WARSAW | APRIL 28TH 2023

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PCF GROUP SPÓŁKA AKCYJNA

GROUP

FULL-YEAR CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED DECEMBER 31ST 2022

Full-year consolidated financial statements for the financial year ended December 31st 2022 (all amounts in PLN thousand, unless stated otherwise)

PCF Group Spółka Akcyjna Group –

FINANCIAL HIGHLIGHTS (TRANSLATED INTO EUR)

	PLN		EUR	
	Dec 31 2022	Dec 31 2021	**Dec 31 2022**	Dec 31 2021
Statement of financial position				
Assets	350,804	316,692	74,800	68,855
Non-current liabilities	43,418	29,915	9,258	6,504
Current liabilities	29,757	27,235	6,345	5,921
Equity	277,629	259,542	59,197	56,430
Equity attributable to owners of the parent	272,306	257,461	58,062	55,977
PLN/EUR exchange rate at end of period	-	-	4.6899	4.5994

	PLN		EUR	
	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021	**Jan 1–Dec 31 2022**	Jan 1–Dec 31 2021
Statement of profit or loss				
Revenue	171,485	180,293	36,577	39,387
Operating profit (loss)	31,078	61,655	6,629	13,469
Profit (loss) before tax	30,435	64,441	6,492	14,078
Net profit (loss)	21,984	61,326	4,689	13,397
Net profit (loss) attributable to owners of the parent	18,672	61,367	3,983	13,406
Earnings per share (PLN)	0.73	2.07	0.16	0.45
Diluted earnings per share (PLN)	0.72	2.07	0.15	0.45
Average PLN/EUR exchange rate in period	-	-	4.6883	4.5775

	PLN		EUR	
	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021	**Jan 1–Dec 31 2022**	Jan 1–Dec 31 2021
Statement of cash flows				
Net cash from operating activities	59,168	59,254	12,620	12,945
Net cash from investing activities	(108,970)	(81,917)	(23,243)	(17,896)
Net cash from financing activities	(17,872)	118,399	(3,812)	25,865
Total net cash flows (net of the effect of foreign currency translation on cash)	(67,674)	95,736	(14,435)	20,914
Average PLN/EUR exchange rate in period	-	-	4.6883	4.5775

The financial data presented above has been translated into the EUR at the following exchange rates:

- items of the statement of profit or loss and the statement of cash flows – at the average exchange rate in the period, calculated as the mean of the exchange rates quoted by the National Bank of Poland for the last day of each month in the reporting period.
- items of the statement of financial position – at the mid exchange rate quoted by the National Bank of Poland for the last day of the reporting period.

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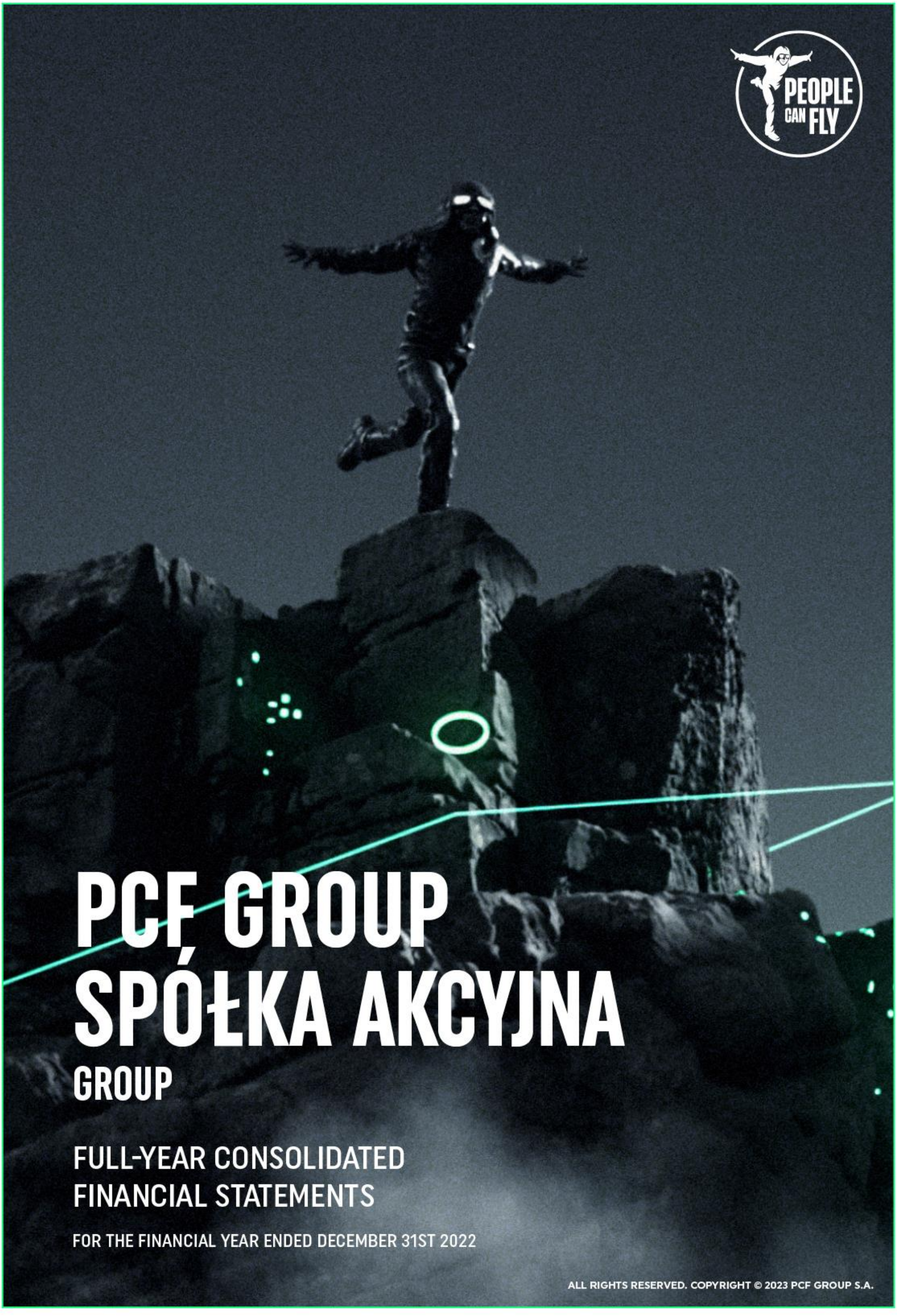


PCF GROUP SPÓŁKA AKCYJNA

GROUP

FULL-YEAR CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED DECEMBER 31ST 2022

Full-year consolidated financial statements for the financial year ended December 31st 2022 (all amounts in PLN thousand, unless stated otherwise)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Note	Dec 31 2022	Dec 31 2021
Non-current assets			
Goodwill	7	55,503	54,604
Intangible assets	4	130,023	30,738
Property, plant and equipment	5	11,780	10,846
Right-of-use assets	6	30,095	28,205
Other non-current financial assets		-	293
Long-term prepayments and accrued income	11	277	453
Deferred tax assets	8	222	203
Non-current assets		**227,900**	**125,342**
Current assets			
Contract assets	9	30,451	35,293
Trade and other receivables	10	23,448	18,030
Other current financial assets		-	1
Short-term prepayments and accrued income	11	1,022	924
Cash and cash equivalents	12	67,983	137,102
Current assets		**122,904**	**191,350**
Total assets		**350,804**	**316,692**

Full-year consolidated financial statements for the financial year ended December 31st 2022 (all amounts in PLN thousand, unless stated otherwise)

EQUITY AND LIABILITIES	Note	Dec 31 2022	Dec 31 2021
Equity			
Equity attributable to owners of the Parent:			
Share capital	14	599	599
Share premium	14	121,869	121,869
Other components of equity	14	54,988	50,727
Retained earnings	14	94,850	84,266
Equity attributable to owners of the Parent		**272,306**	**257,461**
Non-controlling interests	**14**	**5,323**	**2,081**
Equity		**277,629**	**259,542**
Liabilities			
Non-current liabilities			
Borrowings, other debt instruments	15	3,490	510
Leases	16	27,822	25,439
Deferred tax liability	8	2,289	2,991
Long-term prepayments and accrued income		9,817	975
Non-current liabilities		**43,418**	**29,915**
Current liabilities			
Trade and other payables	17	11,167	9,708
Contract liabilities	9	2,792	2,030
Current tax liabilities		7,591	2,444
Borrowings, other debt instruments	15	2,089	7,362
Leases	16	4,198	3,869
Employee benefit obligations and provisions	18	1,717	1,822
Short-term prepayments and accrued income		203	-
Current liabilities		**29,757**	**27,235**
Total liabilities		**73,175**	**57,150**
Total equity and liabilities		**350,804**	**316,692**

Full-year consolidated financial statements for the financial year ended December 31st 2022 (all amounts in PLN thousand, unless stated otherwise)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Continuing operations			
Revenue	3	171,485	180,293
Cost of sales	19	85,202	90,270
Gross profit (loss)		**86,283**	**90,023**
General and administrative expenses	19	55,438	36,373
Other income	19	1,141	9,334
Other expenses	19	908	1,329
Operating profit (loss)		**31,078**	**61,655**
Finance income	20	1,771	4,054
Finance costs	20	2,414	1,268
Profit (loss) before tax		**30,435**	**64,441**
Income tax	21	8,451	3,115
Net profit (loss) from continuing operations		**21,984**	**61,326**
Discontinued operations			
Net profit (loss) from discontinued operations		-	-
Net profit (loss)		**21,984**	**61,326**
Net profit (loss) attributable to:			
- owners of the Parent		18,672	61,367
- non-controlling interests		3,312	(41)

EARNINGS (LOSS) PER ORDINARY SHARE (PLN)

		Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
from continuing operations			
- basic	7	0.73	2.07
- diluted	7	0.72	2.07
from continuing and discontinued operations			
- basic	7	0.73	2.07
- diluted	7	0.72	2.07

Full-year consolidated financial statements for the financial year ended December 31st 2022 (all amounts in PLN thousand, unless stated otherwise)

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Net profit (loss)	**21,984**	**61,326**
Other comprehensive income		
Items reclassified to profit or loss		
Exchange differences on translation of foreign operations	2,718	2,123
Other comprehensive income, net of tax	**2,718**	**2,123**
Comprehensive income	**24,702**	**63,449**
Comprehensive income attributable to:		
- owners of the Parent	21,390	63,490
- non-controlling interests	3,312	(41)

PCF GROUP SPÓŁKA AKCYJNA GROUP Full-year consolidated financial statements for the financial year ended December 31st 2022 (all amounts in PLN thousand, unless stated otherwise)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to owners of the parent						
	Share capital	Share premium	Other components of equity	Retained earnings	**Total**	Non-controlling interests	**Total equity**
As at Jan 1 2022	**599**	**121,869**	**50,727**	**84,266**	**257,461**	**2,081**	**259,542**
Changes in equity in Jan 1–Dec 31 2022							
Measurement of warrants due to publisher Square Enix Limited	-	-	1,543	-	**1,543**	-	**1,543**
Dividends	-	-	-	(8,088)	**(8,088)**	(45)	**(8,133)**
Changes in the Group’s structure: liquidation of subsidiaries	-	-	-	-	**-**	(25)	**(25)**
Net profit (loss) for Jan 1–Dec 31 2022	-	-	-	18,672	**18,672**	3,312	**21,984**
Other comprehensive income net of tax for Jan 1–Dec 31 2022	-	-	2,718	-	**2,718**	-	**2,718**
As of Dec 31 2022	**599**	**121,869**	**54,988**	**94,850**	**272,306**	**5,323**	**277,629**

PCF GROUP SPÓŁKA AKCYJNA GROUP Full-year consolidated financial statements for the financial year ended December 31st 2022 (all amounts in PLN thousand, unless stated otherwise)

	Equity attributable to owners of the parent						
	Share capital	Share premium	Other components of equity	Retained earnings	**Total**	Non-controlling interests	**Total equity**
As at Jan 1 2021	**550**	**-**	**47,453**	**28,516**	**76,519**	**-**	**76,519**
Changes in equity in Jan 1–Dec 31 2021							
Costs of issue of Series B and Series D shares	-	(3,512)	-	-	**(3,512)**	-	**(3,512)**
Issue of Series B and Series D shares	49	125,381	-	-	**125,430**	-	**125,430**
Measurement of warrants due to publisher Square Enix Limited	-	-	1,151	-	**1,151**	-	**1,151**
Dividends	-	-	-	(5,617)	**(5,617)**	-	**(5,617)**
Changes in the Group's structure: acquisition of subsidiaries	-	-	-	-	**-**	2,122	**2,122**
Net profit (loss) for Jan 1–Dec 31 2021	-	-	-	61,367	**61,367**	(41)	**61,326**
Other comprehensive income net of tax for Jan 1–Dec 31 2021	-	-	2,123	-	**2,123**	-	**2,123**
As at Dec 31 2021	**599**	**121,869**	**50,727**	**84,266**	**257,461**	**2,081**	**259,542**

Full-year consolidated financial statements for the financial year ended December 31st 2022 (all amounts in PLN thousand, unless stated otherwise)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Cash flows from operating activities			
Profit (loss) before tax		**30,435**	**64,441**
Adjustments:			
Depreciation and impairment of property, plant and equipment	18	4,852	2,443
Amortisation and impairment of intangible assets	18	7,696	3,807
Depreciation of right-of-use asset	18	4,570	5,289
Gain (loss) on disposal of non-financial non-current assets		(13)	-
Gain/(loss) on sale of non-derivative financial assets		(531)	(20)
Foreign exchange gains (losses)		2,908	(1,617)
Interest expense		1,655	952
Interest and dividend income		(1,359)	(956)
Forgiven borrowings and subsidies		-	(3,339)
Other adjustments		1,616	2,570
Change in receivables		(5,418)	(6,934)
Change in financial assets		294	(123)
Change in liabilities		1,354	1,643
Change in provisions, accruals and deferrals		9,123	1,183
Change in contract assets and liabilities		5,604	(10,704)
Income tax paid		(3,618)	619
Net cash from operating activities		**59,168**	**59,254**
Cash flows from investing activities			
Payments for intangible assets		(104,980)	(23,152)
Payments for property, plant and equipment		(5,511)	(4,325)
Proceeds from disposal of property, plant and equipment		13	20
Net expenditure on acquisition of subsidiaries		(1,084)	(55,287)
Proceeds from sale of other financial assets		851	-
Interest received		1,741	827
Net cash from investing activities		**(108,970)**	**(81,917)**
Cash flows from financing activities			
Net proceeds from issue of shares		-	129,656
Costs of issue of Series B and D shares, accounted for in equity		-	(2,445)
Proceeds from borrowings and subsidies		613	3,339
Repayment of borrowings		(2,907)	(995)

Full-year consolidated financial statements for the financial year ended December 31st 2022 (all amounts in PLN thousand, unless stated otherwise)

Payment of lease liabilities	(5,534)	(5,371)
Interest paid	(170)	(168)
Dividends paid	(9,874)	(5,617)
Net cash from financing activities	**(17,872)**	**118,399**
Total net cash flows	**(67,674)**	**95,736**
Effect of foreign currency translation on cash	(1,445)	64
Net change in cash	**(69,119)**	**95,800**
Cash and cash equivalents at beginning of period	137,102	41,302
Cash and cash equivalents at end of period	**67,983**	**137,102**

PCF GROUP SPÓŁKA AKCYJNA

GROUP

FULL-YEAR CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED DECEMBER 31ST 2022

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

The parent

The parent of the PCF Group Spółka Akcyjna Group (the "**Group**") is PCF Group Spółka Akcyjna (the "**parent**"). The parent is entered in the Business Register of the National Court Register maintained by the District Court for the Capital City of Warsaw, 13th Commercial Division, under entry No. KRS 0000812668. The Parent's Industry Identification Number (REGON) is 141081673.

The parent's registered office is located at Al. Solidarności 171, 00-877 Warsaw, Poland.

It is also the principal place of business of the Group.

Composition of the parent's Management Board and Supervisory Board

As at the date of authorisation of these consolidated financial statements for issue, the Management Board of the parent consisted of:

- **Sebastian Kamil Wojciechowski**, President of the Management Board.

In the period from January 1st 2022 to the date of authorisation of these consolidated financial statements for issue, the composition of the Parent's Management Board did not change.

However, on May 31st 2022, Sebastian Wojciechowski resigned from the Management Board with effect from the day of the Annual General Meeting approving the Parent's financial statements for the financial year 2021 (which was held on June 28th 2022). At the same time, on May 31st 2022, Sebastian Wojciechowski, acting in the exercise of his personal right to appoint and remove the member of the Parent's Management Board in the position of President of the Parent's Management Board, appointed himself as President of the Parent's Management Board for the second joint term of office of the Management Board, with effect from the day following the day of the Annual General Meeting approving the Parent's financial statements for the financial year 2021 (which was held on June 28th 2022).

He had resigned as member of the Parent's Management Board for prudential reasons, i.e., to avoid any legal controversy as to the time of expiry of the mandate of the Parent's Management Board member in view of the approaching end of the term of office of the Parent's Management Board, which expired on November 6th 2022. In the absence of unequivocal legal regulations it was not clear whether, if he did not resign as member of the Parent's Management Board, the mandate of the Parent's Management Board member would expire at the Annual General Meeting approving the Parent's financial statements for the financial year 2021 (which was held on June 28th 2022), or at the Annual General Meeting approving the Parent's financial statements for the financial year 2022, which will be held in 2023.

The Parent is of the opinion that the resignation of the member of the Parent's Management Board and his appointment for a new, second term of office with effect from the day following the day of the Annual General Meeting approving the Parent's financial statements for the financial year 2021 (which was held on June 28th 2022) allowed the Parent to avoid doubts as to the correctness of appointments to the Parent's Management Board and the counting of the term of office of President of the Parent's Management Board.

As at the date of authorisation of these consolidated financial statements for issue, the Supervisory Board of the Parent consisted of:

- **Mikołaj Wojciechowski** – Chair of the Supervisory Board,
- **Jacek Pogonowski** – Member of the Supervisory Board,
- **Barbara Sobowska** – Member of the Supervisory Board,
- **Kuba Dudek** – Member of the Supervisory Board,

- **Dagmara Zawadzka** – Member of the Supervisory Board.

In the period from January 1st 2022 to the date of authorisation of these consolidated financial statements for issue, the following changes occurred in the composition of the Supervisory Board:

- **Aleksander Ferenc** resigned from the Supervisory Board on March 3rd 2022 with effect from March 3rd 2022;
- **Dagmara Zawadzka** – appointment by co-optation as Member of the Supervisory Board on March 7th 2022, approved by the Extraordinary General Meeting on April 13th 2022.

On May 31st 2022, all members of the Parent's Supervisory Board of the first joint term of office expiring on November 6th 2022, i.e. Mikołaj Wojciechowski as Chair of the Supervisory Board and the following members: Barbara Sobowska, Dagmara Zawadzka, Kuba Dudek and Jacek Pogonowski, resigned from the Supervisory Board with effect from the date of the Annual General Meeting approving the Parent's financial statements for the financial year 2021 (held on June 28th 2022).

At the same time, on May 31st 2022, a Group of Qualifying Shareholders within the meaning of Article 17.3 of the Articles of Association of the Parent, comprising Sebastian Wojciechowski, Bartosz Kmita, Bartosz Biełuszko and Krzysztof Dolaś, in the exercise of the personal right vested in the Group of Qualifying Shareholders to appoint and remove members of the Supervisory Board, appointed Mikołaj Wojciechowski, Barbara Sobowska and Kuba Dudek as members of the Supervisory Board for the second joint term of office, with effect from the day following the day of the Annual General Meeting approving the Parent's financial statements for the financial year 2021 (which was held on June 28th 2022). The Group of Qualifying Shareholders also designated Mikołaj Wojciechowski as Chair of the Supervisory Board.

On June 28th 2022, the Annual General Meeting of the Parent appointed Dagmara Zawadzka and Jacek Pogonowski as members of the Supervisory Board of the Parent meeting the independence criteria for audit committee members, as set out in the Act on Statutory Auditors, Audit Firms and Public Oversight of May 11th 2017 (the "Act on Statutory Auditors"), for the second joint term of office of the Parent's Supervisory Board, with effect from June 29th 2022.

Business of the Group

The principal business of the Parent and its subsidiaries is development of video games. For a more detailed description of the business of the Group, see Note 3 on revenue and operating segments.

