WARSAW | APRIL 28TH 2023

PEOPLE CAN FLY

PCF GROUP SPÓŁKA AKCYJNA

FULL-YEAR FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED DECEMBER 31ST 2022

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

PCF Group Spółka Akcyjna – financial highlights (translated into EUR)

	PLN		EUR	
	Dec 31 2022	Dec 31 2021	Dec 31 2022	Dec 31 2021
Statement of financial position				
Assets	324,530	256,877	69,198	55,850
Non-current liabilities	20,484	11,277	4,368	2,452
Current liabilities	32,549	9,895	6,940	2,151
Equity	271,497	235,705	57,890	51,247
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	120,136	107,825	25,625	23,555
Operating profit (loss)	42,665	40,959	9,100	8,948
Profit (loss) before tax	44,529	43,899	9,498	9,590
Net profit (loss)	42,336	41,752	9,030	9,121
Earnings per share (PLN)	1.41	1.41	0.30	0.31
Diluted earnings per share (PLN)	1.39	1.41	0.30	0.31
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	178,511	30,278	38,076	6,615
Net cash from investing activities	(205,713)	(90,759)	(43,878)	(19,827)
Net cash from financing activities	(12,697)	118,212	(2,708)	25,825
Total net cash flows (net of the effect of foreign currency translation on cash)	(39,899)	57,731	(8,510)	12,612
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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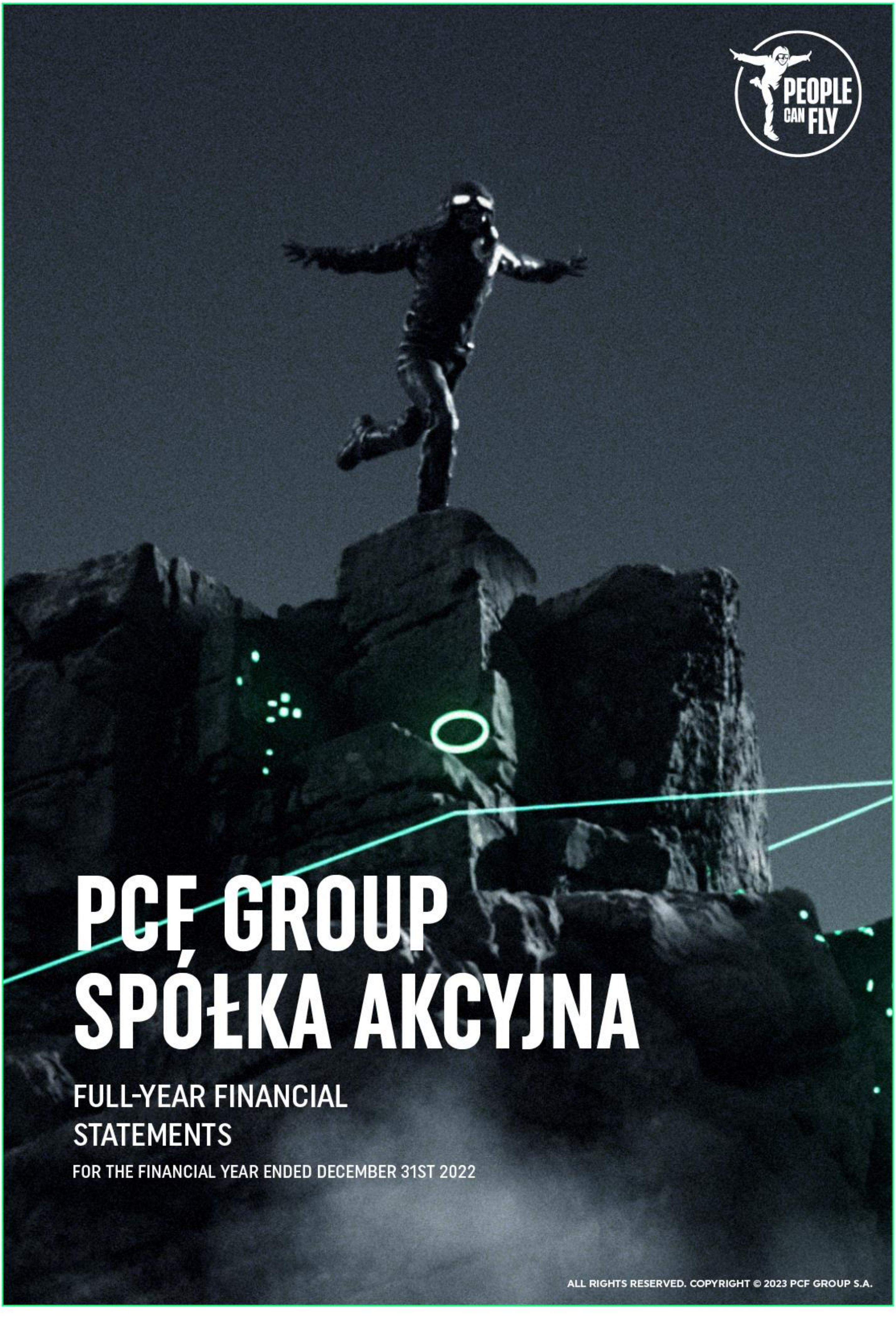


