ 84,981	\$ 5,793	\$ 90,774
<b>Net Book Value</b>			
At December 31, 2022	\$ 446,281	\$ 27,385	\$ 473,666
At March 31, 2023	\$ 458,004	\$ 25,805	\$ 483,809

## 11. Redeemable preferred shares:

The authorized share capital of the Company include an unlimited number of redeemable preferred shares ("Redeemable Preferred Shares").

In connection with the Transaction, the 78,000 redeemable preferred shares of NorthStar were exchanged for 78,000 redeemable preferred shares of the Company. Holders of Redeemable Preferred Shares have no right to receive notice of any meeting of shareholders of the Company, to attend such meeting or to vote thereat. Holders of Redeemable Preferred Shares are entitled to receive an annual non-cumulative dividend of 6% on the redemption value of \$100 per share (the "Redemption Amount") of the preferred shares if and when declared by the Board of Directors. The Board has not declared any such dividends during the three months ended March 31, 2023 (three months ended March 31, 2022 – \$nil).

The Redeemable Preferred Shares are redeemable at the option of either the Company or the holder. While these redeemable preferred shares are redeemable at the option of the holder, the British Columbia Business Corporations Act prevents redemptions where such redemption would cause an insolvency event for the Company.

Under a separate agreement, the holders of 50,000 of the redeemable preferred shares can request a redemption in Common shares at a price of \$0.75 per common share instead of cash representing up to 6,666,666 common shares.

# NORTHSTAR GAMING HOLDINGS INC.

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For accounting purposes, the redeemable preferred shares are separated into their liability and equity components. The fair value of the liability component at the time of issue was calculated as the discounted cash flows for the redeemable preferred shares assuming an 11% discount rate, which was the estimated rate for a similar instrument without a conversion feature. The residual value is recognized in equity as the conversion feature.

The following is a summary of the Company's redeemable preferred shares:

<b>Redeemable Preferred Shares</b>	Number	Redeemable preferred shares liability	Equity component of redeemable preferred shares
Balance, January 1, 2022	28,000	\$2,800,000	\$ -
Balance, March 31, 2022	28,000	\$2,800,000	\$ -
Balance, January 1, 2023	78,000	\$6,982,917	\$ 955,986
Interest accretion during the period		189,400	-
Balance, March 31, 2023	78,000	\$7,172,317	\$955,986
Current (b)	11,700	\$1,075,848	n/a
Non-current (a)	66,300	\$6,096,469	n/a

(a) On February 17, 2023, the Company received an irrevocable waiver from the holder of 66,300 of the preferred shares indicating that it has not and will not seek to redeem the preferred shares of the Company for a period of 18 months from the date on which the common shares of the Company trades on the TSX Venture Exchange. Accordingly, the liability portion of the redeemable preferred shares have been classified as non-current liabilities.

(b) The 11,700 redeemable preferred shares for which the Company has not received a waiver are redeemable at the option of the holder and accordingly the liability portion of these redeemable preferred shares have been classified as a current liability as at March 31, 2023.

## 12. Share capital

### Authorized share capital

Unlimited number of common shares without par value.

# NORTHSTAR GAMING HOLDINGS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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## Common Shares

During the three-month period ended March 31, 2023, the Company:

- (a) On January 20, 2023, issued 4,051,740 common shares on the exercise of warrants with an exercise price of \$0.0857 for proceeds of \$347,270 (note 13). In relation to the exercise, the fair value of the warrants of \$55,131 was reallocated from contributed surplus to share capital.
- (b) In connection with the Transaction on March 3, 2023 (note 4), exchanged all 8,471,820 non-voting common shares of NorthStar for voting shares of the Company.
- (c) In connection with the Transaction on March 3, 2023 (note 4), issued 4,181,430 common shares to the former shareholders of Baden at a value of \$2,090,715.
- (d) Also, in connection with the Transaction on March 3, 2023 (note 4), issued 10,150,000 common shares for the private placement financing for net proceeds of \$4,385,223 (\$5,075,000, before issuance costs and broker warrants).
- (e) Also, in connection with the Transaction on March 3, 2023 (note 4), issued 24,500,000 common shares on the conversion of the convertible debenture. The value of the shares issued was \$8,205,885 (note 4). The warrants remain outstanding at March 31, 2023.
- (f) On March 31, 2023, issued 282,000 common shares on the exercise of warrants with an exercise price of \$0.33 for proceeds of \$93,060 (note 13). In relation to the exercise, the fair value of the warrants of \$62,040 was reallocated from contributed surplus to share capital.