Composition of the Group

PCF Group S.A. is the Parent of the PCF Group S.A. Group. The chart below presents the composition and structure of the Group as at December 31st 2022.

The Parent has a branch in Rzeszów operating under the name of: PCF Group Spółka Akcyjna Oddział w Rzeszowie "Oddział Badawczo-Rozwojowy" (Research and Development Branch), located at ul. Wrzesława Romańczuka 6, 35-302 Rzeszów.

The subsidiaries do not have any branches.

The Parent and the consolidated entities of the Group have been established for an indefinite time.

In the period from January 1st 2022 to the date of authorisation of these consolidated financial statements for issue, there were no changes in the name or other particulars of the parent.

Changes in the Group's structure in the reporting period, including changes which follow from mergers, acquisitions or sale of subsidiaries, long-term investments, restructuring or discontinuation of business

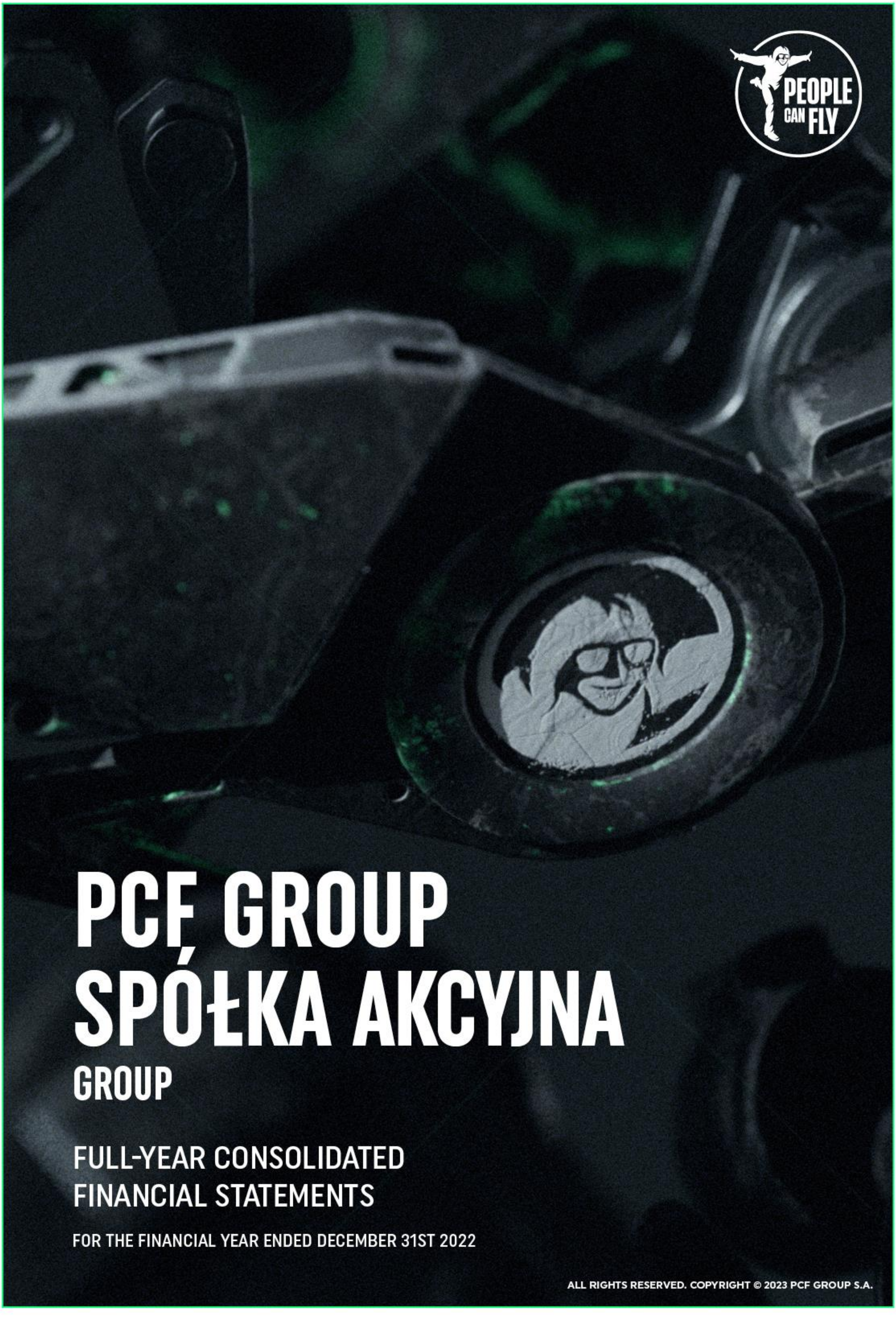
The following changes occurred in the Group's structure in the 12 months ended December 31st 2022:

- **Spectral Games S.A.** – on April 11th 2022, Incuvo S.A. entered into five share purchase agreements with entities unrelated to Incuvo S.A., concerning the sale by Incuvo S.A. of all shares in Spectral Games S.A., i.e., 2,934,286 shares representing 32.14% of the share capital and of voting rights at the General Meeting of Spectral Games S.A. The sale was effected upon entry of the buyers in the register of Spectral Games S.A. shareholders, i.e., on April 26th 2022. From the time of acquisition of 50.01% of shares in Incuvo S.A., PCF Group S.A. did not have control over Spectral Games S.A.

- **Spectral Applications Sp. z o.o. w likwidacji (in liquidation) ("Spectral Applications")** – on June 30th 2022, the Annual General Meeting of Spectral Applications Sp. z o.o. resolved to wind up the company and open its liquidation.

  As Spectral Applications was placed under liquidation, the direct parent of Spectral Applications, i.e., Incuvo S.A., concluded that it did not have control over Spectral Applications, within the meaning of Art. 3.1.34 of the Accounting Act of September 29th 1994 (consolidated text: Dz. U. of 2021, item 217, as amended), having no power to govern the financial and operating policies of Spectral Applications so as to obtain economic benefits from its activities, and therefore Spectral Applications ceased to be a subsidiary of Incuvo S.A. and ceased to be consolidated with Incuvo S.A. as of July 1st 2022.

Consequently, the Parent has also concluded that it does not have control over Spectral Applications within the meaning of IFRS 10 having no power to govern the financial and operating policies of Spectral Applications so as to obtain economic benefits from its activities and therefore Spectral Applications is not a subsidiary of the Parent and is no longer consolidated with the Parent (as of July 1st 2022).



PCF GROUP SPÓŁKA AKCYJNA

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FULL-YEAR CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED DECEMBER 31ST 2022

2. Basis of accounting and accounting policies

Basis of accounting used in preparing the consolidated financial statements

These consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed by the European Union and effective as at December 31st 2022.

The functional currency of the parent and the presentation currency of these consolidated financial statements is the Polish zloty, and all amounts are expressed in thousands of Polish zloty (PLN), unless stated otherwise. For consolidation purposes, the financial statements of foreign operations have been translated into the Polish currency in accordance with the accounting policies presented below.

The consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future. As at the date of approval of these consolidated financial statements for issue, no circumstances were identified which would indicate any threat to the Group continuing as a going concern.

Accounting policies

Presentation of financial statements

These consolidated financial statements are presented in accordance with International Accounting Standard 1 *Presentation of Financial Statements* ("IAS 1"). The Group presents separately the "Consolidated statement of profit or loss", which is shown immediately before the "Consolidated statement of other comprehensive income".

The "Consolidated statement of profit or loss" is prepared using the calculation method, and the "Consolidated statement of cash flows" is prepared using the indirect method.

If there are retrospective changes in accounting policies, disclosures or correction of errors, the Group presents an additional statement of financial position prepared as at the beginning of the comparative period if the changes are material to the data presented as at the beginning of the comparative period. In such a case, the presentation of notes to the third statement of financial position is not required.

Consolidation

These financial statements include the financial statements of the parent and of the companies controlled by the Group, i.e. the subsidiaries, prepared as at and for the years ended December 31st 2022 and December 31st 2021. Control is exercised by the Group if:

- the Group has power over a given entity;
- the Group is exposed to variable returns or has rights to variable returns from its involvement in that entity;
- the Group has the ability to affect those returns through its power over the entity.

The financial statements of the parent and the subsidiaries included in the consolidated financial statements are prepared as at the same date, i.e. December 31st. When necessary, the financial statements of the subsidiaries are adjusted to ensure consistency of the accounting policies applied by a given company with the policies applied by the Group.

Subsidiaries are consolidated using the acquisition method of accounting.

This method consists in combining the financial statements of the parent and its subsidiaries by adding together, in full, individual items of assets, liabilities, equity, income and expenses. In order to present the Group as if it were a single economic entity, the following exemptions are made:

- intra-group balances and transactions (income, expenses, dividends) are eliminated in their entirety;
- gains and losses resulting from intra-group transactions which are included in the carrying amount of such assets as inventory or property, plant and equipment, are eliminated;
- deferred tax on temporary differences that arise from the elimination of gains and losses resulting from intra-group transactions is recognised in accordance with International Accounting Standard 12 *Income Taxes* ("IAS 12").

Functional currency and presentation currency

The functional currency of the parent and the presentation currency of these consolidated financial statements is the Polish złoty (PLN). The functional currencies of the subsidiaries covered by these consolidated financial statements are the currencies of the main economic environments in which these subsidiaries operate. For the purposes of consolidation of the foreign subsidiaries, their financial statements are translated into PLN at the exchange rates quoted for these currencies by the National Bank of Poland.

Transactions and balances

Transactions in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions, as well as from the carrying amounts of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

Operating segments

In distinguishing operating segments, the Management Board of the parent is guided by the type of income generated. Each segment is analysed separately for each type of income (contract game development or copyrights to developed games (royalties)).

As required under International Financial Reporting Standard 8 *Operating Segments* ("IFRS 8"), results of operating segments are based on internal reports periodically reviewed by the Management Board of the parent (the chief operating decision maker of the Group). The Management Board analyses results of the operating segments at the level of operating profit (loss). Measurement of the operating segments' results used in the management calculations is consistent with the accounting policies applied in the preparation of these consolidated financial statements; the division into operating segments has also been presented in terms consistent with IFRS.

Revenue disclosed in the consolidated statement of profit or loss does not differ from the revenue presented by the operating segments, except for unallocated revenue and consolidation eliminations of inter-segment transactions.

Revenue

Revenue is solely revenue from contracts with customers falling within the scope of International Financial Reporting Standard 15 *Revenue from Contracts with Customers* ("IFRS 15"). The method of recognising revenue in consolidated financial statements of the Group, including both the amount and timing of revenue recognition, is determined by a five-step model comprising the following steps:

- identifying the contract with a customer;
- identifying performance obligations,
- determining the transaction price,
- allocating the transaction price to the performance obligations,
- recognising revenue when or as the performance obligations are satisfied.

Revenue is the inflow of economic benefits in a given period, arising in the ordinary course of the Group's business, resulting in an increase in equity other than an increase resulting from contributions by shareholders.

The Group recognises revenue using the five-step model prescribed in IFRS 15. Revenue comprises only amounts received or receivable equal to transaction prices that accrue to the Group upon fulfilment (or in the course of fulfilment) of its performance obligations involving the transfer of the promised goods or services (i.e. assets) to the customer. The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for the transfer of the promised goods or services, less value added tax due.

Costs of used materials, merchandise and finished goods are recognised by the Group in the same period as revenue from sales of such items, in accordance with the principle of matching income with expenses.

The Group distinguishes three sources of income:

- revenue from contract development of video games,
- revenue from sale of copyrights to developed games (royalties),
- revenue from sale of self-published video games.

Policy for recognition of revenue from contract development of video games

Identifying the contract

The Group recognises a contract with a customer only when all of the following criteria are met:

- the parties have entered into a contract (in writing, orally or in accordance with other customary business practices) and are obliged to perform their respective obligations,
- the Group is able to identify each party's rights to the goods or services to be transferred,
- the Group is able to identify terms of payment for the goods or services to be transferred,
- the contract has economic substance (i.e. the risk, timing or amount of the Group's future cash flows can be expected to change as a result of the contract), and
- it is probable that the Group will receive the consideration to which it is entitled in exchange for the goods or services that will be provided to the customer.

Identifying performance obligations

At the inception of a contract, the Group assesses the goods or services that have been promised to the customer and identifies as a performance obligation each good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A contract for development of video games with an independent publisher is treated as a separate (distinct) performance obligation (delivery of a complete game to the publisher).

Determining the transaction price

In order to determine the transaction price, the Group takes into account the terms of the contract and its customary business practices. Transaction price is the amount to which the Group expects to be entitled in exchange for the transfer of promised goods or services to the customer. The consideration specified in the contract with the customer includes fixed and variable components (possible bonuses). The Group estimates the amount of variable consideration using the most-likely-amount method.

In the absence of a significant financing component, the Group does not adjust the promised amount of consideration for the effect of the time value of money.

Allocating the transaction price to performance obligations

The Group allocates the transaction price to each performance obligation (or to a distinct good or service) in an amount that reflects the amount of consideration to which the Group expects to be entitled in exchange for performance of the obligation, i.e. delivery to the publisher of a complete game.

Recognition of revenue when or as performance obligations are satisfied.

Under IFRS 15, an entity recognises revenue in an amount of the consideration to which the entity expects to be entitled in exchange for transferring promised goods or services to a customer. A contract with a publisher specifies the detailed terms of cooperation, including the amount of remuneration. Copyrights to the game are transferred to the publisher as the game development process progresses (according to contract milestones). This is consistent with IFRS 15.35c which states the performance does not create an asset with an alternative use to the entity and the Group has an enforceable right to payment for performance completed to date, therefore the Group's revenue is recognised over time. Subcontractor work is recognised in accordance with the method described in IFRS 15.B.19(b), i.e. revenue is recognised to the extent of costs incurred and billed by the reporting date, while the realised margin is added to the total contract revenue. Revenue as at the reporting date is estimated on the basis of the stage of contract completion determined based on the amount of costs incurred cumulatively in relation to the total costs planned to be incurred to perform the contract obligation. Revenue is estimated at each reporting date in accordance with best available estimates and is adjusted for foreseeable adjustments, bonuses and other variable elements.

Advance payments received from customers

The Group receives short-term advances from customers for future development of video games. With respect to short-term advances (the period between the moment when the customer pays for the goods or services and the moment when they are delivered does not exceed one year), the Group has applied the practical expedient permitted under IFRS 15 and does not recognise any financing component. These advances are recognised as trade payables.

Policy for recognition of revenue from sale of copyrights to developed games (royalties)

The Group licenses its software (intellectual property) to game publishers who also act as distributors. A licence that is transferred for a prescribed period gives distributors access to the intellectual property as it exists during the term of the licence. Revenue is recognised based on royalties from the sale of game distribution licences. The amount of the revenue depends indirectly on the volume of sales to end users (players) made by the distributor at a given point in time in the reporting period, and represents the Group's direct share in the profit earned by the publisher after reimbursement of costs incurred by the publisher, including costs of developing, promoting and distributing the games. The transaction price is determined as a percentage of the amount of sales generated by the distributor. Thus, the Group's royalty revenue is recognised at the time of sale of a given product by game distributors to end users based on sales reports provided by the game distributors. The Group receives sales reports on a quarterly basis, after the end of each quarter.

Policy for recognition of revenue from sale of self-published video games

The Group, as a publisher of video games that it also develops based on own IP, whether already existing or newly created during game development, will recognise revenue from sale of such games (self-published video games).

Such revenue will be recognised based on royalties received from sale of self-published games, and its amount will depend on the volume of sales to end users (gamers) at a given point in time in the reporting period.

Operating expenses

Operating expenses are recognised in profit or loss, in accordance with the of matching income and expenses. In the consolidated financial statements, the Group presents expenses by place of their origin.

Finance income and costs

Finance income comprises mainly interest on deposits of free cash in bank accounts, and foreign exchange gains.

Finance costs include mainly default interest, interest on leases, and foreign exchange differences.

Income tax

Mandatory decrease in profit includes current income tax and deferred income tax. Current income tax is calculated based on the taxable profit (tax loss) for a financial year. Tax profit (loss) differs from accounting profit (loss) before tax due to the different timing of recognition of income and expenses for tax and accounting purposes, and due to the permanent differences between tax and accounting treatment of certain items of income and expenses. Tax expense is calculated based on the tax rates in effect for the fiscal year. Current tax on items recognised directly in equity is recognised in equity rather than in profit or loss.

Deferred tax is calculated on a net basis as tax payable or refundable in the future on differences between the carrying amounts of assets and liabilities and the corresponding tax bases used to calculate the tax amount.

Deferred tax liabilities are recognised for all taxable temporary differences, while deferred tax assets are recognised to the extent that it is probable that future taxable profits will be reduced by the amount of recognised deductible temporary differences (provisions, contract assets). No deferred tax assets or liabilities are recognised if a temporary difference arises on account of goodwill or initial recognition of another asset or liability in a transaction which does not affect tax or accounting profit.

A deferred tax liability is recognised for temporary tax differences associated with investments in subsidiaries, associates and joint ventures, unless the Group is able to control the timing of reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow a part or all of the deferred tax asset to be utilised.

Deferred tax is calculated at tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

Value-added tax

Income, expenses and assets are recognised net of value-added tax, except in the following cases:

- where the value-added tax paid on the purchase of assets or services is not recoverable from the tax authorities; in such a case it is recognised as part of the cost of the asset, as applicable;
- receivables and payables which are recognised inclusive of value-added tax.

The net amount of value-added tax recoverable from or payable to tax authorities is disclosed in the statement of financial position under receivables or liabilities, as appropriate.

Goodwill

Goodwill arising on acquisition of a business is initially recognised at cost being the excess of the cost of the business combination over the acquirer's share in the fair value of net identifiable assets, liabilities and contingent liabilities. Following initial recognition goodwill is carried at cost less cumulative impairment losses. Goodwill is not amortised. As at the acquisition date, the acquired goodwill is allocated to each of the cash-generating units that may benefit from the synergies of the business combination.

Each unit or group of units to which the goodwill is so allocated shall:

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- not be larger than an operating segment of the Group determined in accordance with IFRS 8 Operating Segments prior to aggregation.

Intangible assets – development expenditure

Costs incurred to develop video games at the Group's own risk are recognised and measured as development expenditure.

Expenditure directly attributable to development work is recognised as an intangible asset only when the following criteria are met in accordance with IAS 38.57:

- it is technically feasible to complete the intangible asset so that it is suitable for use or sale,
- the Group intends to complete the asset and either use it or sell it,
- the Group is able to either use or sell the intangible asset,
- the intangible asset will generate economic benefits, and the Group can prove this benefit, including through the existence of a market or the usefulness of the asset for the Group's needs,
- technical, financial and other resources are available to complete the development work to sell or use the asset,
- the expenditure incurred in the course of development work can be measured reliably and attributed to a given item of intangible assets.

Confirmation that expenditure made until the moment an asset is assessed as ready for use meets the criteria for classification as development work is the Group's assessment that it has the necessary knowledge to produce a game which will be recognised as development work, as well as the Group's assessment that the game will have commercial potential – this assessment is made based on, among other things, publicly available sales data for comparable games and the game's production budget prepared by the Management Board of the parent, including estimates of future sales and profitability.

The Group considers the following as confirmation that the criteria for classification of development work as complete and fit for use are met: confirmation that the game design meets the technical requirements for use and has obtained certification, and that the product has been released for sale.

Development expenditure incurred as part of a given development project is recognised as an intangible asset if, based on an analysis, the parent's Management Board believes that the project meets the recognition criteria described above, the expenditure will be controlled by the Group, and future economic benefits are expected to flow to the Company. Expenditure incurred on development work which is not completed and accepted for use as at the reporting date is disclosed in the line item 'Development work in progress'.

The Management Board of the Parent assesses the above recognition criteria on a case-by-case basis and quantifies them as appropriate. For the items recognised in the consolidated financial statements, all the conditions required by the standard were met.

Future benefits are estimated in accordance with the principles set out in International Accounting Standard 36 *Impairment of Assets* ("IAS 36"), as described in the section 'Impairment of assets'.

Subsequent to the initial recognition of development expenditure, the historical cost model is applied, under which assets are recognised at acquisition or production cost less accumulated amortisation and accumulated impairment losses.

Development expenditure is amortised over the expected life cycle of the product. Development expenditure on produced games is amortised over a period of five years.