PCF GROUP SPÓŁKA AKCYJNA

FULL-YEAR FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED DECEMBER 31ST 2022

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

STATEMENT OF FINANCIAL POSITION

ASSETS	Note	Dec 31 2022	Dec 31 2021
Non-current assets			
Intangible assets	4	156,283	7,159
Property, plant and equipment	5	4,345	4,064
Right-of-use assets	6	14,794	11,804
Investments in subsidiaries	7	55,404	55,721
Receivables and loans advanced	8	2,905	31,134
Long-term prepayments and accrued income	12	58	101
Non-current assets		**233,789**	**109,983**
Current assets			
Contract assets	10	30,355	22,385
Trade and other receivables	11	10,424	33,199
Short-term prepayments and accrued income	12	571	575
Cash and cash equivalents	13	49,391	90,735
Current assets		**90,741**	**146,894**
Total assets		**324,530**	**256,877**

EQUITY AND LIABILITIES	Note	Dec 31 2022	Dec 31 2021
Equity			
Share capital	15	599	599
Share premium	15	121,869	121,869
Other components of equity	15	49,898	48,355
Retained earnings		99,131	64,882
Equity		**271,497**	**235,705**
Liabilities			
Non-current liabilities			
Borrowings, other debt instruments	16	-	510
Leases	17	12,850	9,710
Deferred tax liability	9	157	1,057
Long-term prepayments and accrued income	12	7,477	-
Non-current liabilities		**20,484**	**11,277**
Current liabilities			
Trade and other payables	18	26,213	4,425
Current tax liabilities		2,329	1,395
Borrowings, other debt instruments	16	510	875
Leases	17	3,163	2,920
Employee benefit obligations and provisions	19	334	280
Current liabilities		**32,549**	**9,895**
Total liabilities		**53,033**	**21,172**
Total equity and liabilities		**324,530**	**256,877**

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

STATEMENT OF PROFIT OR LOSS

	Note	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Continuing operations			
Revenue	3	120,136	107,825
Cost of sales	20	50,099	45,435
Gross profit (loss)		**70,037**	**62,390**
General and administrative expenses		28,476	26,093
Other income	20	1,758	5,788
Other expenses	20	654	1,126
Operating profit (loss)		**42,665**	**40,959**
Finance income	21	2,957	3,371
Finance costs	21	1,093	431
Profit (loss) before tax		**44,529**	**43,899**
Income tax	22	2,193	2,147
Net profit (loss) from continuing operations		**42,336**	**41,752**
Discontinued operations			
Net profit (loss) from discontinued operations		-	-
Net profit (loss)		**42,336**	**41,752**

EARNINGS (LOSS) PER ORDINARY SHARE (PLN)