During the three-month period ended March 31, 2022, the Company:

- (a) On January 27, 2022, the Shareholders of the Company approved and ratified a share option plan (note 14). On the same day, 9,576,840 stock options were issued, 3,007,864 share options were exercised for non-voting common shares.
- (b) On February 11, 2022, the Company offered and sold a total of 8,103,480 voting common shares and 4,051,740 warrants (note 13) resulting in gross proceeds of \$555,611. The Company incurred cash share issuance cost of \$11,930 relating to the offering. The net proceeds from the offering are expected to be used for working capital and general corporate purposes. Each common share sold was accompanied by a ½ warrant (note 13) to purchase additional common shares. Each whole warrant entitles the holder to purchase one common share at \$0.0857 per share on the earlier of i) the Corporation completing a going public transaction or ii) the merger or sale of all or substantially all of the assets of the Corporation.
- (c) On March 23, 2022, 1,387,168 share options were exercised for non-voting common shares.
- (d) On March 28, 2022, the Company offered and sold a total of 23,442,631 voting common



# NORTHSTAR GAMING HOLDINGS INC.

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shares resulting in gross proceeds of \$4,999,873. The Company incurred cash share issuance cost of \$329,568 relating to the offering.

## 13. Warrants

The following schedule summarizes the warrant transactions for the period ended March 31, 2023:

<b>Warrants</b>	<b>Number</b>	<b>Value</b>
Balance, January 1, 2023	4,051,740	\$ 55,131
Issued		
Exercisable at \$0.33 (b)	1,222,680	268,990
Exercisable at \$0.43 (b)	600,000	102,000
Exercisable at \$0.50 (c)	609,000	124,290
Exercisable at \$0.85 (d)	12,250,000	2,047,899
Exercisable at \$0.90 (d)	12,250,000	1,996,216
Exercised (a), (e)	(4,333,740)	(148,191)
Balance, March 31, 2023	26,931,680	\$ 4,539,395

As at March 31, 2023, the Company had the following warrants outstanding

<b>Number of Warrants</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
940,680	\$0.33	November 25, 2023
600,000	\$0.43	November 25, 2023
609,000	\$0.50	March 3, 2025
12,250,000	\$0.85	March 3, 2028
12,250,000	\$0.90	March 3, 2028

During the period ended March 31, 2023, the Company:

- On January 20, 2023, issued 4,051,740 common shares on the exercise of warrants for proceeds of \$347,270 (note 12). In relation to the exercise, the fair value of the warrants of \$55,131 was reallocated from contributed surplus to share capital.
- In connection with the Transaction on March 3, 2023, the Company issued 1,222,680 warrants exercisable at \$0.33 and 600,000 warrants exercisable at \$0.43 to former shareholders of Baden (note 4). The fair value of the warrants issued of \$370,990 was allocated to contributed surplus (note 4).
- In connection with the private placement on March 3, 2023, issued 609,000 warrants to agents (note 4). The fair value of the warrants issued of \$124,390 was allocated to contributed surplus (note 4).

# NORTHSTAR GAMING HOLDINGS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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- (d) In connection with the conversion of the convertible debenture on March 3, 2023, issued to Playtech 12,250,000 warrants exercisable at \$0.85 and 12,250,000 warrants exercisable at \$0.90 (note 4). The fair value of the warrants issued of \$4,044,115 (\$2,047,899 for A warrants and \$1,996,216 for B warrants) was allocated to contributed surplus (note 4).
- (e) On March 31, 2023, issued 282,000 common shares on the exercise of warrants for proceeds of \$93,060 (note 12).