Amortisation of development expenditure is presented as cost of products and services sold in the statement of profit or loss.

Intangible assets – other intangible assets, licences and software

Intangible assets also include computer licences and software acquired in market transactions as well as other intangible assets (which include other intangible assets not classified as computer licences or software).

Each item of intangible assets must meet the conditions for recognition as an asset, i.e., the asset must be controlled by the Group, it must be expected that the Group will derive economic benefits from the asset in the future, and the asset must meet the conditions set out in IAS 38.21, i.e., it must be probable that the Group will derive future economic benefits that can be assigned to the asset, and it will be possible to reliably determine the purchase price of the asset.

The Management Board of the Parent assesses the above recognition criteria on a case-by-case basis and quantifies them as appropriate. For the items recognised in the consolidated financial statements, all the conditions required by the standard were met.

Intangible assets are recognised at cost less amortisation expense and impairment losses. Amortisation is calculated on a straight-line basis.

Research costs are not capitalised and are presented in the statement of profit or loss as costs in the period in which they were incurred.

Two licences for the Unreal Engine game engine were the most significant items of other intangible assets, licences and computer programs. For these licenses, the amortisation period from initial recognition in 2015 was estimated at 10 years. When determining their useful lives, the Parent’s Management Board primarily takes into account their expected use by the Group over the game development period, which is the same as the typical life cycle of a game engine licence, as each such licence can be used to publish and commercialise one game only. It is also possible that a publisher will be obliged under a development and publishing agreement to procure for itself a game engine licence to publish and commercialise a video game and to sublicense the engine to the parent or another Group entity at a certain stage of the game development process. In such a case, the developer may use the licence it already holds to develop another game, which would require conducting an analysis and reviewing the useful life of the licence. During the planned term of the licence, the Group controls the asset (licence).

The parent's Management Board reviews the useful lives of the Unreal Engine licences every six months.

Expected useful lives for each group of intangible assets	**Useful life**
Patents and licences	1-10 years
Software	2-10 years

Property, plant and equipment

Property, plant and equipment are initially recognised at cost less depreciation and impairment in subsequent periods. Property, plant and equipment are tangible assets with estimated useful lives of more than one year.

Depreciation is calculated for all property, plant and equipment, excluding land and property, plant and equipment under construction, over the estimated useful life of the assets, using the straight-line method.

Expected useful lives for each group of property, plant and equipment	**Useful life**
Buildings and structures	5-10 years
Machinery and equipment	2-10 years
Other property, plant and equipment	2-10 years

The Group periodically reviews the useful lives of property, plant and equipment, the residual value and depreciation methods adopted no later than at the end of the financial year, with consequences of changes in such estimates taken into account in the next and subsequent financial years (prospectively). As at the reporting date, the Group also reviews property, plant and equipment for impairment and the need to recognise impairment losses. Impairment losses are recognised at the amount by which the carrying amount of the asset exceeds its recoverable amount. Recoverable amount is the higher of fair value less costs to sell or value in use.

Impairment losses are charged to other costs appropriate for the function of property, plant and equipment in the period when the impairment is identified, not later than at the end of the financial year. Any gains or losses arising from sale/retirement or withdrawal from use are calculated as the difference between proceeds from the sale and the net carrying amount of the item of property, plant and equipment, and are recognised in profit or loss.

Right-of-use assets and leases

International Financial Reporting Standard 16 *Leases* ("IFRS 16") establishes principles for the recognition, measurement, presentation and disclosure of leases. For contracts in which the Group acts as a lessee, a uniform accounting treatment was applied where the lessee recognises a right-of-use asset in correspondence with a lease liability.

A contract is classified as a lease if the contract conveys the right to control the use of an identified asset. For a contract to qualify as a lease, three conditions must be met:

- the contract provides the lessee with the right to use the identified asset,
- the lessee derives economic benefits from the use of the asset,
- the lessee obtains the right to direct the use of the asset for the duration of the lease.

The Group has identified three types of contracts that meet the criteria for recognition under IFRS 16:

- leases of office space,
- leases of equipment,
- leases of other property, plant and equipment (furniture).

A lease term includes the non-cancellable term of the lease and periods for which the lease may be renewed if it can be assumed with reasonable certainty that the Group will exercise this right, as well as periods when the lease may be terminated if it can be assumed with reasonable certainty that the Group will not exercise this right. When determining the lease term, the legal and customary regulations applicable in the Polish legal environment as well as the nature of the Group's contracts were also taken into account. At the commencement date, the Group recognises a right-of-use asset and a lease liability.

A right-of-use asset is measured at cost which includes:

- the initial amount of the lease liability;
- any lease payments made at or prior to commencement of the lease, less any lease incentives received;
- any initial direct costs incurred by the lessee.

After the lease commencement date, the Group measures the right-of-use asset at cost less accumulated depreciation and accumulated impairment losses, adjusted for effects of any remeasurement of the lease liability. Leased assets are depreciated over their economic useful lives.

At the lease commencement date, lease liabilities are measured at the present value of lease payments then outstanding. The lease payments are discounted using the incremental borrowing rate.

A lease liability includes the following payments:

- fixed payments, less any lease incentives due,
- variable lease payments that depend on an index or a rate, measured initially using that index or rate at their value at commencement of the lease,
- amounts expected to be paid by a lessee under a residual value guarantee,
- the exercise price of the call option if it is reasonably certain that the lessee will exercise that option,
- lease termination fees if the lessee is entitled to exercise the option to terminate the lease.

After the lease commencement date, the carrying amount of a lease liability is increased to reflect interest on the lease liability, reduced to take account of the lease payments made, and remeasured to take account of any reassessment or modification of the lease. Only lease components are included in the measurement of right-of-use assets and lease liabilities. Other components, such as payments for utilities, are recognised separately in accordance with the rules applicable to such payments.

For:

- short-term leases and
- low-value leases.

The Group does not apply the requirements of IFRS 16.22–49.

Financial assets

At the date of acquisition, the Group measures financial assets at fair value, i.e. most often at the fair value of the consideration paid. Transaction costs are included in the initial value of all financial assets, except in the case of financial assets at fair value through profit or loss. Exception to this rule is trade receivables, which the Company measures at transaction price within the meaning of IFRS 15, except for those items of trade receivables where the payment term is longer than one year and which include a significant financing component as defined in IFRS 15.

For the purpose of measurement subsequent to initial recognition, financial assets other than hedging derivatives are classified by the Group as follows:

- financial assets measured at amortised cost,
- financial assets at fair value through other comprehensive income,
- financial assets at fair value through profit or loss, and
- equity instruments measured at fair value through other comprehensive income.

These categories determine the principles of measuring financial assets as at the reporting date and the recognition of measurement gains or losses in profit or loss or other comprehensive income. The Group classifies financial assets into categories based on the Group's business model for managing financial assets and the contractual cash flows specific to the financial asset.

A financial asset is measured at amortised cost if both of the following conditions are met (and the financial asset has not been designated on initial recognition as financial asset at fair value through profit or loss):

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the terms of contract for the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

Financial assets measured at amortised cost include:

- trade receivables, other receivables (except for those to which International Financial Reporting Standard 9 Financial Instruments (“IFRS 9”) does not apply) and cash.

These classes of financial assets are presented in the consolidated statement of financial position, broken down into non-current and current assets under 'Trade and other receivables' and 'Cash and cash equivalents'.

Short-term receivables are measured at amounts expected to be received, as the effect of discounting future receipts would be negligible.

Given immaterial amounts, the Group does not recognise interest income as a separate item but discloses it under finance income.

Other gains and losses on financial assets recognised in profit or loss, including foreign exchange gains and losses, are presented as finance income or costs.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is both to receive contractual cash flows and to sell the financial asset,
- the terms of contract for the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

Interest income, impairment gains and losses, and foreign exchange gains and losses on such assets are calculated and recognised in profit or loss in the same manner as for financial assets measured at amortised cost. Other changes in the fair value of these assets are recognised through other comprehensive income. When a financial asset measured at fair value through other comprehensive income is derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified from equity to profit or loss.

In the reporting period, the Group did not hold any financial assets designated as measured at fair value though profit or loss.

A financial asset is measured at fair value through profit or loss if it does not meet the criteria to be measured at amortised cost or at fair value through other comprehensive income and is not an equity instrument designated at initial recognition to be measured at fair value through other comprehensive income. This category also includes financial assets designated on initial recognition as measured at fair value through profit or loss because they meet the criteria specified in IFRS 9.

In the reporting period, the Group did not hold any financial assets designated as measured at fair value though profit or loss.

Financial assets classified as measured at amortised cost and contract assets, due to the business model and the nature of the cash flows associated with them, are assessed at each reporting date to recognise expected credit losses, irrespective of whether there is any indication of impairment. The method of making this assessment and estimating allowances for expected credit losses varies depending on the class of financial assets:

- For trade receivables and contract assets, the Group applies a practical expedient and measures the allowance for expected credit losses at an amount equal to the expected credit losses over the life of the instrument. Allowances are estimated by counterparty and have been grouped based on the number of days past due. Impairment losses are estimated based mainly on historical data on days past due and a relationship between days past due and actual payments over the last four years, taking into account available information relating to the future. The Group has assumed that the risk increases significantly when the time past due exceeds 60 days. The Group has assumed that a default occurs when the time past due has reached 90 days.

- For cash, the Group applies a practical expedient and measures allowances for expected credit losses at an amount equal to the expected credit losses over the life of the instrument. The estimation is made on the basis of the assessment of risk of credit loss based on the available information on credit ratings of the banks at which the Group holds cash. If a rating falls below BBB(-), the Group assesses the degree of uncertainty and its impact on the likelihood of credit losses occurring.

Cash and cash equivalents

Cash consists of cash in bank accounts, demand deposits and bank deposits with a maturity of up to three months. Cash equivalents are short-term, highly liquid investments readily convertible into specific amounts of cash and subject to insignificant risk of changes in value.

Prepayments and accrued income

The line item 'Prepayments and accrued income' includes prepaid expenses which in whole or in part relate to future income and meet the definition of assets in accordance with IFRS.

Equity

Equity disclosed in equity and liabilities comprises share capital, share premium, other components of equity and retained earnings consisting of profit (loss) from prior years and net profit (loss) for the current year.

Share capital is recognised at the amount specified in the Parent's articles of association and entered in the Business Register of the National Court Register. If shares are taken up at a price higher than the par value, the surplus is recognised as 'share premium'.

The line item 'Incentive scheme' in other components of equity includes equity from measurement of the incentive scheme in accordance with International Financial Reporting Standard 2 Share-based Payments ("IFRS 2").

Non-controlling interests

Non-controlling interests represent that portion of the subsidiaries' comprehensive income and net assets which is not attributable to the Group companies. Non-controlling interests are presented as a separate item in the consolidated statement of profit or loss and in the consolidated statement of comprehensive income as well as an item of equity separate from equity attributable to owners of the parent in the consolidated statement of financial position. If a non-controlling interest is acquired, the difference between the purchase price and the carrying amount of the acquired share in the acquiree's net assets is recognised in equity. In accordance with International Financial Reporting Standard 3 *Business Combinations*, the Group measures non-controlling interests using the proportional method.

Dividend payment

Dividends are recognised when the parent's shareholders' rights to receive dividends are established.

Financial liabilities

Financial liabilities other than hedging derivatives are reported in the following line items in the consolidated statement of financial position:

- trade payables (including contingent consideration recognised by the acquirer in a business combination to which IFRS 3 applies),
- borrowings and other debt instruments,
- contract liabilities,
- and other liabilities.

At the date of acquisition, the Group measures financial liabilities at fair value, i.e. most often at the fair value of the amount received. The Group includes transaction costs in the initial measurement of all financial liabilities, except for liabilities measured at fair value through profit or loss.

Following initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method, except for financial liabilities designated as measured at fair value through profit or loss.

In the reporting period the Group did not have any financial liabilities measured at fair value through profit or loss.

Short-term trade payables are measured at amounts due to be paid, as the effect of discounting future outflows would be negligible.

Interest-bearing borrowings

All borrowings and debt securities are initially recognised at cost equal to the fair value of the funds received, less costs of obtaining the borrowing. After initial recognition, interest-bearing borrowings and debt securities are measured at amortised cost using the effective interest rate method.

Amortised cost is calculated taking into account the costs of obtaining the borrowing and the discount or premium obtained on settlement of the liability.

The interest rate on borrowings and lease liabilities depends on WIBOR and bank margin.

The fair value of borrowings does not differ materially from their carrying amounts.

Provisions

Provisions for liabilities are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits of the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The estimated amount of provision corresponds to the probable expenditure that the Group will incur to settle the liability. If it is not possible to make a reliable estimate of the liability, a provision is not recognised. No provisions are recognised for future operating losses.

Employee benefits

None of the Group companies is a party to wage agreements or collective bargaining agreements. The companies do not operate pension plans managed directly by the companies or by external fund managers. Employee benefit expense comprises wages payable in accordance with the terms of employment contracts entered into with individual employees. Employee benefit obligations are measured at the amount of undiscounted short-term benefits that are expected to be paid in exchange for services rendered. This amount is recognised as an obligation after deduction of all amounts already paid. The cost of accumulated paid absences is measured at the amount of the benefit expected to be paid and is recognised in the period in which the employee becomes entitled to receive the benefit.

The Group operated a long-term incentive scheme under which members of the key management personnel received a certain number of shares provided the employees met the criterion of continued employment at the Group. The fair value of services provided by members of the key management in exchange for the equity instruments is recognised as employee benefit expense in correspondence to other components of equity over the vesting period, in accordance with IFRS 2.

Grants

Grants are recognised in accordance with International Accounting Standard 20 Accounting for Government Grants and Disclosure of Government Assistance ("IAS 20"). Grants are recognised if and only if there is reasonable assurance that the Group will meet the grant conditions and that the grant will be received. The grant is accounted for in the same way whether it has been received in cash or in the form of a reduction in the amount of public charges payable. If a grant relates to a specific cost item, it is recognised as income (or as a reduction of expense) in a manner commensurate with the costs the grant is intended to compensate.

Grants are accounted for in accordance with the income approach under which a grant is recognised as income in a systematic manner over the periods during which the Group companies recognise the relevant expenses expected to be covered by the grant. Grants relating to costs are recognised in profit or loss in the same period as the corresponding expenses. Grants relating to depreciable assets are recognised in profit or loss in the period in which the depreciation/amortisation expense on those assets is recognised on a pro rata basis.

Significant judgements and assumptions

Preparation of consolidated financial statements requires that the Management Board of the parent makes certain estimates and assumptions that are reflected in the consolidated financial statements and in the notes to the consolidated financial statements.

Accounting estimates and judgements are based on past experience and other factors, including forward-looking statements which appear reasonable under the circumstances.

Although the assumptions and estimates used are based on the parent's Management Board's best knowledge of current operations and events, actual results may differ from those projected. Estimates and the underlying assumptions are subject to verification. A change in an accounting estimate is recognised in the period in which the estimate is changed or in current and future periods if the change concerns both the current period and future periods.

Below are presented the principal judgements which the Management Board of the parent made in the process of applying the Company's accounting policies and which have the most significant effect on the amounts recognised in these consolidated financial statements.

Revenue recognition estimates

A revenue estimate is the amount of consideration to which the Group expects to be entitled in exchange for the transfer of promised goods, less any applicable value-added tax and an estimate of the cost of delivering the promised goods or services. This significant estimate results from the fact that as at each reporting date the Group determines the planned contract revenue and the estimated progress of works, which is measured based on the actual contract costs incurred cumulatively until the reporting date against the total budget of costs necessary to be incurred in order to fulfil the Group's performance obligations. The Group estimates the amount of variable consideration (possible bonuses) using the most-likely-amount method. With respect to the stage of completion, a significant estimate relates to the budget of costs necessary to be incurred by the Group to fulfil its performance obligations.

The Management Board of the parent updates the projected results of a contract gradually, based on the best knowledge of costs necessary to be incurred, to reflect the milestones added to the contract. As the contract budget increases to include successive milestones, the planned contract revenue and the corresponding costs care updated and increased. The Group updates the contract budget gradually, based on the knowledge gained. Changes in the cost estimates are reflected in the change in the final margin of the contract.

For more information on recognition of revenue and related estimates, see description of the accounting policies and Note 3.

Professional judgement on development work

As at the end of each financial year the Group confirmed that capitalised expenditure constituting an intangible asset in the form of game components:

- was identified and measured correctly,

- was technically and financially feasible,
- would be completed and would be marketed as separate licences;
- was marketed as game licences,
- generated economic benefits in the form of profits from the sale of game licences.

The criterion of potential future economic benefits and the condition of sufficient funds are deemed by the Parent's Management Board to have been met based on an analysis of the market and the Group's financial condition.

Impairment of assets

Goodwill

In accordance with IAS 36, as at the reporting date the parent's Management Board carries out an annual impairment test for each cash-generating unit to which goodwill has been allocated. Such test requires estimating the value in use of the cash-generating unit based on the future cash flows it is expected to generate, adjusted to the present value using the applicable discount rate.

Impairment of goodwill is determined by estimating the recoverable amount of the cash-generating unit to which the goodwill has been allocated. If the carrying amount of the unit exceeds the recoverable amount of the unit, the Group recognises an impairment loss, which is not reversible. If goodwill is a part of a cash-generating unit and the Group sells a part of the CGU's business, the goodwill pertaining to the sold business is included in the carrying amount of the sold business for the purpose of calculating gain or loss on disposal of the part of business. In such a case the goodwill disposed of is measured on the basis of the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Intangible assets and property, plant and equipment

At each reporting date, Group companies review the net carrying amounts of intangible assets and property, plant and equipment in order to determine whether there are any indications of impairment.

Development work in progress is, however, tested for impairment at each reporting date, regardless of whether there are any indications of impairment.

When assessing whether there is any indication that an asset may be impaired, the Group companies analyse at least the following criteria:

Indications based on external sources of information:

- there are observable indications that the asset's market value has decreased during the period significantly more than would otherwise be expected as a result of the passage of time or normal use,
- significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the markets to which the asset is dedicated,
- market interest rates or other market rates of return on investments have increased during the period, and it is probable that this increase will affect the discount rate used to calculate the asset's value in use and decrease the asset's recoverable amount materially,
- the carrying amount of the reporting entity's net assets is greater than their market capitalisation.

Indications based on internal sources of information:

- evidence is available that the asset has become obsolete or physically damaged,
- significant changes in the extent to which, or manner in which, the asset is used or is expected to be used have taken place during the period, or are expected to take place in the

near future, and the changes have had or will have a material adverse effect on the entity. Such changes include the asset becoming idle, plans to discontinue or restructure the operation to which the asset belongs, or plans to dispose of the asset before the previously expected date, and reassessment of the useful life of the asset from indefinite to finite.

Where such indications are identified, the recoverable amount of the asset is estimated in order to determine the potential impairment loss. If an asset does not generate cash flows that are largely independent of cash flows generated by other assets, the analysis is performed for the group of cash-flow generating assets to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. The latter is the present value of estimated future cash flows, discounted using a discount rate reflecting the current market time value of money and the risks specific to the asset.

If the recoverable amount is lower than the net carrying amount of an asset (or group of assets), the carrying amount is reduced to the recoverable amount. An impairment loss is recognised as cost in the period in which it occurred.

Where an impairment loss subsequently reverses, the net carrying amount of an asset (or group of assets) is increased to the revised estimate of its recoverable amount, but so that the increased net carrying amount does not exceed the net carrying amount that would have been determined if no impairment loss had been recognised for the asset in prior years. Reversal of impairment is recognised as income.

Financial assets

In accordance with IFRS 9, the Group recognises an allowance for expected credit losses on financial assets (ECL model).

With respect to trade receivables and contract assets, the Group applies a simplified approach, whereby it recognises a lifetime expected credit loss (lifetime ECL) allowance for such assets, regardless of the analysis of changes in the related credit risk.

For other receivables, the Group recognises a 12-month expected credit loss (12M ECL) allowance if the credit risk for the asset has remained low or has not increased significantly since its initial recognition, or a lifetime ECL allowance if the credit risk for the asset has increased significantly since its initial recognition.

Change in the expected credit losses on trade and other receivables is presented in Note 20.