	Notes	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
from continuing operations			
- basic	25	1.41	1.41
- diluted	25	1.39	1.41
from continuing and discontinued operations			
- basic	25	1.41	1.41
- diluted	25	1.39	1.41

STATEMENT OF OTHER COMPREHENSIVE INCOME

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Net profit (loss)	**42,336**	**41,752**
Comprehensive income	**42,336**	**41,752**

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

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Other components of equity	Retained earnings	**Total equity**
As at Jan 1 2022	**599**	**121,869**	**48,355**	**64,882**	**235,705**
Changes in equity in Jan 1–Dec 31 2022					
Measurement of warrants due to publisher Square Enix Limited	-	-	1,543	-	**1,543**
Dividends for 2021 (resolution of June 28th 2022)	-	-	-	(8,087)	**(8,087)**
Net profit (loss) for Jan 1–Dec 31 2022	-	-	-	42,336	**42,336**
As at Dec 31 2022	**599**	**121,869**	**49,898**	**99,131**	**271,497**

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

	Share capital	Share premium	Other components of equity	Retained earnings	**Total equity**
As at Jan 1 2021	**550**	**-**	**47,204**	**28,747**	**76,501**
Changes in equity in Jan 1–Dec 31 2021					
Issue of Series B shares	41	100,246	-	-	**100,287**
Costs of issue of Series B shares	-	(3,119)	-	-	**(3,119)**
Issue of Series D shares	8	25,135	-	-	**25,143**
Costs of issue of Series D shares	-	(393)	-	-	**(393)**
Measurement of warrants due to publisher Square Enix Limited	-	-	1,151	-	**1,151**
Dividends for 2020 (resolution of June 22nd 2021)	-	-	-	(5,617)	**(5,617)**
Net profit (loss) for Jan 1–Dec 31 2021	-	-	-	41,752	**41,752**
As at Dec 31 2021	**599**	**121,869**	**48,355**	**64,882**	**235,705**

Full-year financial statements for the financial year ended December 31st 2021 (all amounts in PLN thousand, unless stated otherwise)

STATEMENT OF CASH FLOWS

	Note	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Cash flows from operating activities			
Profit (loss) before tax		**44,529**	**43,899**
Adjustments:			
Depreciation and impairment of property, plant and equipment	5	1,556	1,383
Amortisation and impairment of intangible assets	4	4,103	2,978
Depreciation of right-of-use asset	6	3,023	3,019
Gain (loss) on disposal of non-financial non-current assets		(13)	(20)
Foreign exchange gains (losses)		2,763	(564)
Interest expense		751	431
Interest and dividend income		(2,957)	(1,266)
Other adjustments		1,097	(412)
Change in receivables		22,775	(23,098)
Change in liabilities	23	103,434	2,987
Change in provisions, accruals and deferrals		7,578	810
Change in contract assets and liabilities		(7,970)	(808)
Income tax paid		(2,158)	939
Net cash from operating activities		**178,511**	**30,278**
Cash flows from investing activities			
Payments for intangible assets		(152,968)	(7,551)
Payments for property, plant and equipment		(1,694)	(2,527)
Proceeds from disposal of property, plant and equipment		13	20
Net expenditure on acquisition of subsidiaries		-	(51,214)
Loans advanced		(54,404)	(30,277)
Interest received		3,340	790
Net cash from investing activities		**(205,713)**	**(90,759)**
Cash flows from financing activities			
Net proceeds from issue of shares		-	129,656
Costs of issue of Series B and D shares, accounted for against equity		-	(2,445)
Repayment of borrowings		(875)	(365)
Payment of lease liabilities		(3,697)	(2,993)
Interest paid		(39)	(24)
Dividends paid		(8,086)	(5,617)
Net cash from financing activities		**(12,697)**	**118,212**
Total net cash flows		**(39,899)**	**57,731**
Foreign exchange gains (losses)		(1,445)	64
Net change in cash		**(41,344)**	**57,795**
Cash and cash equivalents at beginning of period		90,735	32,940
Cash and cash equivalents at end of period		**49,391**	**90,735**

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

PCF GROUP SPÓŁKA AKCYJNA

FULL-YEAR FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED DECEMBER 31ST 2022

NOTES TO THE FINANCIAL STATEMENTS

1. General information

The Company

The Company 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 Company's Industry Identification Number (REGON) is 141081673.