## 14. Share-based payment arrangements:

At March 31, 2023, the Company had the following share-based payment arrangements:

The Equity Compensation Plan adopted by the Company in 2022 includes options, restricted share units, performance share units, deferred share units and dividend-equivalent rights (collectively, "Awards"). Under the Equity Compensation Plan, the maximum number of Common Shares issuable from treasury pursuant to stock option Awards shall not exceed 10% of the total outstanding Common Shares. A further 15,656,910 Common Shares are reserved for all other types of Awards. The options can be granted for a maximum of 10 years and vest at the discretion of the Board of Directors. Vesting is determined by the Board.

The following schedule summarizes the stock option transactions for the period ended March 31, 2023:

	Number of options	Weighted average exercise price
Outstanding, beginning of period	5,156,760	\$ 0.21
Granted	8,058,542	0.50
Exercised	-	-
Cancelled or forfeited	-	-
Outstanding, end of period	13,215,302	\$ 0.39
Vested and exercisable, end of period	2,496,608	\$ 0.47
Unvested	10,718,694	\$ 0.37

On March 3, 2023, 8,058,542 stock options were granted to employees and contractors in connection with the Transaction. The exercise price of these options is \$0.50. Of these options, or 2,054,601 vested immediately. The remaining 6,003,941 options vest one year from the date of grant.

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Notes to Condensed Consolidated Interim Financial Statements (continued)  
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 (Unaudited)

The value of each stock option that vests immediately is \$0.25 resulting in a total estimated fair value of \$505,875. The estimated fair value of the stock-options was calculated using the Black-Scholes option pricing model with the following assumptions: i) share price \$0.50, ii) exercise price \$0.50 iii) the estimated expected life of each stock option is 3 years; iv) the risk—free rate is 3.85%; v) the dividend yield is nil; and vi) expected volatility is 71%. These are highly subjective assumptions and any change in the assumptions can materially affect the fair value estimate.

The value of each stock option that vests over one year is \$0.28 resulting in a total estimated fair value of \$1,677,450. The estimated fair value of the stock-options was calculated using the Black-Scholes option pricing model with the following assumptions: i) share price \$0.50, ii) exercise price \$0.50 iii) the estimated expected life of each stock option is 4 years; iv) the risk—free rate is 3.85%; v) the dividend yield is nil; and vi) expected volatility is 71%. These are highly subjective assumptions and any change in the assumptions can materially affect the fair value estimate.

At March 31, 2023, the following table provides the outstanding options at their respective exercise prices and the related weighted average remaining contractual life:

Exercise price	Weighted Number outstanding	Average remaining contractual life (in years)
\$0.21	5,156,760	4.10
\$0.50	8,058,542	4.93

## 15. Loss per share:

The following table sets forth the calculation of basic and diluted loss per share:

	Three months ended March 31, 2023	Three months ended March 31, 2022
Numerator:		
Loss for the period	(\$8,704,359)	(\$1,872,805)
Denominator:		
Weighted average number of shares: Basic and diluted	123,790,833	82,562,928
Loss per share: Basic and diluted	(\$0.07)	(\$0.02)

# NORTHSTAR GAMING HOLDINGS INC.

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All per share numbers used in the calculation of the denominator have been restated on a retroactive basis to reflect NorthStar's pre-transaction share split on March 3, 2023 (note 4).

During the three months ended March 31, 2023 and March 31, 2022, outstanding stock options, warrants and redeemable preferred shares were excluded from the computation of diluted loss per share since their effect would be anti-dilutive. The weighted average number of shares outstanding was calculated as the weighted average number of shares outstanding pre-acquisition of NorthStar through to the date of acquisition, plus the weighted average number of shares outstanding of the Company from March 3, 2023 through March 31, 2023.

## **16. Related party transactions:**

The Company paid \$653,325 to Torstar Corporation, (a company which was under common control until February 8, 2023). from January 1, 2023 through March 31, 2023 (March 31, 2022 - \$nil) for advertising services.

The Company also paid \$200,000 to Torstar Corporation from January 1, 2023 through March 31, 2023 (March 31, 2022 - \$nil) in respect of technology and general and administrative services pursuant to a managed services agreement.