Useful life of intangible assets and property, plant and equipment

The Management Board of the parent determines the estimated useful lives and, as a result, the amortisation rates for the amounts of development expenditure capitalised under intangible assets. Such estimates are based on the expected useful life of these assets. In the case of development expenditure for which it is possible to determine reliable estimates of the volume and amount of sales, the Group amortises the expenditure amount in accordance with the consumption of economic benefits that are related to the number of units sold.

The useful life of the graphics engines is estimated based on the planned use of the engines in the current game development projects.

The amortisation rates may change if circumstances occur that cause a change in the expected useful life (e.g., technological changes, retirement/decommissioning, etc.). As a result, the amortisation expense and net carrying amounts of the capitalised intangible assets will change.

The useful lives are reviewed annually and adjusted if the currently estimated useful life differs from the previously estimated. Such changes in accounting estimates are recognised prospectively.

Depreciation rates are determined based on the expected useful lives of property, plant and equipment.

Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are measured at tax rates that, according to the available forecasts, will be applied at the time of realisation of the asset or derecognition of the liability, based on tax laws that were enacted or substantively enacted by the end of the reporting period. The probability of realising a deferred tax asset against future taxable profit is determined in the context of the Group's plans.

When analysing the conditions for obtaining the right to tax relief at one of the subsidiaries in connection with subsidising part of the subsidiary’s operating expenses, the Management Board of the parent concluded that tax effects of the relief will be recognised only when the Management Board is satisfied that the relief is likely to be obtained, i.e. when the funds are received, as required under the applicable tax regulations.

As the Management Board of the parent estimated that in subsequent reporting periods no taxable profit was expected to be earned from the activities excluded from the scope of the IP Box tax relief (which would allow the unused tax losses to be utilised), the Management Board – acting in accordance with the principles of prudent valuation – elected to not recognise deferred tax assets on the tax loss as at December 31st 2022. The amount of the unrecognised asset was approximately PLN 2,295 thousand as at December 31st 2022 (December 31st 2021: PLN 2,132 thousand).

Uncertainty over income tax treatments

Tax regulations in force in Poland are subject to frequent changes, resulting in significant differences in their interpretation and substantial doubts in their application. The tax authorities have control instruments enabling them to verify the tax bases (in most cases for the preceding five financial years) and to impose penalties and fines.

As of July 15th 2016, the Tax Legislation also takes into account the provisions of the General Anti-Abuse Rule (“GAAR”), which is intended to prevent the creation and use of artificial legal structures to avoid tax. The GAAR should be applied both with respect to transactions made after its effective date and with respect to transactions which were made before its effective date in the case of which tax benefits continued or still continue after that date.

As a result, the determination of tax liabilities, deferred tax assets and deferred tax liabilities may require significant judgements, including with respect to transactions that have already occurred, and the amounts presented and disclosed in the consolidated financial statements may change in the future as a result of an audit by tax authorities.

Given the materiality of and uncertainty as to the tax settlements, the parent obtained a private letter ruling of April 30th 2020, according to which the Company has been using the IP Box tax relief in its corporate income tax settlements since 2019.

Share-based payments

Following the issue of subscription warrants by the Parent, the Group has been recognising and measuring warrants in accordance with IFRS 2. The fair value of equity instruments granted is determined at the measurement date based on the stock market prices. For a full description of the warrant programme, see Note 23.

Leases

The application of IFRS 16 requires certain estimates and calculations to be made that affect the measurement of lease liabilities and right-of-use assets. These include, but are not limited to:

- determination of the lease term,
- determination of the interest rate used to discount future cash flows.

In determining the lease term, the Group determines the enforceability period of a contract. A lease ceases to be enforceable when both the lessee and the lessor have the right to terminate the contract without the need to obtain the other party's authorisation and without incurring penalties greater than insignificant. By contrast, where either party – in its professional judgement – will incur a material termination penalty (broadly construed), the Group defines the lease term as reasonably certain (i.e. the period for which it can be assumed with reasonable certainty that the contract will continue).

The Group adopted the incremental borrowing rate used to discount future cash flows of 2.1%–10.1%, depending on the duration of the contract and the country in which a given Group company operates. For a detailed description of the estimates, see Note 16.

Amendments to International Financial Reporting Standards

Amendments to standards and interpretations applied by the Group as of 2022

New or revised standards and interpretations effective as of January 1st 2022 and their effect on the Group's consolidated financial statements:

- **Amendments to IFRS 9, illustrative examples to IFRS 16, IAS 41 as part of Annual Improvements 2018−2020:**

  - IFRS 1: additional exemption regarding the determination of cumulative exchange differences from consolidation;
  - IFRS 9: (1) with the 10% test to determine whether the modification should result in the removal of a liability, only the charges that are exchanged between the debtor and the creditor should be taken into account; (2) it was clarified that the fees incurred when a liability is removed are recognised in profit or loss and, where the liability is not removed, they should be added to the amount of the liability;
  - IFRS 16: the issue of the lessor's incentive to pay the lessee's fit-out costs was removed from Example 13 as it had raised interpretation doubts;
  - IAS 41: the prohibition to recognise tax flows in the measurement of biological assets was deleted.

  The amendments are effective for annual periods beginning on or after January 1st 2022 (except for the amendment of the example for IFRS 16, which took effect upon publication).

  The amendments had no effect on the Group's consolidated financial statements.

- **Amendment to IAS 16 Property, Plant and Equipment**

  The amendment clarifies that production performed as part of the testing of an item of property, plant and equipment prior to the use of the item should be recognised as (1) inventory under IAS 2 and (2) income when the products are sold (without affecting the value of the item). Testing of an item of property, plant and equipment is part of its cost, while the cost of production is recognised in profit or loss upon recognition of revenue from disposal of inventories created during the test.

  The amendment is effective for annual periods beginning on or after January 1st 2022.

  The amendment had no effect on the Group's consolidated financial statements.

- **Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets**

The amendment clarifies that the cost of fulfilling onerous contracts includes incremental costs (e.g., labour costs) and an allocated portion of other costs directly related to the cost of meeting the obligation, such as depreciation.

The amendment is effective for annual periods beginning on or after January 1st 2022.

The amendment had no effect on the Group's consolidated financial statements.

- **Amendments to IFRS 3 Business Combinations**

  References to the definition of liabilities in the conceptual assumptions and definition of contingent liabilities in IAS 37 were clarified.

  The amendment is effective for annual periods beginning on or after January 1st 2022.

  The amendment had no effect on the Group's consolidated financial statements.

- **Amendment to IFRS 16 Leases**

  In 2020, the IASB published a practical expedient for lessees receiving COVID-19-related rent concessions. One of the criteria for applying the expedient was that the concession could only affect payments due on or before June 30th 2021. As a result of an amendment, the time limit was moved to June 2022.

  The amendment is effective for annual periods beginning on or after April 1st 2021 (with an early application option).

  The amendment had no impact on the Group's consolidated financial statements as the Group did not make use of the practical expedient.

The standards and interpretations which are effective as published by the IASB, but which have not been endorsed by the European Union, are listed below in the section devoted to standards and interpretations which are not yet effective.

Early application of standards or interpretations

In these consolidated financial statements, the Group has not opted for early application of any standard or interpretation.

Published standards and interpretations that are not effective for periods beginning on January 1st 2022 and their impact on the Group's financial statements:

As at the date of issue of these consolidated financial statements, the following new or amended standards and interpretations effective for annual periods subsequent to 2022 were published. The list also includes amendments, standards and interpretations published but not yet endorsed by the European Union.

- **New IFRS 17 Insurance Contracts**

  The new standard governs recognition, measurement, presentation and disclosure of insurance and reinsurance contracts. The standard replaces IFRS 4.

  The standard is effective for annual periods beginning on or after January 1st 2023.

  The Group estimates that the new standard will not affect its financial statements as the agreements concluded by the Group do not meet the definition of insurance contracts.

- **Amendment to IAS 1 Presentation of Financial Statements**

The IASB clarified the rules for classifying liabilities as non-current or current liabilities primarily in two aspects:

- it was clarified that the classification depends on the rights of the entity as at the reporting date,
- the management's intention to accelerate or delay payment of the obligation is not to be taken into account.

The amendments are effective for annual periods beginning on or after January 1st 2023.

As the Group already applies principles consistent with the amended standard, the changes will not affect its financial statements.

- **Amendment to IAS 1 Presentation of Financial Statements**

The IASB clarified what accounting policy information is material and therefore requires disclosure in the financial statements. The standard is focused on adjusting disclosures to the entity's individual circumstances. The IASB cautions against the copy-pasting of standardized provisions from IFRS and expects that the basis for measurement of financial instruments will be considered material information.

The amendment is effective for annual periods beginning on or after January 1st 2023.

The Group continues to analyse the effect of the amendment on its financial statements.

- **Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors**

The IASB introduced a new definition of an accounting estimate in the standard: Accounting estimates are monetary amounts in the financial statements that are subject to measurement uncertainty.

The amendment is effective for annual periods beginning on or after January 1st 2023.

The Group continues to analyse the effect of the amendment on its financial statements.

- **Amendments to IAS 12 Income Taxes**

The IASB introduced a rule whereby if a transaction gives rise to equal amounts of taxable and deductible temporary differences, the entity is required to recognise deferred tax assets and liabilities even if the transaction is not a business combination or does not affect the entity's accounting or taxable result. This means deferred tax assets and liabilities need to be recognised when, for instance, taxable and deductible temporary differences arise in equal amounts in connection with a lease (a separate temporary difference on the lease liability and on the right-of-use asset) or with restoration liabilities. No amendment was made to offsetting deferred tax assets and liabilities where current tax assets and liabilities are offset.

The amendment is effective for annual periods beginning on or after January 1st 2023.

The Group continues to analyse the effect of the amendment on its financial statements.

- **Amendments to IFRS 17 Insurance Contracts**

The IASB introduced a new transition option concerning comparative information for entities that are simultaneously adopting IFRS 17 and IFRS 9 in order to reduce potential accounting mismatches due to differences between those standards.

The amendment is effective for annual periods beginning on or after January 1st 2023.

The Group does not expect the amendment to have an effect on its financial statements because the Group does not enter into insurance contracts.

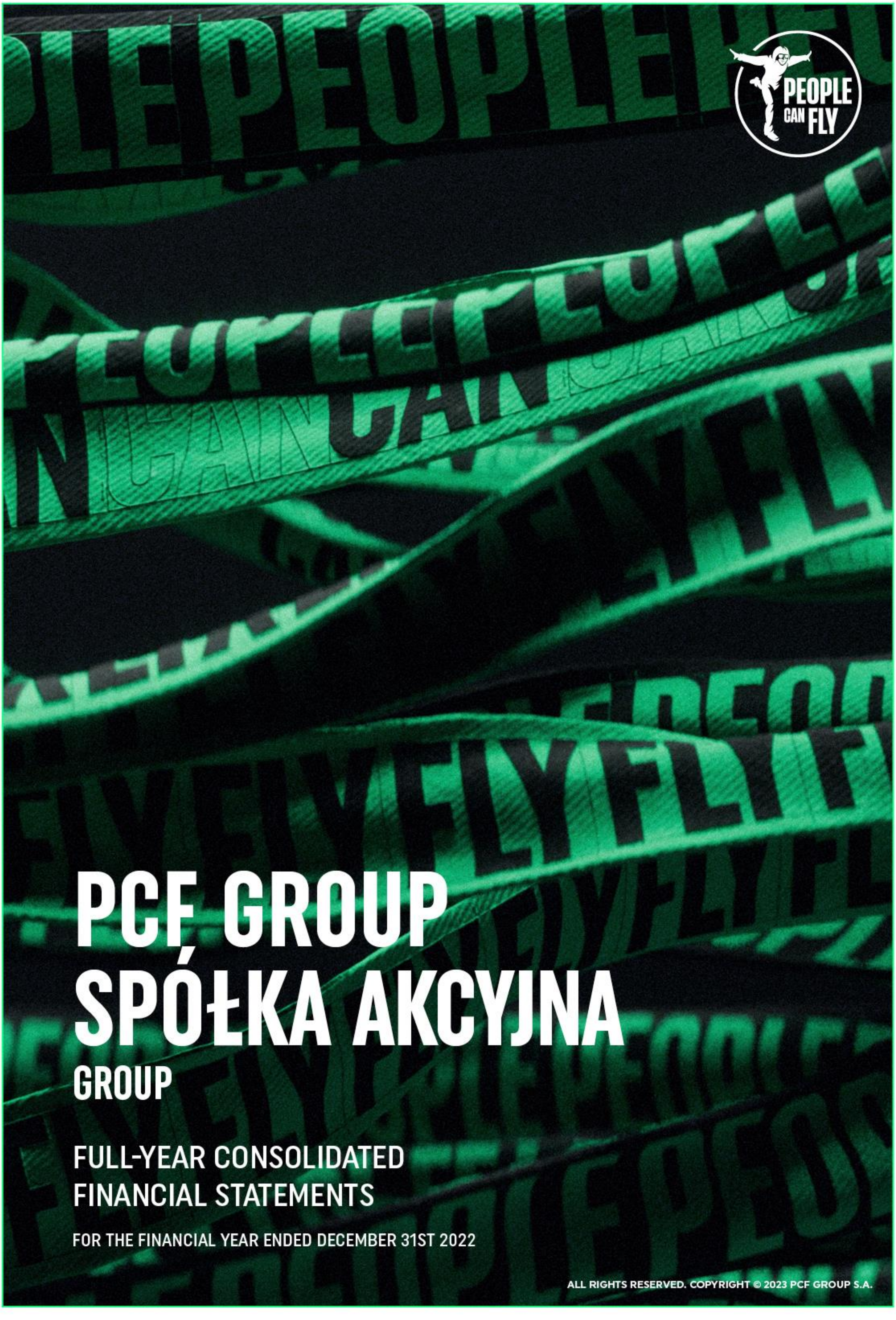
- **Amendment to IFRS 16 Leases**

The amendment clarifies the requirements for measuring the lease liability arising from a sale and leaseback transaction. It is intended to prevent misrecognition of the result of a transaction in the part relating to the retained right of use where lease payments are variable and do not depend on an index or rate.

The amendment is effective for annual periods beginning on or after January 1st 2024.

The Group continues to analyse the effect of the amendment on its financial statements.

The Group intends to implement the above regulations within the timeframes prescribed for their application by the standards or interpretations.



PCF GROUP SPÓŁKA AKCYJNA
GROUP

FULL-YEAR CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED DECEMBER 31ST 2022

3. Revenue and operating segments

The Group divides its operations into four operating segments:

- contract development of video games (“development segment”);
- copyrights to developed games (royalties) (“copyrights segment”);
- self-publishing activities;
- other activities.

In the twelve months ended December 31st 2022 and December 31st 2021, the **development segment** included primarily revenue from game development projects carried out by the Group with two publishers: Square Enix Limited and Take-Two Interactive Software, Inc. (in the case of Take-Two Interactive Software, Inc., such revenue was only earned until April 2022) therefore revenue from contracts with these external entities represented a material part of revenue generated by the Group. Positive cash flows from this segment enable the Group to partially cover expenditure on games that the Group intends to publish on its own (the self-publishing model). In 2022, the consideration received from the two material trading partners in that segment accounted for over 75% of total revenue.

Project Gemini

In the twelve months ended December 31st 2022, the Group carried out work contracted by the publisher Square Enix Limited under content riders for the development and publishing agreement. The Group has executed a content rider with the publisher which sets out the terms of further work until the end of the Project Gemini pre-production phase.

Project Dagger

In the six months ended June 30th 2022, the Group completed all work contracted by the publisher under a schedule to the development and publishing agreement and received all consideration due for this work under the agreement. Despite talks conducted by the Parent's Management Board with the publisher with a view to agreeing on the terms of further cooperation, the parties did not sign another content rider setting out the terms and conditions of further work on Project Dagger. As a result, in the six months ended June 30th 2022, the Group ceased to generate revenue from the game. Considering the circumstances, in particular no new content rider with the publisher, the publisher choosing not to exercise the option to purchase intellectual property rights to deliverables produced under the development and publishing agreement, and work being continued on Project Dagger by the Group in the self-publishing model with no possibility of earning further revenue from its production under the agreement with Take-Two Interactive Software, Inc., after meeting the criteria set out in International Accounting Standard 38 *Intangible Assets* the Group recognised expenditure incurred on the production of this game as development expenditure.

On September 23rd 2022, the Parent’s Management Board received a letter from the publisher, Take-Two Interactive Software, Inc., concerning its intention to terminate the development and publishing agreement of July 21st 2020, providing for the financing and publishing of Project Dagger, by entering into a termination agreement.

On October 1st 2022, People Can Fly U.S., LLC and the publisher Take-Two Interactive Software, Inc. entered into an agreement to terminate the development and publishing agreement for Project Dagger, with effect from September 23rd 2022. The termination agreement sets out detailed rules for settlements between the parties following the termination of the development and publishing agreement, which differ depending on how the game will ultimately be released: in the self-publishing model or in partnership with a new publisher. In this respect, the termination agreement provides that People Can Fly U.S., LLC will have no obligation to repay to the publisher the developer advances received from the publisher but, instead, it will be obliged to repay to the publisher USD 20m (the “repayment amount”) as follows:

(a) if the Project Dagger game is released by People Can Fly U.S., LLC, the Parent or an affiliate of the Parent as a self-published title, People Can Fly U.S., LLC will be obliged to pay royalties to the publisher on a quarterly basis until the sum of the royalties equals the repayment amount;

(b) if the Project Dagger game is released by People Can Fly U.S., LLC, the Parent or an affiliate of the Parent in partnership with a new publisher, People Can Fly U.S., LLC will be obliged to pay to the publisher the repayment amount in two equal instalments payable within 6 and 12 months after the game release date.

The publisher will not be entitled to receive the repayment amount if Project Dagger is not commercially released, regardless of the publishing model. The publisher did not exercise the contractual option to purchase intellectual property rights to deliverables produced under the development and publishing agreement and the licence granted to the publisher expired. Thus, in accordance with the agreement, People Can Fly U.S., LLC has retained intellectual property rights in Project Dagger as their sole owner. With effect from December 31st 2022, the rights were entirely transferred to the Parent.

The **copyrights segment** included revenue from royalties for previously developed games.

The main source of the Group's revenue classified as revenue from the copyrights segment, i.e., the segment of royalties for previously developed games, is the development and publishing agreement for the game *Bulletstorm*: Full Clip Edition (remaster) of October 24th 2016, entered into between the Parent and Gearbox Publishing, LLC. In respect of Bulletstorm, the Parent has retained copyrights by granting the publisher an exclusive licence for an indefinite term.

Furthermore, in accordance with the development and publishing agreement signed on February 16th 2016 between the Parent and Square Enix Limited to develop Outriders, since the game was completed and released on April 1st 2021 the Group is entitled to receive consideration in the form of royalties. Their amount is directly linked to and represents a percentage of the profit earned on the sale of the game.

The Group received no royalties from the publisher for the period to December 31st 2022, which means that as at the reporting date net proceeds from the sale of Outriders were insufficient to recover the costs and expenses incurred by the publisher to develop, distribute and promote the title.

Self-publishing segment

In this segment, the Group classifies outlays as well as future income and expenses related to the development of video games that it plans to self-publish in the future.

Unlike in the development segment, in the self-publishing segment the Group carries out projects as a publisher, financing them with its own funds (or funds from third parties under distribution, licence and similar contracts) based on intellectual property rights that will remain owned by the Group.

February 2nd 2023 saw the registration of People Can Fly Ireland Limited, a single-member subsidiary of the Parent which will provide publishing services within the Group.

In the self-publishing segment, in the twelve months ended December 31st 2022 the Group recognised revenue from sales of the Green Hell VR game, published by Incuvo S.A. for use with Quest 2/Oculus Rift VR headsets (distribution through the Meta Quest platform owned by Facebook Technologies LLC of the U.S.), and VR headsets for PCs (distribution through the Steam platform owned by Valve Corporation of the U.S.).

For more information on projects implemented within the self-publishing segment, see Section 7 of the Directors' Report for 2022.

Other activities segment

This segment includes in particular expenditure on the software system which the Group developed and named "PCF Framework", which is an overlay for the Unreal Engine graphics engine used to facilitate and optimise work on development of video games.

Full-year consolidated financial statements for the financial year ended December 31st 2022 (all amounts in PLN thousand, unless stated otherwise)

Financial results of the operating segments are calculated based on internal data periodically reviewed by the Management Board of the Parent (the chief operating decision maker of the Group). The Management Board analyses results of the operating segments at the level of operating profit (loss). The Group analyses revenue for the above three segments, and no other analyses are performed.