The Company's registered office is located at Al. Solidarności 171, 00-877 Warsaw, Poland. It is also the principal place of business of the Company.

The Company has a branch in Rzeszów, trading under the name PCF Group Spółka Akcyjna Oddział w Rzeszowie “Oddział Badawczo Rozwojowy” (Research and Development Branch), located at ul. Romańczuka 6, units 4-5, 35-302 Rzeszów.

Composition of the Management Board and the Supervisory Board

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

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

In the period from January 1st 2022 to the date of authorisation of these separate financial statements for issue, the composition of the 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 Company'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 Management Board member in the position of President of the Management Board, appointed himself as President of the 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 Company’s financial statements for the financial year 2021 (which was held on June 28th 2022).

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

The Company is of the opinion that the resignation of the member of the 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 Company's financial statements for the financial year 2021 (which was held on June 28th 2022) allowed the Company to avoid doubts as to the correctness of appointments to the Management Board and the counting of the term of office of President of the Management Board.

As at the date of authorisation of these financial statements, the Supervisory Board was composed 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 separate 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 Company’s Supervisory Board of the first joint term of office expiring on November 6th 2022, i.e. Mikołaj Wojciechowski as Chairman 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 Company'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 Company, 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 Company’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 Company appointed Dagmara Zawadzka and Jacek Pogonowski as members of the Supervisory Board of the Company 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 Supervisory Board, with effect from June 29th 2022.

Business of the Company

The principal business activity of the Company is development of video games. For a more detailed description of the business of the Company, see Note 3 on revenue and operating segments. The Company has been established for an indefinite term.

PCF GROUP SPÓŁKA AKCYJNA

ROCZNE JEDNOSTKOWE SPRAWOZDANIE FINANSOWE

ZA ROK OBROTOWY ZAKOŃCZONY 31 GRUDNIA 2022 ROKU

2. Basis of accounting and accounting policies

Basis of accounting used in preparing the separate financial statements

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

Accounting policies

By Resolution No. 15/2022 of December 29th 2022, the Company's Management Board adopted an updated Accounting Policy for PCF Group S.A., which is a set of rules, policies and practices applied by the Company in preparing and presenting financial statements, as selectively described below.

Presentation of financial statements

The financial statements are presented in accordance with International Accounting Standard 1 ("IAS 1"). The Company presents separately the "Statement of profit or loss", which is shown immediately before the "Statement of other comprehensive income".

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

If there are retrospective changes in accounting policies, disclosures or correction of errors, the Company 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.

Functional currency and presentation currency

The functional currency of the Company and the presentation currency of these financial statements is the Polish zloty, and all amounts are expressed in thousands of Polish zloty (PLN), unless indicated otherwise.

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 Company is guided by the type of income generated. Each segment is managed separately, depending on the type of income earned – contract game development, copyrights to developed games (royalties) and other (guarantees, etc.).

As required under International Financial Reporting Standard 8 ("IFRS 8"), results of operating segments are based on internal reports periodically reviewed by the Management Board of the Company (the chief operating decision maker at the Company). 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 financial statements; the division into operating segments has also been presented in terms consistent with IFRS.

Revenue disclosed in the statement of profit or loss does not differ from revenue presented by the operating segments.

Revenue

Revenue is solely revenue from contracts with customers falling within the scope of International Financial Reporting Standard 15 ("IFRS 15"). The method of recognising revenue in financial statements of the Company, 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 Company's business, resulting in an increase in equity other than an increase resulting from contributions by shareholders.

The Company 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 Company upon fulfilment (or in the course of fulfilment) of its performance obligations involving the transfer of the promised goods or services (i.e. an asset) to the customer. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for the transfer of promised goods or services, less value added tax due.