The Company owed \$909,408 to Torstar Corporation at March 31, 2023 in respect of trade accounts payable and accrued liabilities which are due on 30 day payment terms and are non-interest bearing (March 31, 2022 - \$60,954).

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Notes to Condensed Consolidated Interim Financial Statements (continued)  
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## 17. Financial instruments and capital management:

### (a) Classification and fair values of financial instruments:

The following table sets out the Company's classification and carrying amount, together with the fair value, for each type of financial asset and financial liability as at March 31, 2023 and December 31, 2022:

Classification	March 31, 2023		December 31, 2022	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Amortized cost:				
Cash and cash equivalents	\$7,065,376	\$7,065,376	\$1,178,977	\$1,178,977
Restricted cash related to performance guarantee	100,000	100,000	100,000	100,000
Player deposits on hand	665,588	665,588	490,630	490,630
Subscription receipts held in escrow	-	-	5,075,000	5,075,000
Proceeds from convertible Debenture held in escrow	-	-	7,250,000	7,250,000
Accounts receivable	607,682	607,682	1,394,866	1,394,866
Amount due from payment processor	135,187	135,187	161	161
Fair value through profit and loss				
Mark to market on open events (note 8)	4,268	4,268	8,203	8,203
Financial liabilities:				
Amortized cost:				
Accounts payable and Accrued liabilities	\$5,078,524	\$5,078,524	\$6,401,719	\$6,401,719
Subscription receipts owed to subscribers	-	-	5,075,000	5,075,000
Liability for player deposits on hand	665,588	665,588	490,630	490,630
Due to related party	909,408	909,408	1,381,103	1,381,103
Player loyalty bonuses	50,167	50,167	19,400	19,400
Convertible debenture	-	-	12,250,000	12,250,000
Redeemable preferred shares	7,172,317	7,172,317	6,982,917	6,982,917

The carrying values of cash and cash equivalents, restricted cash related to performance guarantee, player deposits on hand, subscription receipts held in escrow, proceeds from

# NORTHSTAR GAMING HOLDINGS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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convertible debenture held in escrow, accounts receivable, amounts due from payment processor, accounts payable and accrued liabilities, subscription receipts owed to subscribers, liability for player deposits on hand, due to related party, player loyalty bonuses, convertible debenture and redeemable preferred shares approximate their fair values due to the nature of these financial instruments and the short settlement cycle that is expected for these financial assets and liabilities.

The mark to market on open events is determined using Level 2 fair value measurements.

Fair value measurements:

The Company, when applicable, provides disclosure of the three-level hierarchy that reflects the significance of the inputs used in making the fair value measurement. The three levels of fair value hierarchy based on the reliability of inputs are as follows:

- Level 1 - inputs are quoted prices in active markets for identical assets and liabilities.
- Level 2 - inputs are based on observable market data, either directly or indirectly other than quoted prices; and includes the mark to market on open events. This is calculated using the published odds of the event at the date of the financial statements.
- Level 3 - inputs are not based on observable market data.

(b) Risk Management:

The Company has exposure to the following risks:

(i) Credit risk:

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. In the normal course of business, the Company is exposed to credit risk from its cash and receivables. A large portion of the Company's receivables at March 31, 2023 are gaming revenues receivable from the government or government related entities which were received subsequent to period end. The maximum exposure to credit risk at the reporting date is the carrying value of these financial assets. The Company also is exposed to credit risk from its payment processor which transfers funds it receives to the Company's account on a daily basis. As part of its contract with iGaming Ontario, the Company subsequently remits 100% of its proceeds to iGaming Ontario each week at which point, iGaming Ontario then remits approximately 80% of the proceeds back to the Company within approximately 48 hours.

# NORTHSTAR GAMING HOLDINGS INC.

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(ii) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by maintaining sufficient balances in cash, managing credit risk as outlined below and raising additional capital. The Company is exposed to this risk mainly in respect of accounts payable and accrued liabilities which are all contractually due within three months or less.

A portion of the Redeemable Preferred Shares are callable on demand by the holders. While these preferred shares are redeemable at the option of the holder, the British Columbia Business Corporations Act prevents redemptions where such redemption would cause an insolvency event for the Company (note 11).