In the twelve months ended December 31st 2022, there were no changes to the Group's accounting policies with respect to the identification of operating segments and the principles for measuring revenue, profit or loss and assets of the segments presented in the Group's most recent full-year consolidated financial statements.

	Development segment	Copyrights segment	Self-publishing segment	Other activities	**Total**
Jan 1–Dec 31 2022					
Region					
Europe	117,863	24	15,265	-	**133,152**
Other countries	35,152	1,564	1,617	-	**38,333**
Total revenue	**153,015**	**1,588**	**16,882**	**-**	**171,485**
Product line					
Games	153,015	1,588	16,882	-	**171,485**
Total revenue	**153,015**	**1,588**	**16,882**	**-**	**171,485**
Timing of transfer of goods/services					
At a point in time	-	1,588	-	-	**1,588**
Over time	153,015	-	16,882	-	**169,897**
Total revenue	**153,015**	**1,588**	**16,882**	**-**	**171,485**
Jan 1–Dec 31 2021					
Region					
Europe	101,303	36	-	-	**101,339**
Other countries	77,066	1,888	-	-	**78,954**
Total revenue	**178,369**	**1,924**	**-**	**-**	**180,293**
Product line					
Games	178,369	1,924	-	-	**180,293**
Total revenue	**178,369**	**1,924**	**-**	**-**	**180,293**
Timing of transfer of goods/services					
At a point in time	-	1,924	-	-	**1,924**
Over time	178,369	-	-	-	**178,369**
Total revenue	**178,369**	**1,924**	**-**	**-**	**180,293**

Revenue, profit or loss, material non-monetary items and assets of the operating segments are presented below.

	Development segment	Copyrights segment	Self-publishing segment	Other activities	**Total**

Jan 1–Dec 31 2022					
Revenue from external customers	153,015	1,588	16,882	-	**171,485**
Total revenue	153,015	1,588	16,882	-	**171,485**
Segment's operating profit (loss)	24,799	1,545	5,807	(1,073)	**31,078**
Other information					
Amortisation and depreciation expense	13,630	42	2,373	1,073	**17,118**
Segment's assets as at Dec 31 2022	230,577	-	102,658	17,569	**350,804**
Expenditure on segment's intangible assets and property, plant and equipment	12,344	-	84,585	14,354	**111,283**
Jan 1–Dec 31 2021					
Revenue from external customers	178,369	1,924	-	-	**180,293**
Total revenue	178,369	1,924	-	-	**180,293**
Segment's operating profit (loss)	59,948	1,707	-	-	**61,655**
Other information					
Amortisation and depreciation expense	11,321	218	-	-	**11,539**
Segment's assets as at Dec 31 2021	295,737	42	16,480	4,433	**316,692**
Expenditure on segment's intangible assets and property, plant and equipment	7,234	-	15,814	4,429	**27,477**

Reconciliation of total revenue, profit or loss and assets of the operating segments to the corresponding items of the Group's consolidated financial statements is presented below.

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Segments' revenue		
Total revenue of operating segments	171,485	180,293
Revenue	**171,485**	**180,293**
Segments' profit or loss		
Segments' operating profit (loss)	31,078	61,655
Operating profit (loss)	**31,078**	**61,655**
Finance income	1,771	4,054
Finance costs	(2,414)	(1,268)
Profit (loss) before tax	**30,435**	**64,441**

	Dec 31 2022	Dec 31 2021
Segments' assets		
Total assets of operating segments	350,804	316,692
Total assets	**350,804**	**316,692**

Business risk

The Group uses its own funds (or funds from third parties under distribution, licence and similar contracts) to finance the development of new video games to be produced by the Group as the publisher under the self-publishing model. This entails a liquidity risk, as self-published games do not generate much revenue prior to their commercialisation, and the amount of such revenue depends directly on sales volumes. This means that the Group bears the risk of such games' commercial failure.

Full-year consolidated financial statements for the financial year ended December 31st 2022 (all amounts in PLN thousand, unless stated otherwise)

The Group mitigates this risk through business diversification consisting in contract development of video games for third-party publishers. Contract development projects provide the Group with cash inflows from publishers and allow it to earn a margin already at the game development stage irrespective of a game's future sales.

For information on plans to finance future operations, see Note 33 *Events after the reporting date*.

4. Intangible assets

	Patents, licenses and software	Development work	Development work in progress	**Total**
Jan 1–Dec 31 2022				
Net carrying amount as at Jan 1 2022	**4,298**	**501**	**25,939**	**30,738**
Increase (purchase, construction)	5,204	1,629	98,939	**105,772**
Other changes (reclassification, transfers, etc.)	-	13,866	(13,866)	**-**
Amortisation expense	(4,706)	(3,469)	-	**(8,175)**
Net exchange differences on translation	(10)	-	1,698	**1,688**
Net carrying amount as at Dec 31 2022	**4,786**	**12,527**	**112,710**	**130,023**
Jan 1–Dec 31 2021				
Net carrying amount as at Jan 1 2021	**4,676**	**260**	**84**	**5,020**
Acquired through business combination	-	497	5,030	**5,527**
Increase (purchase, construction)	2,914	-	20,238	**23,152**
Decrease (disposal, retirement)	(37)	-	-	**(37)**
Amortisation expense	(3,551)	(256)	-	**(3,807)**
Impairment loss	-	-	(85)	**(85)**
Net exchange differences on translation	296	-	672	**968**
Net carrying amount as at Dec 31 2021	**4,298**	**501**	**25,939**	**30,738**

In terms of the carrying amount, the most material items of patents, licences and software are two licences for the Unreal Engine game engine whose total carrying amount was PLN 1,253 thousand as at December 31st 2022 and PLN 1,772 thousand as at December 31st 2021. The amortisation period from initial recognition was estimated at 10 years. The useful life of the graphics engines is estimated based on the parent's Management Board's knowledge and the planned use of the engines in the current game development projects. As at December 31st 2022, the engines were used to develop games.

The line item 'Development work in progress' includes expenditure on development work which, as at the reporting date, has not been completed and accepted for use.

As at December 31st 2022, the most material components of development work in progress were:

- development of new games to be self-published (see Note 21 for details);
- further development of PCF Framework (see Note 21 for details).

The Group confirmed as at the end of each reporting period that capitalised expenditure constituting an intangible asset in the form of game components met the criteria set out in IAS 38.57.

Full-year consolidated financial statements for the financial year ended December 31st 2022 (all amounts in PLN thousand, unless stated otherwise)

The Group does not hold any assets with indefinite useful lives.

Amortisation of intangible assets is disclosed in the consolidated statement of profit or loss in the following line items:

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Cost of sales	6,577	1,379
General and administrative expenses	1,119	2,428
Amortisation capitalised under development work	479	-
Total amortisation of intangible assets	**8,175**	**3,807**

As at each reporting date, the Group analyses indications of impairment of intangible assets. As at December 31st 2022, it identified no indication of a need to test the assets for impairment.

Despite that, in view of the requirement to carry out impairment testing at least once a year, the Group tested development work in progress for impairment as at December 31st 2022. As a result of the tests performed on individual projects, no impairment losses were recognised in 2022.

As at December 31st 2022 and as at December 31st 2021, there were no contracts or agreements which would result in commitments or obligations due to acquisition of intangible assets.

5. Property, plant and equipment

	Buildings and structures	Machinery and equipment	Other property, plant and equipment	Property, plant and equipment under construction	**Total**
Jan 1–Dec 31 2022					
Net carrying amount as at Jan 1 2022	**2,895**	**7,269**	**548**	**134**	**10,846**
Increase (purchase, construction)	990	4,403	56	62	**5,511**
Decrease (disposal, retirement)	-	(11)	-	-	**(11)**
Other changes (reclassification, transfers, etc.)	-	-	483	(62)	**421**
Depreciation expense	(466)	(4,365)	(287)	-	**(5,118)**
Net exchange differences on translation	33	90	5	3	**131**
Net carrying amount as at Dec 31 2022	**3,452**	**7,386**	**805**	**137**	**11,780**
Jan 1–Dec 31 2021					
Net carrying amount as at Jan 1 2021	**2,266**	**893**	**149**	**-**	**3,308**
Acquired through business combination	1,143	3,613	342	130	**5,228**
Increase (purchase, construction)	26	4,156	143	-	**4,325**
Depreciation expense	(577)	(1,769)	(97)	-	**(2,443)**
Net exchange differences on translation	37	376	11	4	**428**
Net carrying amount as at Dec 31 2021	**2,895**	**7,269**	**548**	**134**	**10,846**

Depreciation of property, plant and equipment is included as expense in the following items of the consolidated statement of profit or loss:

Notes are an integral part of the full-year consolidated financial statements.

Full-year consolidated financial statements for the financial year ended December 31st 2022 (all amounts in PLN thousand, unless stated otherwise)

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Cost of sales	3,542	853
General and administrative expenses	1,310	1,590
Depreciation capitalised under development work	266	-
Total depreciation of property, plant and equipment	**5,118**	**2,443**

As at each reporting date, the Group analyses indications of impairment of property, plant and equipment. No indication of a need to test the assets for impairment was identified as at December 31st 2022 and December 31st 2021.

As at December 31st 2022 and December 31st 2021, there were no contracts or agreements which would result in commitments or obligations due to acquisition of property, plant or equipment.

6. Right-of-use assets

	Buildings and structures	Machinery and equipment	Other property, plant and equipment	**Total**
Jan 1–Dec 31 2022				
Net carrying amount as at Jan 1 2022	**27,401**	**167**	**637**	**28,205**
Increases (leases)	4,932	1,008	617	**6,557**
Other changes (reclassification, transfers, etc.)	-	-	(483)	**(483)**
Amortisation and depreciation expense	(4,250)	(223)	(144)	**(4,617)**
Net exchange differences on translation	433	-	-	**433**
Net carrying amount as at Dec 31 2022	**28,516**	**952**	**627**	**30,095**
Jan 1–Dec 31 2021				
Net carrying amount as at Jan 1 2021	**10,118**	**648**	**829**	**11,595**
Increases (leases)	21,853	-	-	**21,853**
Amortisation and depreciation expense	(4,616)	(481)	(192)	**(5,289)**
Net exchange differences on translation	46	-	-	**46**
Net carrying amount as at Dec 31 2021	**27,401**	**167**	**637**	**28,205**

The line item ‘Buildings and structures’ includes a right-of-use asset recognised on account of the following office space lease contracts:

- lease contract for office space in Warsaw,
- lease contract for office space in Rzeszów,
- lease contract for office space in Łódź,
- lease contract for office space in Kraków,
- lease contract for office space in Montreal.

In 2022, given the growing scale of operations of the Group, the scope of the lease of the offices in Warsaw was expanded to include a part of another floor.

Under ‘Machinery and equipment’ the Group presents operating leases of hardware, and under ‘Other property, plant and equipment’ – leases of office equipment.

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7. Goodwill

The following changes in consolidation goodwill occurred during the 12 months to December 31st 2022.

	Dec 31 2022	Dec 31 2021
As at beginning of period:	**54,604**	**-**
Increase		
Acquisition/loss of control of companies	141	52,803
Failure to achieve planned earn-out	(317)	-
Exchange differences	**1,075**	**1,801**
As at end of period	**55,503**	**54,604**

	Dec 31 2022	Dec 31 2021
Goodwill at cost	52,803	52,803
Loss of control of companies	141	-
Failure to achieve planned earn-out	(317)	-
Exchange differences	2,876	1,801
Goodwill, net of impairment losses	**55,503**	**54,604**

In 2022, the Annual General Meeting of Spectral Applications Sp. z o.o. resolved to wind up the company and open its liquidation. In consequence, Incuvo S.A., Spectral Applications' direct parent, concluded that it did not have control over Spectral Applications, within the meaning of Art. 3.1.34 of the Accounting Act of September 29th 1994 (consolidated text: Dz.U. of 2021, item 217, as amended).

The Parent has also concluded that it does not have control over Spectral Applications within the meaning of IFRS 10, therefore Spectral Applications is not a subsidiary of the Parent and is no longer consolidated with the Parent (as of July 1st 2022).

8. Deferred tax assets and liabilities and income tax recognised in other comprehensive income

The effect of deferred tax assets and liabilities on the consolidated financial statements is presented below.

	Dec 31 2022	Dec 31 2021
Balance at beginning of period		
Deferred tax assets	2,188	2,440
Deferred tax liability	4,976	3,700
Net deferred tax at beginning of period	**(2,788)**	**(1,260)**
Changes in period recognised in:		
Profit or loss	753	(1,528)
Other (net exchange differences on translation)	(32)	-
Net deferred tax at end of period, including:	**(2,067)**	**(2,788)**
Deferred tax assets	4,499	2,188

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Deferred tax liability	6,566	4,976

As the Parent's Management Board estimated that no taxable income is expected to be generated in subsequent reporting periods from activities excluded from the IP Box tax relief, the Parent's Management Board, acting in accordance with the principles of prudent valuation, elected to not recognise the asset as at December 31st 2022 and December 31st 2021. The amount of the unrecognised asset was approximately PLN 2,295 thousand as at December 31st 2022 (December 31st 2021: approximately PLN 2,132 thousand).

Deferred tax assets:

Temporary differences	Balance at beginning of period	Change in period: profit or loss	**Balance at end of period**
As at Dec 31 2022			
Assets:			
Intangible assets	24	(7)	**17**
Property, plant and equipment	-	63	**63**
Trade receivables	15	(15)	**-**
Contract assets	568	175	**743**
Other assets	9	184	**193**
Liabilities:			
Provisions for employee benefit obligations	6	26	**32**
Other provisions	50	304	**354**
Trade payables	30	(23)	**7**
Other liabilities	1,486	1,494	**2,980**
Other:			
Unsettled tax losses	-	110	**110**
Total	**2,188**	**2,311**	**4,499**
of which:			
Deferred tax assets at tax rate of 5%	1,236	(390)	**846**
Deferred tax assets at tax rate of 19%	952	2,701	**3,653**

Temporary differences	Balance at beginning of period	Change in period: profit or loss	**Balance at end of period**
As at Dec 31 2021			
Assets:			
Intangible assets	6	18	**24**
Trade receivables	20	(5)	**15**
Contract assets	437	131	**568**
Other assets	-	9	**9**
Liabilities:			

Provisions for employee benefit obligations	50	(44)	**6**
Other provisions	-	50	**50**
Trade payables	-	30	**30**
Other liabilities	1,927	(441)	**1,486**
Total	**2,440**	**(252)**	**2,188**
of which:			
Deferred tax assets at tax rate of 5%	876	360	**1,236**
Deferred tax assets at tax rate of 19%	1,564	(612)	**952**

Deferred tax liabilities:

Temporary differences	Balance at beginning of period	Change in period: profit or loss	Net exchange differences on translation	**Balance at end of period**
As at Dec 31 2022				
Assets:				
Intangible assets	48	(3)	-	**45**
Property, plant and equipment	1,789	(91)	37	**1,735**
Right of use	1,290	1,252	-	**2,542**
Trade receivables	127	(127)	-	**-**
Contract assets	1,119	545	-	**1,664**
Other assets	602	(62)	(5)	**535**
Liabilities:				
Trade payables	1	44	-	**45**
Total	**4,976**	**1,558**	**32**	**6,566**
of which:				
Deferred tax liability at tax rate of 5%	1,921	(277)	-	**1,644**
Deferred tax liability at tax rate of 19%	3,055	1,835	32	**4,922**

Temporary differences	Balance at beginning of period	Change in period: profit or loss	Net exchange differences on translation	**Balance at end of period**
As at Dec 31 2021				
Assets:				
Intangible assets	3	45	-	**48**
Property, plant and equipment	13	1,776	-	**1,789**
Right of use	1,797	(507)	-	**1,290**
Trade receivables	216	(89)	-	**127**
Contract assets	1,206	(87)	-	**1,119**
Other assets	125	477	-	**602**
Liabilities:				
Trade payables	7	(6)	-	**1**

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Borrowings, other debt instruments	333	(333)	-	-
Total	**3,700**	**1,276**	**-**	**4,976**
of which:				
Deferred tax liability at tax rate of 5%	1,457	464	-	**1,921**
Deferred tax liability at tax rate of 19%	2,243	812	-	**3,055**

9. Contract assets and liabilities

Contract assets

Where a game is developed by the producer (developer) in cooperation with the publisher, the rules of cooperation between the parties are laid down in a development and publishing agreement. Under such agreements the Group commits to developing a game and delivering it to the publisher in accordance with the agreed schedule divided into milestones. The scope of a game development project carried out by the Group comprises all work necessary to create a finished product which is ready for sale by the publisher. Development and publishing agreements are framework agreements which tend to be supplemented, in keeping with the progress of game development work, with specific contracts between the parties in the form of content riders (or schedules). Each content rider defines the parties' rights and obligations with respect to a specific contracted game development milestone or group of such milestones, including, without limitation, deliverables and their completion dates and the amount and form of the consideration payable to the developer by the publisher. As a rule, consideration is not paid until a particular milestone is achieved and accepted by the publisher. Upon receipt of a milestone acceptance notice from the publisher, the Group may invoice the publisher for the milestone.

In the consolidated financial statements, the Group recognises contract assets that represent the Group's right to consideration in exchange for goods or services transferred by the Group to a customer (publisher) if that right is subject to a condition other than the passage of time. Contract assets include in particular assets related to work that has been performed and delivered under development and publishing agreements but has not yet been invoiced as well as to revenue arising upon transfer of deliverables yet to be invoiced.

Conditions for (moment of) recognising contract assets and their reclassification to receivables

Contract assets

Recognition by the Group of contract assets arising under development and publishing agreements depends on the agreement's conformity with the five-step model under IFRS 15. Contract assets presented in the consolidated statement of financial position relate to development work performed by the Group by the reporting date and are estimated at the end of each reporting period (on the basis of the stage of contract completion). They are recognised upon completion of a relevant contracted video game development milestone.

Short-term receivables

The Group recognises a receivable if its right to consideration is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. Contract assets are reclassified to receivables when the Group becomes eligible to invoice the publisher, i.e. upon receipt of a milestone acceptance notice from the publisher.

Contract liabilities

Apart from working under development and publishing agreements, the Group also performs work as a subcontractor. Under subcontracts, the Group is obliged to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. The Group recognises a contract liability if the Group has invoiced the customer for more work than has actually been performed as at the reporting date.

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The contract assets and liabilities as at the end of the reporting periods are presented in the table below.

	Dec 31 2022	Dec 31 2021
Gross contract assets	30,451	35,293
Impairment of contract assets	-	-
Contract assets	**30,451**	**35,293**
Contract liabilities	**2,792**	**2,030**

With respect to estimation of credit losses due to impairment, contract assets are governed by International Financial Reporting Standard 9 Financial Instruments ("IFRS 9"). The Group applies a practical expedient and measures allowances for expected credit losses at an amount equal to the expected credit losses over the life of the instrument. Impairment losses are estimated based mainly on historical data on days past due and a relationship between days past due and actual payments over the last four years, taking into account available information relating to the future.

The estimated amount of expected credit loss allowance for contract assets as at December 31st 2022 and as at December 31st 2021 was immaterial.

Key reasons for changes in contract assets and liabilities in the reporting period are presented in the tables below.

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Contract assets:		
Contract assets at beginning of period	35,293	24,019
Revenue taken to contract assets in period	117,127	175,548
Reclassification to trade receivables	(121,969)	(164,274)
Contract assets at end of period	**30,451**	**35,293**
Contract liabilities:		
Contract liabilities at beginning of period	2,030	-
Performance obligations recognised in reporting period as contract liabilities	762	2,030
Contract liabilities at end of period	**2,792**	**2,030**

The Group did not incur capitalised costs of obtaining and performing contracts.

As the contract budget increases to include further milestones, the planned contract revenue and the corresponding costs are updated and increased. The Group updates the contract budget gradually, based on the knowledge gained. The Management Board of the parent updates the projected results of a contract gradually, based on the best knowledge of costs necessary to be incurred, to reflect the milestones added to the contract.

10.Trade and other receivables

The table below presents trade and other receivables disclosed by the Group under receivables and loans (Note 13).