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

The Company distinguishes three sources of income:

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

Policy for recognition of revenue from contract development of video games

Identifying the contract

The Company 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 Company is able to identify each party's rights to the goods or services to be transferred,
- The Company 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 Company's future cash flows can be expected to change as a result of the contract), and
- it is probable that the Company 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 Company 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 Company takes into account the terms of the contract and its customary business practices. Transaction price is the amount to which the Company expects to be entitled in exchange for the transfer of promised goods or services to a customer. The consideration specified in the contract with the customer includes fixed and variable components (possible bonuses). The Company estimates the amount of variable consideration using the most-likely-amount method.

In the absence of a significant financing component, the Company 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 Company 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 Company 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 Company has an enforceable right to payment for performance completed to date, therefore the Company'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

If the Company received short-term advances from customers for future game development work, then with respect to such 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 Company would apply the practical expedient permitted under IFRS 15 and would not recognise any financing component. Such advances would be recognised as trade payables.

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

The Company 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 directly represents the Company's share in the profit earned by the publisher after reimbursement of costs incurred by the publisher, including costs of development, promotion and distribution of games. The transaction price is determined as a percentage of the amount of sales generated by the distributor. Thus, the Company'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 Company 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 Company, 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.

Policy for recognition of other income

Other income includes amounts paid to the Company by its subsidiaries for:

- The licence to use of the People Can Fly trademark to which the Company holds rights by People Can Fly UK Ltd., People Can Fly U.S. LLC, People Can Fly Canada Inc. and People Can Fly Chicago LLC. The Company identifies the grant of this licence as a separate performance obligation, and the transfer of an intellectual property right to the customer constitutes a performance obligation satisfied over time. The amount of the income is determined on the basis of revenue earned by the subsidiaries from sales to third parties. The Company recognises trademark license income on a quarterly basis.
- The licence to the use by People Can Fly U.S. LLC of PCF Framework, a software system developed by the Company, which is an overlay for the Unreal Engine graphics engine used to facilitate and optimise work on development of video games. The Company identifies the grant of this licence as a separate performance obligation, and the transfer of an intellectual property right to the customer constitutes a performance obligation satisfied over time. The amount of the income is determined on the basis of revenue earned by the subsidiaries from sales to third parties. The Company recognises the income on a quarterly basis.

Moreover, until November 29th 2022 the Company also recognised under other income remuneration for the performance bond provided to the subsidiary People Can Fly U.S., LLC, where the basis for determining the Company's income was the costs incurred by People Can Fly U.S., LLC in connection with the development of Project Dagger. On November 29th 2022, an agreement was concluded to terminate the development and publishing agreement under which the bond was granted, as described in detail in Note 27 below.

The Company recognises income from these sources on a quarterly basis.

Operating expenses

Operating expenses are recognised in profit or loss, in accordance with the of matching income and expenses. In the financial statements, the Company 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 Company is able to control the timing of the 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.

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 International Accounting Standard 38.57:

- it is technically feasible to complete the intangible asset so that it is suitable for use or sale,
- The Company intends to complete the asset and either use it or sell it,
- The Company is able to either use or sell the intangible asset,
- the intangible asset will generate economic benefits, and the Company can prove this benefit, including through the existence of a market or the usefulness of the asset for the Company'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 Company's assessment that it has the necessary knowledge to produce a game which will be recognised as development work, as well as the Company'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 Company 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.

Expenditure incurred on development work performed as part of a given project under development is recognised as an intangible asset if, based on an analysis, the Management Board believes that the project meets the recognition criteria described above, the expenditure will be controlled by the Company, 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 Company assesses the above recognition criteria on a case-by-case basis and quantifies them accordingly. For the items recognised in the 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 the life cycle of the product on which it was incurred.

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 Company, it must be expected that the Company 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 Company 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 Company assesses the above recognition criteria on a case-by-case basis and quantifies them accordingly. For the items recognised in the 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.