(c) Capital management:

The Company's capital management objectives are to maintain financial flexibility in order to preserve its capacity to meet its financial commitments, to meet its potential obligations resulting from internal growth and acquisitions and to the extent possible, pay dividends.

The Company defines capital as total equity and redeemable preferred shares which is consistent with December 31, 2022. At March 31, 2023, capital under management was an equity of \$3,173,437 (December 31, 2022 – deficit of \$8,562,250) as it was in its early stage of operations (refer to note 2).

The Company manages its capital structure in accordance with changes in economic conditions. In order to maintain or adjust its capital structure, subject to capital market conditions, the Company may elect to adjust the amount of debt outstanding or issue new shares.

In connection with the launch of operation of the Company's online gaming site, the Company also entered into an agreement with iGaming Ontario, a subsidiary of the AGCO, effective May 9, 2022. As per the terms of the agreement, the Company remits 100% of the funds from gross gaming revenues to iGaming Ontario and iGaming Ontario then remits approximately 80% of those funds back to the Company. The Company is not subject to any other external capital requirements.

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## 18. General and administrative expense classified by nature

	Three months ended March 31	
	2023	2022
Salaries, other short-term benefits and contractors	\$ 1,318,810	\$ 714,337
Professional and consulting fees	305,255	320,701
Other administrative expenses	301,896	88,353
Insurance	227,988	112
Share based payment expense	713,388	84
	<b>\$2,867,337</b>	<b>\$1,123,587</b>

## 19. Commitments

The Company has no off-balance sheet arrangements or long-term obligations, other than the agreements noted below.

During the five-year initial period as a gaming operator, in addition to the amounts stated below, the Company is also required to pay between 15.6% and 24.2% of future gross gaming revenue to its service providers.

The Company only has short-term leases or leases for which the underlying asset is of low value. Lease payments associated with these short-term leases are recognized as an expense on a straight-line basis.

	Less than One Year	One to Five Years	Greater than Five Years
Contractual commitments under service contracts	\$ 4,666,903	\$ 10,616,600	\$ 17,696,000
Balance, end of period	\$ 4,666,903	\$ 10,616,600	\$ 17,696,000

## 20. Subsequent events

- On April 6, 2023, pursuant to the Equity Compensation Plan (note 14), the Company issued 9,426,154 restricted share units to directors and executives at a unit price of \$0.55. These restricted share units vest on April 6, 2024.
- On May 8, 2023, the Company acquired 100% of the outstanding shares of Slapshot Media Inc. ("Slapshot"), a leading Canadian iGaming marketing and managed services company that specializes in providing managed services to Spreads.ca an iGaming site owned and operated by the Abenaki Council of Wolinak. The goal of this strategic acquisition is to access the



# **NORTHSTAR GAMING HOLDINGS INC.**

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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Canadian market outside of Ontario, and materially expand the addressable market available to the Company. This strategic acquisition is highly complementary to the Company's current online casino and sportsbook offerings. Spreads.ca is not and will not be made available in Ontario and NorthStar Bets will continue to be the only online casino and sports book offered by NorthStar in Ontario.

The Company acquired all of Slapshot's issued and outstanding shares for \$1,800,000, plus an adjustment for working capital. The Company issued 3,818,181 common shares to the former owners of Slapshot at a value based on the volume weighted average trading price equal to \$0.55 per share reflecting the purchase price an estimate of \$300,000 in respect of estimated working capital. The vendors of Slapshot are also be entitled to a separate earn-out of up to \$500,000 based on revenue performance of Slapshot for the 12-month period following the closing, payable quarterly in Company common shares with a deemed value per share equal to the greater of: (i) a 20-day volume weighted average price calculated at the end of each applicable quarter; and (ii) \$0.45 per share. The purchase price for the transaction is subject to customary, post-closing adjustments for working capital.

The Company currently anticipates that Slapshot will achieve the performance required to achieve the maximum earn-out. However, given the proximity of the acquisition date to the date of issuance of these condensed consolidated interim financial statements, the finalization and valuation of certain working capital items and intangible asset are not finalized and accordingly the Company is unable to complete the purchase price allocation at the time of issuance of these condensed consolidated interim financial statements.