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	Dec 31 2022	Dec 31 2021
Financial assets (IFRS 9):		
Trade receivables	11,500	8,392
Net trade receivables	**11,500**	**8,392**
Receivables on disposal of non-current assets	-	1,637
Retentions (security deposits) under contracts	1,439	956
Other security deposits paid	188	3
Other receivables	10,229	7,042
Impairment loss on other financial receivables	(99)	-
Other net financial receivables	**11,757**	**9,638**
Financial receivables	**23,257**	**18,030**
Non-financial assets (non-IFRS 9):		
Taxes, social security and other receivables	191	-
Non-financial receivables	**191**	**-**
Total short-term receivables	**23,448**	**18,030**

The Group considers the carrying amount of trade receivables as a reasonable approximation of their fair value (Note 13).

The Group assessed receivables for impairment in accordance with the applied accounting policies. Impairment losses on receivables recognised in individual years under 'Losses on expected credit losses' in the consolidated statement of profit or loss were as follows:

- on trade receivables – nil,
- on other current and non-current financial receivables – PLN 99 thousand.

For trade receivables, the Group applies a practical expedient and measures the allowance for expected credit losses at an amount equal to the expected credit losses over the life of the instrument. In estimating expected credit losses over the life of the instrument, the Group uses historical data and current information to determine the amount of the expected losses. The Group assesses the counterparties it trades with as low risk and therefore the risk of credit losses is low. As at December 31st 2022 and December 31st 2021, the Group did not recognise an expected credit loss allowance for receivables as its estimated amount of PLN 99 thousand was immaterial.

11.Prepayments and accrued income

Prepayments comprise costs that the Group paid in advance.

Advance payments for projects are co-financing received for game development which, after the game is released, will be credited to revenue due to the Group from the sale of the game.

	Current prepayments and accrued income		Non-current prepayments and accrued income	
	Dec 31 2022	Dec 31 2021	Dec 31 2022	Dec 31 2021
Prepayments	1,022	924	277	453
Assets – prepayments and accrued income	**1,022**	**924**	**277**	**453**

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Liabilities – accrued expenses and deferred income				
Advance payments received for project execution	-	-	7,477	-
Deferred income	203	-	2,340	975
Liabilities – total accrued expenses and deferred income	**203**	**-**	**9,817**	**975**

12.Cash and cash equivalents

	Dec 31 2022	Dec 31 2021
Cash at bank in PLN-denominated accounts	12,637	37,030
Cash at bank in foreign currency accounts	55,346	53,536
Short-term deposits	-	46,536
Total cash and cash equivalents	**67,983**	**137,102**

As at December 31st 2022, the Group held restricted cash of PLN 91 thousand in the Parent's VAT account (December 31st 2021: restricted bank deposits of PLN 46,536 thousand).

As at December 31st 2022 and December 31st 2021, the Group had no cash equivalents.

13.Financial assets and liabilities

Categories of financial instruments in accordance with IFRS 9	Financial assets at amortised cost	Financial assets at fair value through profit or loss designated as such on initial recognition or subsequently	Non-IFRS 9	**Total**
As at Dec 31 2022				
Current assets:				
Trade and other receivables	23,257	-	191	**23,448**
Cash and cash equivalents	67,983	-	-	**67,983**
Total financial assets	**91,240**	**-**	**191**	**91,431**

Categories of financial instruments in accordance with IFRS 9	Financial assets at amortised cost	Financial assets at fair value through profit or loss designated as such on initial recognition or subsequently	Non-IFRS 9	**Total**
As at Dec 31 2021				
Non-current assets:				
Other non-current financial assets	293	-	-	**293**
Current assets:				
Trade and other receivables	18,030	-	-	**18,030**

Notes are an integral part of the full-year consolidated financial statements.

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Other current financial assets	1	-	-	**1**
Cash and cash equivalents	137,102	-	-	**137,102**
Total financial assets	**155,426**	**-**	**-**	**155,426**

Financial assets at amortised cost (IFRS 9.4.1.2.)

Financial assets at fair value through profit or loss designated as such on initial recognition or subsequently (IFRS 9.4.1.5 and IFRS 9.6.7.1).

Non-IFRS 9 – assets outside the scope of IFRS 9

Categories of financial instruments in accordance with IFRS 9	Financial liabilities at amortised cost	Financial liabilities at fair value through profit or loss designated as such on initial recognition or subsequently	Non-IFRS 9	**Total**
As at Dec 31 2022				
Non-current liabilities:				
Borrowings, other debt instruments	3,490	-	-	**3,490**
Leases	14,972	-	12,850	**27,822**
Current liabilities:				
Current tax liabilities	-	-	7,591	**7,591**
Trade and other payables	11,167	-	-	**11,167**
Borrowings, other debt instruments	2,089	-	-	**2,089**
Leases	1,035	-	3,163	**4,198**
Total financial liabilities	**32,753**	**-**	**23,604**	**56,357**

Categories of financial instruments in accordance with IFRS 9	Financial liabilities at amortised cost	Financial liabilities at fair value through profit or loss designated as such on initial recognition or subsequently	Non-IFRS 9	**Total**
As at Dec 31 2021				
Non-current liabilities:				
Borrowings, other debt instruments	510	-	-	**510**
Leases	-	-	25,439	**25,439**
Current liabilities:				
Current tax liabilities	-	-	2,444	**2,444**
Trade and other payables	9,406	302	-	**9,708**
Borrowings, other debt instruments	7,362	-	-	**7,362**
Leases	-	-	3,869	**3,869**
Total financial liabilities	**17,278**	**302**	**31,752**	**49,332**

Financial liabilities measured at amortised cost (IFRS 9.4.2.1)

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Financial liabilities at fair value through profit or loss – designated as such on initial recognition or subsequently (IFRS 9.4.2.2, IFRS 9.6.7.1. and definition of the category in Appendix A to IFRS 9)

Non-IFRS 9 – Liabilities outside the scope of IFRS 9

Other information on financial instruments

The comparison of the carrying amount of financial assets and liabilities with their fair value is presented below.

	Dec 31 2022		Dec 31 2021	
Class of financial instrument	Fair value	Carrying amount	Fair value	Carrying amount
Assets:				
Trade and other receivables	23,448	23,448	18,030	18,030
Other classes of financial assets	-	-	1	1
Cash and cash equivalents	67,983	67,983	137,102	137,102
Liabilities:				
Borrowings, other debt instruments	5,579	5,579	7,872	7,872
Leases	32,020	32,020	29,308	29,308
Trade and other payables	11,167	11,167	9,708	9,708

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an arm's length transaction between market participants as at the measurement date.

As at December 31st 2022 and December 31st 2021, the carrying amount of the Group's financial instruments was equal to their fair value due to the short maturities of those instruments, their cash nature, variable interest rate or immaterial difference between the original effective interest rates and the actual market rates.

The subsidy described in Note 15 is disclosed in the line item 'Borrowings and other debt instruments'. The subsidy agreement, being a part of the government-run programme to support businesses as a relief against the consequences of the COVID-19. pandemic, was concluded on preferential, non-market terms. The effect on to the fair value of the subsidy is not material.

14.Equity

Share capital

The following changes in the number of shares occurred during the period covered by these consolidated financial statements:

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Shares issued and paid up:		
Number of shares at beginning of period	29,950,226	27,500,000
Issue of Series B shares	-	2,062,512
Issue of Series D shares	-	387,714
Number of shares at end of period	**29,950,226**	**29,950,226**

As at the reporting date, neither the parent nor its subsidiaries held any shares of the parent.

Shareholding structure

The following tables present the shareholding structure as of the respective reporting dates covered by these consolidated financial statements.

	Number of shares	Number of voting rights	Total par value (PLN '000)	Ownership interest
As at Dec 31 2022				
Sebastian Wojciechowski	14,969,480	14,969,480	299	49.98%
Other shareholders	14,980,746	14,980,746	300	50.02%
Total	**29,950,226**	**29,950,226**	**599**	**100.00%**

	Number of shares	Number of voting rights	Total par value (PLN '000)	Ownership interest
As at Dec 31 2021				
Sebastian Wojciechowski	14,969,480	14,969,480	299	49.98%
Other shareholders	14,980,746	14,980,746	300	50.02%
Total	**29,950,226**	**29,950,226**	**599**	**100.00%**

Share premium

	Dec 31 2022	Dec 31 2021
Share premium on Series B shares	100,246	100,246
Costs of issue of Series B shares	(3,119)	(3,119)
Share premium on Series D shares	25,135	25,135
Costs of issue of Series D shares	(393)	(393)
Total	**121,869**	**121,869**

Other components of equity

	Dec 31 2022	Dec 31 2021
Other components of equity created prior to transition to IAS	37,246	37,246
Other components of equity – incentive scheme	10,207	10,207
Measurement of subscription warrants due to the Publisher Square Enix Limited	2,694	1,151
Exchange differences on translation of foreign operations	4,841	2,123
Total	**54,988**	**50,727**

Non-controlling interests

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	Dec 31 2022	Dec 31 2021
Incuvo S.A.	5,323	1,866
Spectral Applications sp. z o.o. w likwidacji (in liquidation)	-	215
Total	**5,323**	**2,081**

	Dec 31 2022	Dec 31 2021
As at beginning of period:	2,081	-
Acquisition of subsidiary Incuvo S.A.	-	1,934
Acquisition of subsidiary Spectral Applications sp. z o.o. w likwidacji (in liquidation)	-	187
Share in net profit/(loss) - Incuvo S.A.	3,458	(68)
Share in net profit/(loss) – Spectral Applications sp. z o.o. w likwidacji (in liquidation)	-	28
Deconsolidation – Spectral Applications Sp. z o.o. w likwidacji (in liquidation)	(216)	-
As at end of period	**5,323**	**2,081**

15.Borrowings

The Group's debt instruments as at December 31st 2022 are described below.

- On April 30th 2020, the parent entered into a subsidy agreement with Polski Fundusz Rozwoju S.A. ("PFR") under the government-run 'Polish Development Fund's Financial Shield for Micro, Small and Medium-Sized Enterprises' programme (the "Programme") providing financial support to businesses as relief against the consequences of COVID-19. The subsidy of PLN 3,500 thousand was applied by the Parent for purposes specified in the terms of the Programme. Based on the statement submitted by the Parent accounting for how the subsidy was spent, PFR decided that half of the subsidy, i.e. PLN 1,750 thousand, had to be repaid.
  The repayment began in the 13th month from the first full calendar month after the disbursement, and is to be completed in 24 equal monthly instalments.
  The subsidy agreement, being a part of the government-run programme to support businesses as a relief against the consequences of the COVID-19. pandemic, was concluded on preferential, non-market terms. The effect on to the fair value of the subsidy is not material. As at December 31st 2022, the balance outstanding to be repaid was PLN 510 thousand.
- Credit facility agreement between Game On and Royal Bank of Canada
  The purpose of the credit facility was to finance the management buyout in connection with the acquisition of Game On by the Parent.
  Game On has been repaying the facility in equal monthly instalments of approximately CAD 41 thousand each. As at December 31st 2022, the balance outstanding under the facility was CAD 1,501 thousand.

	Current liabilities		Non-current liabilities	
	Dec 31 2022	Dec 31 2021	Dec 31 2022	Dec 31 2021
Financial liabilities measured at amortised cost				

Borrowings and subsidies	2,089	7,362	3,490	510
Financial liabilities measured at amortised cost	**2,089**	**7,362**	**3,490**	**510**
Total borrowings, other debt instruments	**2,089**	**7,362**	**3,490**	**510**

16.Leases

The Group's lease contracts include mainly leases of office space and equipment.

The line item 'Buildings and structures' includes a right-of-use asset recognised on account of the following office space lease contracts:

- lease contract for office space in Warsaw,
- lease contract for office space in Rzeszów,
- lease contract for office space in Łódź,
- lease contract for office space in Kraków,
- lease contract for office space in Montreal.

The increase in lease liabilities under buildings and structures is attributable to:

- increase in the office space leased in Warsaw following lease of a part of another floor,
- commencement of use of office space in Łódź,
- commencement of use of office space in Kraków.

Under 'Machinery and equipment' the Group presents operating leases of hardware, and under 'Other property, plant and equipment' – leases of office equipment.

	Buildings and structures	Machinery and equipment	Other property, plant and equipment	**Total**
As at Dec 31 2022				
Non-current liabilities:	27,131	430	261	**27,822**
Current liabilities:	3,643	347	208	**4,198**
As at Dec 31 2021				
Non-current liabilities:	25,439	-	-	**25,439**
Current liabilities:	3,463	139	267	**3,869**

For information on interest on lease liabilities for 2022, see Note 20.

For an analysis of the maturity dates of lease liabilities as at December 31st 2022, see Note 27.

17.Trade and other payables

	Dec 31 2022	Dec 31 2021
Financial liabilities (IFRS 9):		
Trade payables	8,193	7,032
Purchase of non-current assets	92	116
Other financial liabilities	2,262	2,560
Financial liabilities	**10,547**	**9,708**

Non-financial liabilities (non-IFRS 9):		
Taxes, social security and other payables	620	-
Non-financial liabilities	**620**	**-**
Total current liabilities	**11,167**	**9,708**

The Group considers the carrying amount of trade payables as a reasonable approximation of their fair value (see Note 13).

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18. Employee benefits

Salaries, wages and other employee benefits

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Salaries and wages	94,728	44,677
Social security	21,767	10,842
Training costs and other employee benefits	1,021	204
Future employee benefits (provisions for accrued holiday entitlements)	94	161
Total employee benefits expense	**117,610**	**55,884**

Employee benefit obligations and provisions

Employee benefit obligations and provisions recognised in the consolidated statement of financial position include:

	Dec 31 2022	Dec 31 2021
Short-term employee benefits:		
Salaries and wages payable	734	656
Social security contributions payable	635	759
Provisions for retirement gratuity benefits	-	153
Provisions for accrued holiday entitlements	348	254
Short-term employee benefits	**1,717**	**1,822**
Total employee benefit obligations and provisions	**1,717**	**1,822**

Long-term employee benefit obligations and provisions do not appear in these consolidated financial statements.

19.Operating income and expenses

Costs by nature of expense

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Amortisation and depreciation expense	17,910	11,539
Employee benefits	117,610	55,884
Raw materials and consumables used	3,085	837
Services	98,993	77,047
Taxes and charges	230	200
Other expenses	1,751	1,379
Total costs by nature of expense	**239,579**	**146,886**
Capitalised development expenditure	(98,939)	(20,243)
Costs by nature of expense recognised in profit or loss	**140,640**	**126,643**
Cost of services sold	85,202	90,270
General and administrative expenses	55,438	36,373
Total	**140,640**	**126,643**

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Costs by nature of expense include mainly salaries and wages of the Group's employees and independent contractors involved in games development and back office functions, lease of office space and services not related to games development. The year-on-year increase in general and administrative expenses in the 12 months ended December 31st 2022 was mainly attributable to:

- overall increase in costs related to increased scale of operations, which translated into the need to expand the Group's development and back office resources;
- operating expenses generated by the companies which were members of the Group in the 12 months ended December 31st 2022, and which became members of the Group in 2021: People Can Fly Chicago, LLC, Game On Creative, Inc., Incuvo S.A. and Spectral Applications sp. z o.o. w likwidacji (in liquidation).

Services

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Costs of services provided by third parties	66,263	54,611
Professional, legal and accounting services	19,182	14,908
Telecommunications, IT services, lease	5,531	2,653
Office maintenance costs	3,267	2,410
Other activities	4,750	2,465
Total	**98,993**	**77,047**

Other income

Other income includes income from reinvoicing of medical services and other services for entities cooperating with the Parent.

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Gain on disposal of non-financial non-current assets	13	2
Forgiven borrowings and subsidies	-	3,339
Other income	1,128	5,993
Total other income	**1,141**	**9,334**

Other expenses

Other expenses include expenses related to:

- purchase of medical services and other benefits for entities cooperating with the parent;
- gifts and donations provided to assist people affected by the war in Ukraine.

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Impairment losses on property, plant and equipment and intangible assets	-	84
Impairment losses on financial receivables	118	-
Impairment losses on non-financial receivables	4	-

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Recognised provisions	-	133
Compensation and penalties paid	-	73
Other expenses	786	1,039
Total other expenses	**908**	**1,329**

20.Finance income and expenses, losses on expected credit losses

Losses on expected credit losses

In the period covered by these consolidated financial statements the Group applied IFRS 9, but no losses on account of expected credit losses were identified as a separate item of the consolidated statement of profit or loss and other comprehensive income, as the amount of those losses was immaterial.

Finance income

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Interest income calculated using the effective interest rate:		
Cash and cash equivalents (deposits)	1,361	934
Interest income calculated using the effective interest rate	**1,361**	**934**
Gains on measurement and settlement of financial instruments other than at fair value through profit or loss:		
Shares in non-listed companies	558	-
Gains on measurement and settlement of financial instruments at fair value through profit or loss	**558**	**-**
Foreign exchange gains (losses):		
Cash and cash equivalents	-	2,288
Loans and receivables	-	888
Financial liabilities at amortised cost	(148)	(56)
Foreign exchange gains (losses)	**(148)**	**3,120**
Total finance income	**1,771**	**4,054**

Finance costs

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Interest expense on financial liabilities other than at fair value through profit or loss:		
Lease liabilities	1,362	872
Credit facilities	205	143
Trade and other payables	-	1
Interest expense on financial liabilities other than at fair value through profit or loss	**1,567**	**1,016**

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Foreign exchange gains (losses) (+/-):		
Cash and cash equivalents	81	64
Loans and receivables	27	188
Financial liabilities at amortised cost	739	-
Foreign exchange gains (losses) (+/-)	**847**	**252**
Total finance costs	**2,414**	**1,268**

The increase in lease interest resulted from an increase in the amount of lease liabilities (for details, see Note 16).

21.Income tax

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Current tax:		
Tax for reporting period	9,204	1,496
Adjustments to tax expense for previous periods	-	91
Current tax	**9,204**	**1,587**
Deferred tax:		
Origination and reversal of temporary differences	(753)	1,528
Deferred tax	**(753)**	**1,528**
Total income tax	**8,451**	**3,115**

On April 30th 2020, the National Revenue Information System issued a private letter ruling in response to the Parent's enquiry concerning the application of the IP Box tax relief. When settling corporate income tax for the financial years 2020-2022, the Parent availed itself of the IP Box tax relief in accordance with the ruling, and so it applied a preferential corporate income tax rate of 5% to eligible income from eligible intellectual property rights within the meaning of the IP Box regulations. Accordingly, the current portion of the parent's corporate income tax was calculated at the rate of 19% for taxable income from other sources and at the rate of 5% for the taxable income from eligible intellectual property rights (IP Box).

The table below presents reconciliation of income tax on profit or loss before tax with the income tax disclosed in the consolidated statement of profit or loss:

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Profit or loss before tax	**30,435**	**64,441**
Income tax at 5%	3,093	2,162
Income tax at 19%	(4,973)	3,214
Reconciliation of income tax due to:		
Application of different tax rates to profit or loss of Group companies	3,197	223
Non-taxable income	(614)	(1)
Expenses which are permanently non-deductible	629	225
Use of previously unrecognised tax losses	(1,270)	(3,685)
Unrecognised deferred tax asset on tax losses	2,295	689

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Taxable not accounting income	7,196	418
Technical settlement between 5% and 19% tax rates	(1,102)	(221)
Adjustments to tax expense for previous periods	-	91
Income tax	**8,451**	**3,115**
Average tax rate applied	**27.8%**	**4.8%**

22.Notes to the consolidated statement of cash flows

The following table presents the differences between changes in items of the statement of financial position and the amounts disclosed in the consolidated statement of cash flows.

Item in statement of cash flows	Change in statement of financial position/statement of profit or loss	Change disclosed	**Difference**	Reason
Depreciation and impairment of property, plant and equipment	5,118	4,852	266	Depreciation capitalised under development work in progress
Amortisation and impairment of intangible assets	8,175	7,696	479	Amortisation capitalised under development work in progress
Depreciation of right-of-use asset	4,617	4,570	47	Depreciation capitalised under development work in progress

23.Share-based payments

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Warrant issue costs	1,543	1,151

On August 29th 2021, the Parent signed an investment agreement with Square Enix Limited defining the rights and obligations of the parties in connection with the issue of subscription warrants by the parent under Resolution No. 5 of the Extraordinary General Meeting of the parent of June 26th 2020 on the issue of subscription warrants, conditional increase in the share capital through the issue of Series C ordinary shares, full waiver of the existing shareholders' pre-emptive rights to acquire all subscription warrants and pre-emptive rights to acquire all Series C shares, the seeking of admission and introduction of Series C shares to trading on the regulated market operated by the Warsaw Stock Exchange, conversion of Series C shares into book-entry form, authorisation to enter into an agreement on registration of Series C shares in the securities depository and amendment to the parent's Articles of Association. The execution of the investment agreement marked the end of negotiations entered into by the parties following execution by the parties on July 31st 2020 of a preliminary agreement setting out the terms of collaboration between them relating to the issue of subscription warrants intended to be offered to Square Enix Limited and subscription by Square Enix Limited of Series C shares in the exercise of rights attached to the warrants. For details of the investment agreement, see Current Report No. 40/2021 of August 29th 2021.