A licence for the Unreal Engine 4 game engine was one of the most significant intangible assets as at the reporting date. The amortisation period of the licence was estimated at 10 years from the initial recognition in 2015. When determining its useful life, the Management Board primarily takes into account its expected use by the Company 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 Company 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 Company controls the asset (licence).

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

The expected useful lives for each group of intangible assets are as follows:	**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.

The expected useful lives for each group of property, plant and equipment are presented below.	**Useful life**
Buildings and structures	5-10 years
Machinery and equipment	2-10 years
Other property, plant and equipment	2-10 years

Leased assets are depreciated over their economic useful lives.

The Company 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, and the consequences of changes in such estimates are taken into account in the next and subsequent financial years (prospectively). As at the reporting date, the Company 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 Company acts as a lessee, a uniform accounting treatment was applied in which 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 Company 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).

The 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 Company will exercise this right, as well as periods when the lease may be terminated if it can be assumed with reasonable certainty that the Company 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 Company's contracts were also taken into account. At the commencement date, the Company 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 Company measures the right-of-use asset at cost less accumulated depreciation and accumulated impairment losses, and 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 Company does not apply the requirements of IFRS 16.22–49.

Financial assets

At the date of acquisition, the Company 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 Company 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 Company classifies financial assets into categories based on the Company'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, contract assets and 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 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 Company 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 Company did not hold any financial assets designated as measured at fair value though other comprehensive income.

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. The Company includes in this category also 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 Company did not hold any financial assets designated as measured at fair value though other comprehensive income.

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 Company 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 Company has assumed that the risk increases significantly when the time past due exceeds 60 days. The Company has assumed that a default occurs when the time past due has reached 90 days.
- for cash, the Company 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 Company holds cash. If a rating falls below BBB(-), the Company 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

‘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 Company's articles of association and recorded entered in the court register. If shares are taken up at a price higher than the par value, the surplus is recognised in other components of equity as ‘reserve capital’. Under ‘Other components of equity’, the Company recognises profit for the period which, pursuant to a resolution of the shareholders, has been allocated to other components of equity.

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”).

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 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 Company measures financial liabilities at fair value, i.e. most often at the fair value of the amount received. The Company includes transaction costs in the initial measurement of all financial liabilities, except for the category of 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 held for trading or designated as measured at fair value through profit or loss.

In the reporting period the Company 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.

Provisions

Provisions for liabilities are recognised when the Company 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 Company 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 Company 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

With respect to employee benefits, the Company is not a party to any wage agreements or collective bargaining agreements. The Company does not operate pension plans managed directly by the Company 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 Company operated a long-term incentive scheme under which members of the key management personnel received a certain number of shares provided they met the criterion of continued employment at the Company. 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 Company 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 public liabilities. 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 Company recognises 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 financial statements requires that the Management Board of the Company makes certain estimates and assumptions that are reflected in the financial statements and in the notes to the 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 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 financial statements.

Revenue recognition estimates

A revenue estimate is the amount of consideration to which the Company 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 Company 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 Company's performance obligations. The Company 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 Company to fulfil its performance obligations.

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

Company 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

With respect to capitalised expenditure constituting an intangible asset in the form of game elements, as at the end of each financial year the Company confirmed that:

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

The criteria of potential future economic benefits and the condition of sufficient funds are deemed by the Management Board to have been met based on analyses of the market and of the Company's financial condition.

Impairment of assets

Intangible assets and property, plant and equipment

At each reporting date, the Company reviews the net value 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 Company analyses 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 Company recognises an allowance for expected credit losses on financial assets (ECL model).

With respect to trade receivables and contract assets, the Company 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 Company 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 21.

Useful life of intangible assets and property, plant and equipment

The Management Board of the Company determines the estimated useful lives and, as a result, the amortisation rates for the amounts of development costs 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 Company 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 assets against future taxable profit is determined in the context of the Company's plans.