In the performance of the investment agreement, on November 17th 2021 Square Enix Limited accepted the parent's offer of October 11th 2021 to acquire, for no consideration, 90,000 Series A registered subscription warrants (Tranche A1 warrants) and 90,000 Series A registered subscription warrants (Tranche A2 warrants) issued by the parent, each conferring the right to subscribe for one Series C ordinary bearer share in the parent with a par value of PLN 0.02 per share, for the issue price of PLN 50 per share. Subsequently, on December 10th 2021, June 6th 2022, October 7th 2022 and March 28th 2023, the Parent's Management Board submitted to the publisher further offers to subscribe, for no consideration, for 90,000 Series A registered subscription warrants (Tranche A3 warrants), 90,000 Series A registered subscription warrants (Tranche A4 warrants), 90,000 Series A registered subscription warrants (Tranche A5 warrants), and 90,000 Series A registered subscription warrants (Tranche A6 warrants – the last tranche). All the offers were accepted by the publisher on January 18th 2022, June 30th 2022, November 1st 2022 and April 18th 2023, respectively. Square Enix Limited acquired the right to subscribe for Series C shares upon subscription for the fourth tranche of the warrants. As at the date of authorisation of these consolidated financial statements, the Parent estimated that the maximum number of Series C shares that could be subscribed for by Square Enix Limited in connection with accepting all offers would represent approximately 1.79% of the Parent's share capital.

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As August 29th 2021 saw the execution of the investment agreement with Square Enix Ltd (Grant Date), the subscription warrants were measured and recognised as at that date in accordance with IFRS 2. The estimated value of the warrants due to Square Enix Limited corresponding to the stage of completion of the service was put at approximately PLN 2,694 thousand. Accordingly, the previous effects of the preliminary agreement preceding the conclusion of the investment agreement referred to above, recognised in accordance with IFRS 15 as consideration payable to a customer (IFRS 15.48.e), reducing the amount of the contract revenue, were reversed in this reporting period. The reversal increased the amount of revenue in the 12 months ended December 31st 2021 by PLN 3,399 thousand (the development segment), and the measured amount of the contract asset.

The table below presents the change in the number of warrants granted in the period covered by these consolidated financial statements:

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Balance of options granted since launch of incentive scheme as at January 1st	180,000	-
Number of options granted in period	270,000	180,000
Balance of options granted since launch of incentive scheme as at December 31st	**450,000**	**180,000**

The issue of warrants was accounted for in accordance with IFRS 2 *Share-based Payment*, and the Management Board of the Parent made the necessary estimates for the measurement and recognition of the issue. The Company measured the scheme using the Black-Scholes model. Assumptions made for the measurement:

	Settlement period end date	Exercise price	Volatility ratio %	Risk free rate %
Tranche 1	Sep 30 2024	3.83	30.6%	0.5%
Tranche 2	Sep 30 2024	3.83	30.6%	0.5%
Tranche 3	Sep 30 2024	3.83	30.6%	0.5%
Tranche 4	Sep 30 2024	3.83	30.6%	0.5%
Tranche 5	Sep 30 2024	6.72	36.6%	0.7%
Tranche 6	Sep 30 2024	7.90	34.3%	1.0%

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24.Earnings per share and dividends paid

Earnings per share

To calculate basic earnings (loss) per share, the Group uses the amount of net profit (loss) attributable to owners of the parent in the numerator, which means there is no dilutive effect on the amount of profit (loss).

The calculation of basic earnings (loss) per share together with reconciliation of the diluted weighted average number of shares is presented below.

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Number of shares used as denominator in the formula		
Weighted average number of ordinary shares	29,950,226	29,678,600
Dilutive effect of options convertible into shares	450,000	-
Diluted weighted average number of ordinary shares	30,400,226	29,678,600
Continuing operations		
Net profit (loss) from continuing operations	21,984	61,326
Basic earnings (loss) per share (PLN)	0.73	2.07
Diluted earnings (loss) per share (PLN)	0.72	2.07
Discontinued operations		
Net profit (loss) from discontinued operations	-	-
Basic earnings (loss) per share (PLN)	-	-
Diluted earnings (loss) per share (PLN)	-	-
Continuing and discontinued operations		
Net profit (loss)	21,984	61,326
Basic earnings (loss) per share (PLN)	0.73	2.07
Diluted earnings (loss) per share (PLN)	0.72	2.07

Dividends

Game On Creative Inc.

Under a resolution passed by the company's sole director on April 27th 2021, a dividend payment of CAD 972,543.00 on Class C shares was approved for the benefit of the then sole shareholder of that company, Fiducie familiale Samuel Girardin 2020, a trust established in favour of Samuel Girardin and related persons, with its registered office in Montreal, Canada, who on the date of the resolution to pay dividend was the sole holder of Class C shares in Game On Creative Inc.

The dividend was paid in cash (CAD 450,000.00) and in the form of a promissory note (CAD 522,543.00).

In the twelve months ended December 31st 2022, the following dividend payments were made:

- on January 27th 2022 – a dividend payment of CAD 120,000.00;

- on February 22nd 2022 – a dividend payment of CAD 120,000.00;
- on April 1st 2022 – a dividend payment of CAD 60,000.00;
- on August 18th 2022 – a dividend payment of CAD 75,000.00;
- on September 15th 2022 – a dividend payment of CAD 75,000.00;
- on October 14th 2022 – a dividend payment of CAD 72,543.00.

As at the reporting date, the dividend referred to in this paragraph had been settled in full.

PCF Group S.A.

On June 28th 2022, the Annual General Meeting of the parent passed Resolution No. 7/06/2022 on the appropriation of the parent's profit for the financial year 2021, whereby a portion of profit after tax (net profit) for the financial year 2021 of PLN 8,086,561.02 was allocated for distribution to the shareholders in the form of dividend (PLN 0.27 per share). The Annual General Meeting set the dividend record date for July 8th 2022 and the dividend payment date for August 3rd 2022 (on which date the dividend was paid).

In accordance with the Group's growth strategy update adopted by the Parent's Management Board on January 31st 2023, the Management Board plans not to recommend that the Parent's General Meeting approves payment of dividend until the Parent generates revenue, profits and positive cash flows from its planned self-publishing activities, i.e., no earlier than from profits earned for the financial year 2025. However, any decisions regarding payment and amount of dividends are always subject to the discretion of the shareholders at the Annual General Meeting, who are not bound in any way by recommendations of the Management Board.

Spectral Applications Sp. z o.o. w likwidacji (in liquidation)

On June 30th 2022, the Annual General Meeting of Spectral Applications Sp. z o.o. w likwidacji (in liquidation) passed Resolution No. 5 on the appropriation of profit of PLN 350,000.00, allocating it for distribution among the shareholders in the form of dividend. Pursuant to a resolution of the Annual General Meeting, the dividend was paid on July 20th 2022.

25.Related-party transactions

Ultimate parent

The ultimate parent is Sebastian Wojciechowski by virtue of his being a major shareholder of the Parent, holding 49.98% of the Parent shares as at December 31st 2022, and as at the date of authorisation these consolidated financial statements for issue – holding 49.76% of the share capital and total voting rights at the General Meeting of the Parent, as well as a special personal right to appoint and remove President of the Management Board. In addition, together with three other shareholders of the Parent, Sebastian Wojciechowski forms the Group of Qualifying Shareholders, vested with a special personal right to appoint a majority of the Supervisory Board members. Mr Wojciechowski is a natural person and does not prepare financial statements for public disclosure (International Accounting Standard 24 Related Party Disclosures ("IAS 24"), section 24.13).

Mr Wojciechowski also serves as President of the Management Board of the Parent.

Transactions with shareholders

The following tables present transactions with shareholders of the parent which took place in the period covered by these consolidated financial statements.

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12 months ended Dec 31 2022	Sale	Purchase	Dividends
Shareholders in the parent	5	3,993	5,717

12 months ended Dec 31 2021	Sale	Purchase	Dividends
Shareholders in the parent	104	3,302	4,002

As at Dec 31 2022	Receivables	Liabilities	Borrowings
Shareholders in the parent	-	-	-

As at Dec 31 2021	Receivables	Liabilities	Borrowings
Shareholders in the parent	1	189	-

As regards disclosure of transactions with shareholders, the Group applies a practical expedient and presents transactions with shareholders whose share in total voting rights in the parent is no less than 5%. The Group also discloses transactions executed by persons discharging managerial responsibilities and their close persons who have been notified to the parent pursuant to Article 19 of Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation).

26.Financial guarantees, contingent assets and liabilities

The Parent provided the subsidiary People Can Fly U.S., LLC, against consideration, with a performance bond in respect of the development and publishing agreement for the Project Dagger game. However, given that the development and publishing agreement for Project Dagger was terminated with effect from September 23rd 2022, rights under the performance bond became unenforceable. Therefore, on November 29th 2022, the parties agreed to terminate the agreement under which the performance bond was granted.

Apart from the performance bond agreement described above, as at December 31st 2022 the Group did not have any other financial guarantees or contingent assets or liabilities.

27.Risk related to financial instruments

The Group is exposed to a number of risks related to financial instruments. For information on categories of the Group's financial assets and liabilities, see Note 13.

The Group is exposed to the following risks:

- market risk, comprising business, currency and interest rate risk
- credit risk, and
- liquidity risk.

The Group's financial risk management policy is coordinated by the parent. The following are the key objectives of financial risk management:

- to hedge short- and medium-term cash flows,

The Group does not enter into speculative transactions on financial markets. All transactions executed by the Group are designed to hedge against certain risks.

Currency risks

Sensitivity to currency risk

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The Group is exposed to currency risk as a significant portion of the Group's costs are incurred in PLN, while the vast majority of the Group's revenue is denominated in foreign currencies, mainly in EUR, USD and CAD. The Group is therefore exposed to currency risk.

The development and publishing agreements with Square Enix Limited for Outriders and for the development by the Group of Project Gemini contain certain provisions that hedge the Group against the EUR/PLN exchange rate risk. Exchange rate fluctuations may reduce the amount of the Group's receivables or increase the amount of its liabilities, resulting in exchange differences charged to the Group's profit or loss. As at the date of these consolidated financial statements, the Group monitors movements in exchange rates, but does not use financial instruments to hedge the currency risk. As a result, the risk may adversely affect the Group's business, revenue, results and, indirectly through a reduction of revenue or increase in costs, also the Group's financial condition (mainly by reducing the Group's monetary assets).

The table below presents the Group's main currency exposures and potential foreign exchange gains/losses on these exposures resulting from a hypothetical 10% appreciation/depreciation of the złoty against the specified currencies.

The table below presents financial assets and liabilities exposed to currency risk:

	Amount in foreign currency:				
	EUR	USD	GBP	CAD	**Amount translated into PLN**
As at Dec 31 2022					
Financial assets:					
Trade and other receivables	247	1,155	-	3,287	**16,921**
Cash and cash equivalents	7,734	3,509	63	1,014	**55,345**
Financial liabilities:					
Borrowings, other debt instruments	-	-	-	(1,560)	**(5,068)**
Leases	-	-	-	(4,928)	**(16,009)**
Trade and other payables	(63)	(69)	(704)	(1,500)	**(9,200)**
Total exposure to currency risk	**7,918**	**4,595**	**(641)**	**(3,687)**	**41,989**
As at Dec 31 2021					
Financial assets:					
Trade and other receivables	1,357	-	-	1,544	**11,170**
Cash and cash equivalents	11,407	9,509	135	2,462	**99,671**
Financial liabilities:					
Borrowings, other debt instruments	-	-	-	(2,029)	**(6,477)**
Leases	-	-	-	(5,225)	**(16,678)**
Trade and other payables	(20)	(272)	(327)	(865)	**(5,751)**
Total exposure to currency risk	**12,744**	**9,237**	**(192)**	**(4,113)**	**81,935**

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The table below presents the effect of exchange rate movements on financial assets and liabilities exposed to currency risk:

		Effect on profit or loss / equity:				
	Exchange rate movements	EUR	USD	GBP	CAD	**Total**
As at Dec 31 2022						
Increase in exchange rate	10%	3,713	2,023	(339)	(1,198)	**4,199**
Decrease in exchange rate	-10%	(3,713)	(2,023)	339	1,198	**(4,199)**
As at Dec 31 2021						
Increase in exchange rate	10%	5,705	1,627	83	103	**7,518**
Decrease in exchange rate	-10%	(5,705)	(1,627)	(83)	(103)	**(7,518)**

Sensitivity to interest rate risk

Interest rate risk is the risk that the fair value or future cash flows from a financial instrument will change due to movements in interest rates.

As at December 31st 2022, the Group was exposed to the risk of changes in interest rates on the Group's borrowings. In the reporting period, the Group did not take any specific measures to hedge against the interest rate risk (the credit facility contracted by Game On from Royal Bank of Scotland bears interest at a fixed rate). For detailed information on the Group's borrowings, see Note 15.

The impact of the interest rate risk on the Group's monetary assets is immaterial.

Credit risks

The Group's main credit risk management practice is to seek to enter into transactions only with entities of proven credibility. Ongoing monitoring of the level of trade receivables by counterparty serves to reduce the level of credit risk associated with these assets. The Group's maximum exposure to credit risk at the reporting date is represented by the carrying amount of these receivables.

The Group considers a receivable to be a low credit risk if it is not past due at the date of assessment and the counterparty has confirmed the balance of the receivable. The Group has assumed that there is a significant increase in risk when payments are past due 90 days or more. If the increase in credit risk is significant, lifetime losses on the instrument are recognised. Items for which an increase in credit risk has been identified are treated as financial assets impaired due to credit risk, with a corresponding impairment loss recognised.

With respect to contract assets, which is the most significant asset class exposed to credit risk, and to trade receivables, the Group is exposed to credit risk in relation to one significant counterparty. In the opinion of the Group, the significant counterparty is a creditworthy partner. In the absence of historical delays in payment of receivables, impairment losses are estimated on a collective basis and the receivables have been grouped based on days past due. Impairment losses are estimated based mainly on historical data on days past due and a relationship between days past due and actual payments over the last four years.

Gross carrying amounts of and impairment losses on individual groups of receivables as at December 31st 2022 and December 31st 2021 are presented below.

Past due trade receivables

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As at Dec 31 2022	Contract assets	not past due	0 – 30 days	31 – 90 days	over 90 days	Total
Impairment loss rate	0%	0%	0%	0%	0%	
Gross carrying amount	30,451	23,448	-	-	-	**53,899**
Impairment loss	-	-	-	-	-	**-**

			Past due trade receivables			
As at Dec 31 2021	Contract assets	not past due	0 – 30 days	31 – 90 days	over 90 days	Total
Impairment loss rate	0%	0%	0%	0%	0%	
Gross carrying amount	35,293	18,030	-	-	-	**53,323**
Impairment loss	-	-	-	-	-	**-**

In the period covered by these consolidated financial statements, the Group did not hold any negotiations or make any arrangements as a result of a significant increase in credit risk that would result in changes to the timing of payments or otherwise modify the expected flows from its trade receivables or contract assets. The Group does not require that its trading partners provide security for trade receivables.

For all financial assets, as well as contract assets, their carrying amount best reflects the Group's maximum exposure to credit risk.

Liquidity risk

The Group is exposed to liquidity risk, i.e. the risk of losing ability to timely meet its financial liabilities. The Group manages the liquidity risk by monitoring payment dates and cash requirements for short-term payments (current transactions monitored weekly) and long-term cash requirements based on cash-flow forecasts updated on a monthly basis. The cash requirement is compared with the available cash sources and the Group’s placements of free cash. The Group does not use derivative instruments. As at the reporting dates, the Group did not have any credit limits available in current accounts, and the Group did not use such facilities in the past. The Group manages liquidity by forecasting the work schedule and deadlines for delivery of individual game development milestones to the publisher for which payments will be received.

The Group's financial liabilities other than derivative instruments as at the reporting dates are presented below.

	Current		Non-current		
	up to 3 months	from 3 to 12 months	from 12 months to 60 months	over 60 months	Total
As at Dec 31 2022					
Non-bank borrowings	609	1,480	3,490	-	**5,579**
Leases	1,046	3,152	17,752	10,070	**32,020**
Trade and other payables	11,167	-	-	-	**11,167**
Total exposure to liquidity risk	**12,822**	**4,632**	**21,242**	**10,070**	**48,766**
As at Dec 31 2021					
Overdraft facilities	6,487	-	-	-	**6,487**
Non-bank borrowings	219	656	510	-	**1,385**

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Leases	964	2,905	15,544	9,895	**29,308**
Trade and other payables	9,708	-	-	-	**9,708**
Total exposure to liquidity risk	**17,378**	**3,561**	**16,054**	**9,895**	**46,888**

The table below presents the excess of cash available at the Group over the sum of trade and other payables and the current portion of the lease liability. In the period covered by these consolidated financial statements, as at the reporting date the Group recorded free cash and there was no liquidity risk.

	Trade and other payables + leases (current portion)	Cash and cash equivalents	**Free cash**
As at Dec 31 2022	15,365	67,983	**52,618**
As at Dec 31 2021	13,577	137,102	**123,525**

28.Capital management

Capital is managed in such a way as to ensure the Group's ability to continue as a going concern and to ensure the expected rate of return for shareholders and other entities with interest in the Group's financial condition. The level of cash and the ability to pay trade liabilities are monitored on an ongoing basis.

Neither the Group nor the parent is subject to external capital requirements.

Values of the above ratios in the reporting period are presented below.

	Dec 31 2022	Dec 31 2021
Capital:		
Equity	277,629	259,542
Capital	**277,629**	**259,542**
Total sources of funding:		
Equity	277,629	259,542
Borrowings, other debt instruments	5,579	7,872
Leases	32,020	29,308
Total sources of funding:	**315,228**	**296,722**
Equity to total sources of funding	**0.88**	**0.87**
EBITDA		
Operating profit (loss)	31,078	61,655
Amortisation and depreciation expense	17,118	11,539
EBITDA	**48,196**	**73,194**
Debt:		
Borrowings, other debt instruments	5,579	7,872
Leases	32,020	29,308
Debt	**37,599**	**37,180**
Debt to EBITDA	**0.78**	**0.51**

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Cash	67,983	137,102
Current liabilities	29,757	27,235
Cash ratio**	**2.28**	**5.03**

* EBITDA is calculated as operating profit (loss) plus depreciation and amortisation expense. ** The cash ratio is calculated as cash to current liabilities.

29.Remuneration of members of the Management Board and the Supervisory Board

Remuneration paid to and other benefits for members of the Management Board and the Supervisory Board of the parent:

	At the parent:		At subsidiaries:		
	remuneration	other benefits	remuneration	other benefits	**Total**
Jan 1–Dec 31 2022					
President of the Management Board – Sebastian Wojciechowski	48	959	708	-	**1,715**
Supervisory Board members	134	-	-	-	**134**
Total	**182**	**959**	**708**	**-**	**1,849**
Jan 1–Dec 31 2021					
President of the Management Board – Sebastian Wojciechowski	48	1,055	597	-	**1,700**
Supervisory Board members	136	265	-	-	**401**
Total	**184**	**1,320**	**597**	**-**	**2,101**

Management Board

In 2022, the Group made purchases from entities controlled by the Management Board for a total amount of PLN 959 thousand (2021: PLN 1,055 thousand). The balance of liabilities under such transactions was PLN 0 thousand as at December 31st 2022 and PLN 65 thousand as at December 31st 2021.

In 2022, the Group made no sales to entities controlled by the Management Board (2021: PLN 5 thousand). The balance of receivables under such transactions was PLN 0 thousand as at December 31st 2022 and PLN 1 thousand as at December 31st 2021.

Supervisory Board

Other benefits presented in the table above were received by members of the Supervisory Board for the services provided to the Group.

The Group did not receive any borrowings from or advance any loans to members of the Supervisory Board in the reporting period.

30.Auditor's fees

Pursuant to Art. 15.2.4 of the Articles of Association, the Supervisory Board appoints an audit firm to audit the parent’s financial statements and the Group’s consolidated financial statements.

Under the Supervisory Board’s Resolution No. 17 of June 29th 2021:

- Grant Thornton was appointed the audit firm authorised to review the parent’s interim financial statements and the Group's interim consolidated financial statements for the six months ended June 30th 2021 and for the six months ended June 30th 2022 prepared in accordance with IFRS/IAS,

Full-year consolidated financial statements for the financial year ended December 31st 2022 (all amounts in PLN thousand, unless stated otherwise)

- Grant Thornton was appointed the audit firm authorised to audit the parent’s financial statements and the Group's consolidated financial statements for the financial years 2021 and 2022 prepared in accordance with IFRS/IAS.

Grant Thornton is an audit firm within the meaning of the Statutory Auditors Act, entered in the list of audit firms maintained by the Polish Audit Supervision Authority under Reg. No. 3654. Grant Thornton meets the independence requirements under the laws and standards applicable to audit firms and auditors. Grant Thornton has no interest in the parent; in particular, as at the date of authorisation of these consolidated financial statements for issue it did not hold any equity instruments of the parent, including shares or subscription warrants issued by the parent.

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Audits and reviews of statutory financial statements	274	183
Other assurance services	9	55
Total	**283**	**238**

31.Employees and independent contractors

The table below presents data on the number of employees (under employment and temporary contracts) and independent contractors (sole traders) as well as on new hires and terminations.

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Beginning of period	495	281
New hires/new independent contractors in period	254	245
Employee/contractor terminations	(137)	(31)
End of period	**612**	**495**

32.Significant events and transactions

The following events occurred during the period covered by these consolidated financial statements:

- **Acquisition by Square Enix Limited of the right to subscribe for shares of the Parent**

  On January 18th 2022, the Parent's Management Board received a statement from Square Enix Limited to the effect that Square Enix Limited subscribed for the third tranche of Series A subscription warrants (A3 tranche), i.e. 90,000 warrants issued by the parent, each conferring the right to subscribe for one Series C ordinary bearer share of the parent with a par value of PLN 0.02 per share for an issue price of PLN 50 per share, i.e. for an issue price corresponding to the final price for parent shares offered to institutional investors in the public offering carried out on the basis of the prospectus approved by the Polish Financial Supervision Authority on November 25th 2020.

  The offer to subscribe for the third tranche of the subscription warrants was made by the parent as the parent's revenue from agreements with Square Enix Limited exceeded PLN 135m.

For detailed information on the terms and conditions of the warrants granted to Square Enix Limited by the Parent, including of their exercise by Square Enix Limited to subscribe for shares in the Parent, see the Parent's Current Report No. 40/2021 of August 29th 2021.

- **Share capital increase at People Can Fly Chicago, LLC**

  On January 20th 2022, pursuant to written consent from the manager of People Can Fly Chicago, LLC given outside a management meeting, the share capital of People Can Fly Chicago LLC was increased by USD 500 thousand. The capital increase was paid for in cash by People Can Fly U.S., LLC. The proceeds from the share capital increase were used to finance the working capital of People Can Fly Chicago, LLC.

- **Share capital increase at People Can Fly Chicago, LLC**

  On March 20th 2022, pursuant to written consent from the manager of People Can Fly Chicago, LLC given outside a management meeting, the share capital of People Can Fly Chicago LLC was increased by USD 500 thousand. The capital increase was paid for in cash by People Can Fly U.S., LLC. The proceeds from the share capital increase were used to finance the working capital of People Can Fly Chicago, LLC.

- **Registration of subscription warrants with CSDP**

  On March 4th 2022, in response to the parent's application of February 23rd 2022, the Central Securities Depository of Poland issued a statement to the effect that on March 8th 2022 it would enter into an agreement with the parent to register 270,000 Series A registered subscription warrants (tranches A1-A3) issued for no consideration and with no par value under ISIN PLPCFGR00044.

- **Disposal of shares in Spectral Games S.A.**

  On April 11th 2022, Incuvo S.A. entered into five share purchase agreements with entities unrelated to Incuvo S.A., concerning the sale by Incuvo S.A. of all shares in Spectral Games S.A. The sale was effected upon entry of the buyers in the register of Spectral Games S.A. shareholders, in accordance with Art. 328^9 of the Commercial Companies Code, i.e., on April 26th 2022.

- **Share capital increase at People Can Fly Chicago, LLC**

  On April 13th 2022, pursuant to written consent from the manager of People Can Fly Chicago, LLC given outside a management meeting, the share capital of People Can Fly Chicago LLC was increased by USD 500 thousand. The capital increase was paid for in cash by People Can Fly U.S., LLC. The proceeds from the share capital increase were used to finance the working capital of People Can Fly Chicago, LLC.

- **Share capital increase at People Can Fly Chicago, LLC**

  On May 10th 2022, pursuant to written consent from the manager of People Can Fly Chicago, LLC given outside a management meeting, the share capital of People Can Fly Chicago LLC was increased by USD 500 thousand. The capital increase was paid for in cash by People Can Fly U.S., LLC. The proceeds from the share capital increase were used to finance the working capital of People Can Fly Chicago, LLC.

- **Share capital increase at People Can Fly Chicago, LLC**

  On May 31st 2022, pursuant to written consent from the manager of People Can Fly Chicago, LLC given outside a management meeting, the share capital of People Can Fly Chicago LLC was increased by USD 500 thousand. The capital increase was paid for in cash by People Can Fly U.S., LLC. The proceeds from the share capital increase were used to finance the working capital of People Can Fly Chicago, LLC.

- **Share capital increase at People Can Fly Chicago, LLC**

On June 16th 2022, pursuant to written consent from the manager of People Can Fly Chicago, LLC given outside a management meeting, the share capital of People Can Fly Chicago LLC was increased by USD 500 thousand. The capital increase was paid for in cash by People Can Fly U.S., LLC. The proceeds from the share capital increase were used to finance the working capital of People Can Fly Chicago, LLC.

- **Release of *Outriders Worldslayer***

  On June 28th 2022, a DLC for *Outriders* was released. The project was carried out under a development and publishing agreement with the publisher Square Enix Limited.

- **Decision to wind up Spectral Applications Sp. z o.o.**

  On June 30th 2022, the Annual General Meeting of Spectral Applications Sp. z o.o. resolved to wind up the company and open its liquidation.

- **Acquisition by Square Enix Limited of the right to subscribe for shares of the Parent**

  On June 30th 2022, the Parent's Management Board received a statement from Square Enix Limited on the subscription by Square Enix Limited for the fourth tranche of Series A subscription warrants (tranche A4), comprising 90,000 subscription warrants issued by the Parent on the terms described above.

  The offer to subscribe for the fourth tranche of the subscription warrants was made by the Parent as the Parent's revenue from agreements with Square Enix Limited exceeded PLN 180m.

- **Share capital increase at People Can Fly Chicago, LLC**

  On July 19th 2022, pursuant to written consent from the manager of People Can Fly Chicago, LLC given outside a management meeting, the share capital of People Can Fly Chicago LLC was increased by USD 500 thousand. The capital increase was paid for in cash by People Can Fly U.S., LLC. The proceeds from the share capital increase were used to finance the working capital of People Can Fly Chicago, LLC.

- **Payment of dividend by Spectral Applications sp. z o.o. w likwidacji (in liquidation)**

  On July 20th 2022, the company paid dividend of PLN 350,000.00 .

- **Payment of dividend by the parent**

  On August 3rd 2022, the Parent paid dividend of PLN 8,086,561.02.

- **Share capital increase at People Can Fly Chicago, LLC**

  On August 18th 2022, pursuant to written consent from the manager of People Can Fly Chicago, LLC given outside a management meeting, the share capital of People Can Fly Chicago LLC was increased by USD 500 thousand. The capital increase was paid for in cash by People Can Fly U.S., LLC. The proceeds from the share capital increase were used to finance the working capital of People Can Fly Chicago, LLC.

- **Agreement to terminate the development and publishing agreement for Project Dagger with the publisher Take-Two Interactive Software, Inc.**

  On October 1st 2022, People Can Fly U.S., LLC and the publisher Take-Two Interactive Software, Inc. entered into an agreement to terminate the development and publishing agreement for Project Dagger, with effect from September 23rd 2022. For details of the event, see Note 3 above.

- **Share capital increase at People Can Fly Chicago, LLC**

  On October 25th 2022, pursuant to written consent from the manager of People Can Fly Chicago, LLC given outside a management meeting, the share capital of People Can Fly Chicago LLC was increased by USD 500 thousand. The capital increase was paid for in cash by People Can Fly U.S., LLC. The proceeds from the share capital increase were used to finance the working capital of People Can Fly Chicago, LLC.

- **Acquisition by Square Enix Limited of the right to subscribe for shares of the Parent**

  On November 1st 2022, the Parent's Management Board received a statement from Square Enix Limited on the subscription by Square Enix Limited for the fifth tranche of Series A subscription warrants (tranche A5), comprising 90,000 subscription warrants issued by the Parent on the terms described above.

  The offer to subscribe for the fifth tranche of the subscription warrants was made by the Parent as the Parent's revenue from agreements with Square Enix Limited exceeded PLN 225m.

- **Opening of a new studio in Kraków**

  In November 2022, the Group announced the opening of a new studio in Kraków. The office has been opened in order to bolster recruitment efforts at this location. The development team in this studio will work on the development of Project Red, a game currently in the concept phase.

- **War in Ukraine**

  Since the very outbreak of the hostilities in Ukraine, the parent's Management Board has been carefully and continuously analysing the situation in terms of potential risks that could affect the parent's and the Group's operations and future financial performance.

  As a result of these analyses, the following risks have been identified:

  - risk related to unavailability or shortage of employees and associates, in particular those being Ukrainian nationals, as a result of the general mobilisation ordered in Ukraine,

  - risk of further depreciation of PLN against EUR and USD.

  As the Group does not employ a significant number of Ukrainian or Russian nationals and generates, or expects to generate, its main revenue streams in USD or EUR, the parent's Management Board does not believe that the ongoing war poses an existential threat to the Group as long as Poland is not directly engaged in the conflict. In particular, in the opinion of the parent's Management Board, as at the date of authorisation of these consolidated financial statements for issue, the situation did not affect the figures presented herein, nor should it pose a threat to the Group's continuing as a going concern within one year from the reporting date.

  Moreover, as the Group does not operate in Ukraine as at the date of issue of these consolidated financial statements, there is no risk of any of its non-financial assets being impaired as a result of the ongoing war or of it losing control of any part of its business.

  Also, the Group does not sell its products in Ukraine or Russia.

  However, given the unprecedented nature of the current situation, no assurance can be given that it will not lead to materialisation in the future of risks that the Group has not assumed at present, and any assessments and forecasts in this respect are subject to uncertainty, and the Group will continue to review them on an ongoing basis.

33.Events after the reporting date

The following events, whose disclosure in these consolidated financial statements was not required, occurred after December 31st 2022.

- **Registration of subscription warrants with CSDP**

On January 24th 2023, in response to the Parent's application of January 12th 2023, the Central Securities Depository of Poland issued a statement to the effect that on January 25th 2023 it would enter into an agreement with the Parent to register 90,000 Series A registered subscription warrants of tranche A4 and 90,000 Series A registered subscription warrants of tranche A5, issued for no consideration and with no par value, under ISIN PLPCFGR00051 and PLPCFGR00069, respectively.

- **Strategy update**

On January 31st 2023, the Parent's Management Board passed a resolution to adopt an update of the Parent's and its Group's strategy (the "Strategy").

The Strategy is focused on the following areas:

– bolstering of the publishing activities (the self-publishing segment);

– adoption of the Game as a Service (GaaS) or GaaS-ready model in developing proprietary portfolio games;

– adoption of various game monetisation models;

– further expansion of development teams and talent development;

– investment in new segments of the entertainment industry.

The Parent set a strategic goal of earning at least PLN 3.0bn in total revenue in 2023–2027.

In order to cover the expenditure related to the Strategy, the Management Board intends to raise funds of approximately PLN 205m–PLN 295m from a new issue of Parent shares (see below for a description of a share capital increase through the issue of Series F ordinary bearer shares to secure financing for the implementation of the Strategy). The proceeds from the new issue of Parent shares will be entirely used to expand the development teams to the level appropriate for the individual development stages of games Project Dagger, Bifrost and Victoria. The proceeds from the new issue of Parent shares, together with (i) the Parent's own cash, (ii) funds generated by the Parent from operations and (iii) other available sources of financing which do not result in dilution of shareholders' equity interests, will facilitate full implementation of the Strategy.

For details of the Strategy, see Current Report No. 3/2023 of January 31st 2023.

- **Share capital increase through the issue of Series E ordinary bearer shares following an increase in the equity interest in Incuvo S.A.**

On February 10th 2023, the Parent's Management Board passed a resolution to, among others, increase the Parent's share capital within the limits of the authorised capital through the issue of 136,104 Series E ordinary bearer shares ("Series E Shares"), representing jointly approximately 0.45% of the Parent's share capital and the same proportion of total voting rights at the Parent's General Meeting (the "Series E Shares Issue Resolution").

Adoption of the Series E Shares Issue Resolution was related to the Parent's decision to increase the Parent's equity interest in its subsidiary Incuvo S.A. through an exchange of Incuvo S.A. shares for the Parent shares with selected shareholders of Incuvo S.A., namely Andrzej Wychowaniec, President of Incuvo S.A. Management Board, and Radomir Kucharski, Vice President of the Management Board, Chief Product Officer.

87,820 Series E Shares were offered to Andrzej Wychowaniec and 48,284 to Radomir Kucharski, with the Parent's existing shareholders' pre-emption rights waived, in exchange for an in-kind contribution to the Parent's increased share capital of Andrzej Wychowaniec's and Radomir Kucharski's shares in Incuvo S.A.: (a) from Andrzej Wychowaniec – 1,128,450 ordinary bearer shares in Incuvo S.A., representing jointly approximately 7.90% of Incuvo S.A.'s share capital and the same proportion of total voting rights at Incuvo S.A.'s General Meeting, and (b) from Radomir Kucharski – 620,428 ordinary bearer shares in Incuvo S.A., representing jointly approximately 4.34% of Incuvo S.A.'s share capital and the same proportion of total voting rights at Incuvo S.A.'s General Meeting.

On February 17th 2023, following the settlement of transactions executed in the performance of the agreements on transfer of Incuvo S.A. shares as a non-cash (in-kind) contribution, signed on February 15th 2023 between the Parent and Andrzej Wychowaniec, and between the Parent and Radomir Kucharski, the Parent acquired approximately 12.25% of shares and voting rights in Incuvo S.A. As a result of the transaction, the Parent holds approximately 62.25% of shares in Incuvo S.A.'s share capital and the same proportion of voting rights.

The increase of the Parent's share capital, carried out pursuant to the Series E Shares Issue Resolution, was registered by the competent registry court on March 3rd 2023. As a result, the Parent's share capital amounts to PLN 601,726.60 and is divided into 30,086,330 shares with a par value of PLN 0.02 per share.

- **Share capital increase through the issue of Series F ordinary bearer shares to secure financing for the implementation of the Strategy**

On February 28th 2023, the Parent's Extraordinary General Meeting passed a resolution to, among others, increase the Parent's share capital through the issue of no more than 5,853,941 Series F ordinary bearer shares ("Series F Shares"), representing jointly approximately 19.55% of the Parent's share capital and the same proportion of total voting rights at the Parent's General Meeting (the "Series F Shares Issue Resolution").

The adoption of the Series F Shares Issue Resolution was related to the Parent's intention to raise on the capital market funds to finance the implementation of objectives set out in the Strategy through a public offering of Series F Shares. Funds obtained for Series F Shares will be entirely used to expand the Group's development teams to the level appropriate for the individual development stages of games Project Dagger, Project Bifrost and Project Victoria.

As at the date of authorisation these consolidated financial statements for issue, the public offering of Series F Shares was not carried out and no application was filed with the relevant registry court for entry in the Business Register of the National Court Register of an increase in the Parent's share capital. The Parent expects this to take place immediately after the expiry of the period of 10 business days from the date of issue of the Group's interim consolidated financial statements for the first quarter of 2023 (see below).

- **Waiver of provisions concerning authorised capital of the Parent**

On February 28th 2023, the Parent's Extraordinary General Meeting passed a resolution to amend the Company's Articles of Association by waiving the provisions concerning authorised capital. The Company's intention was to ensure that the shareholders' equity interests are not diluted any further (after the increase of the Company's share capital through the issue of Series F ordinary bearer shares, with the pre-emptive rights waived) in the future under the Management Board's authorisation to increase the Company's share capital within the limits of the authorised capital, subject to the transaction to increase the Company's equity interest in Incuvo S.A. as referred to above.

- **Execution of an investment agreement concerning acquisition by Krafton, Inc. of shares in the increased share capital of the Parent as part of the issue of Series F shares**

  As part of the process (described above) to increase the Parent's share capital, on March 28th 2023 an investment agreement was signed between the Parent, Sebastian Wojciechowski as the Parent's key shareholders and President of the Management Board (the "Key Shareholder") and Krafton, Inc. as the anchor investor (the "Investor") defining the terms of subscription for Series F Shares by the Investor and other contractual rights and obligations of each party in connection with the investment, including the Parent's disclosure obligations towards the Investor (the "Investment Agreement").

  Pursuant to the Investment Agreement, on the date specified therein the Investor is to subscribe for such number of Series F Shares (rounded to the nearest integer) which upon completion of the public offering of Series F Shares will represent 10.00% of the Parent's share capital and voting rights at the Parent's General Meeting (the "Offer Shares") for the issue price of PLN 40.20 per Offer Share, irrespective of the number of Series F Shares subscribed for by investors participating in the offering and the issue price of Series F Shares for other investors participating in the offering. The Parent guaranteed the allotment of Offer Shares to the Investor subject to the Investor's performance of the obligation to place a subscription order. The Offer Shares will be subscribed for by the Investor for a cash contribution.

  Pursuant to the Investment Agreement, if the Parent contemplates publishing Project Victoria or Project Bifrost in a model other than self-publishing, the Investor will have the right of first negotiation and the right of first refusal with respect to any such agreements.

  In addition, the Key Shareholder granted the Investor the right to prevent dilution, the right of first refusal to acquire shares and the tag-along right (corresponding to the Key Shareholder's drag-along right). Both the Investor and the Key Shareholder submitted standard lock-up declarations regarding their shares in the Parent, effective until March 28th 2024. The Parties also made customary representations and warranties and agreed on the contractual terms of each Party's liability for a breach, if any, of the Investment Agreement.

  The investor may terminate the Investment Agreement under certain circumstances, in particular if the Parent cancels or fails to carry out the offering, within 10 business days from the date of issue of the Parent's interim consolidated financial statements for the first quarter of 2023.

  Further information on the Investment Agreement was published in Current Report No. 12/2023 of March 28th 2023.

- **Submission by the Company of an offer to Square Enix Limited to subscribe for subscription warrants**

  On March 28th 2023, the Parent's Management Board made an offer to the publisher, accepted by the publisher on April 18th 2023, to subscribe, for no consideration, for 90,000 series A registered subscription warrants of tranche A6, representing the last of the tranches. The offer to subscribe for the sixth tranche of the subscription warrants was made by the Parent, because the Parent's revenue from agreements with Square Enix Limited exceeded PLN 270m.

  For detailed information on the terms and conditions of the warrants granted to Square Enix Limited by the Parent, including of their exercise by Square Enix Limited to subscribe for shares in the Parent, see the Parent's Current Report No. 40/2021 of August 29th 2021.

34.Authorisation for issue

These consolidated financial statements were authorised for issue by the Parent's Management Board on April 28th 2023.

Signatures of all Management Board members

Date	Full name	Position held	Signature
digitally signed on the digital signature date	Sebastian Kamil Wojciechowski	President of the Management Board	

Signature of the preparer of these financial statements

Date	Full name	Position held	Signature
digitally signed on the digital signature date	Ireneusz Marmol	Chief Accountant	

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FULL-YEAR CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED DECEMBER 31ST 2022