As the Management Board of the Company estimated that no taxable income is expected to be generated in subsequent reporting periods from activities excluded from the IP Box tax relief, the Management Board, acting in accordance with the principles of prudent valuation, elected to not recognise the asset as at December 31st 2022. The amount of the unrecognised asset was approximately PLN 2,295 thousand (December 31st 2021: approximately 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 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 Company 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 Company, it 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. The Company measures warrants until they are settled. Any change in their value is disclosed in the Company’s profit or loss. For a full description of the warrant programme, see Note 23.

Leases

The implementation of IFRS 16 requires certain estimates and calculations that affect the measurement of finance 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 Company 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 Company 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).

Depending on contract duration, the Company applied interest rates used to discount future cash flows, of 2.4-10.13%. For a detailed description of the estimates, see Note 16.

Amendments to International Financial Reporting Standards

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

New or revised standards and interpretations effective as of January 1st 2022 and their effect on the Company's financial statements are presented below.

- **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 Company's separate 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 Company's separate 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 Company's separate 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 Company's separate 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 effect on the Company's separate financial statements as the Company did not apply the 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 financial statements the Company 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 Company'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 Company estimates that the new standard will not affect its financial statements as the agreements it concludes 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 Company already applies principles consistent with the amended standard, the amendment 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 Company 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 Company 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 Company 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 Company does not expect the amendment to have an effect on its financial statements because it does not enter into insurance contracts.

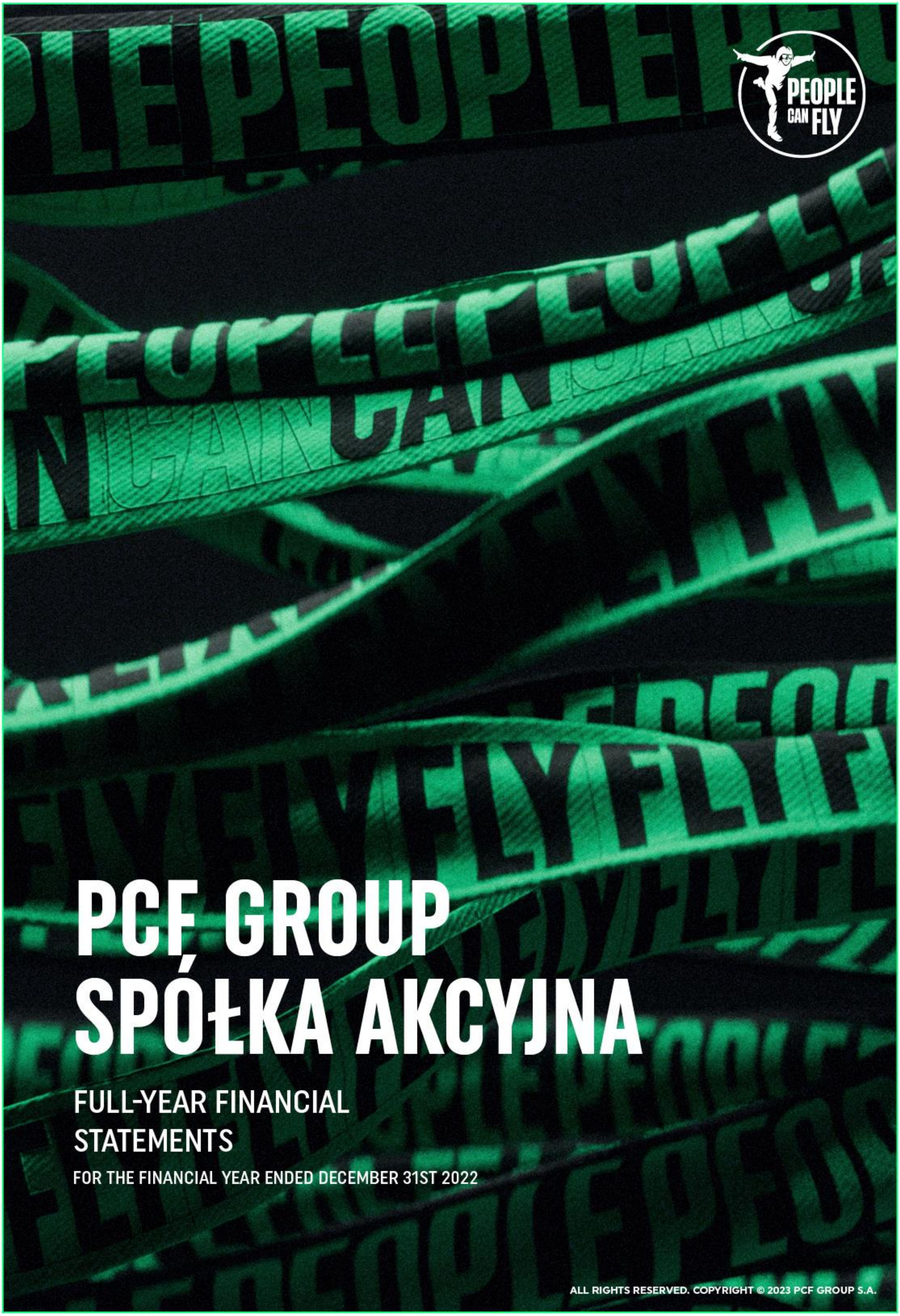
- **Amendment to IFRS 16 Leases**

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

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



PCF GROUP SPÓŁKA AKCYJNA

FULL-YEAR FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED DECEMBER 31ST 2022

3. Revenue and operating segments

The Company 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 a game development project carried out by the Company with the publisher Square Enix Limited, therefore revenue from transactions with that external entity represented a material part of revenue generated by the Company. Positive cash flows from this segment enable the Company to partially cover expenditure on games that the Company intends to publish on its own (the self-publishing model). In the twelve months ended December 31st 2022, the consideration received from that major trading partner (Square Enix Limited) accounted for over 90% of total revenue. There were no other trading partners whose share in revenue would exceed 10%.

Project Gemini

In the twelve months ended December 31st 2022, the Company carried out work contracted by the publisher Square Enix Limited under content riders for the development and publishing agreement. The Company 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.

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

The main source of the Company’s revenue classified as revenue from the copyrights segment (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 Company and Gearbox Publishing, LLC. In respect of Bulletstorm, the Company 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 Company and Square Enix Limited to develop *Outriders*, after the game was completed and released on April 1st 2021 The Company 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 Company 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 Company 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 Company 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 Company.

February 2nd 2023 saw the registration of People Can Fly Ireland Limited, a single-member subsidiary of the Company which will ultimately perform publishing functions of the Group.

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

The **other activities** segment included income earned by the Company from related parties. The income comprises:

- fees for the use of the People Can Fly trademark to which the Company holds rights, received from the subsidiaries People Can Fly UK Ltd., People Can Fly U.S. LLC, People Can Fly Canada Inc. and People Can Fly Chicago LLC,
- the fee the performance bond provided to People Can Fly U.S. LLC; on November 29th 2022 an agreement was concluded to terminate the development and publishing agreement under which the bond was provided, as described in detail in Note 27 below,
- fees for the use by People Can Fly U.S. LLC of PCF Framework, a software system developed by the Company, which is an overlay for the Unreal Engine graphics engine used to facilitate and optimise work on development of video games.

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

In the twelve months ended December 31st 2022, there were no changes to the Company'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 Company'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	108,351	24	-	4	**108,379**
Other countries	5,447	1,523	-	4,787	**11,757**
Total revenue	**113,798**	**1,547**	**-**	**4,791**	**120,136**
Product line					
Games	113,798	1,547	-	-	**115,345**
Trademark, performance bond and PCF Framework	-	-	-	4,791	**4,791**
Total revenue	**113,798**	**1,547**	**-**	**4,791**	**120,136**
Timing of transfer of goods/services					
At a point in time	-	1,547	-	4,791	**6,338**
Over time	113,798	-	-	-	**113,798**
Total revenue	**113,798**	**1,547**	**-**	**4,791**	**120,136**
Jan 1–Dec 31 2021					
Region					
Europe	91,566	36	-	4	**91,606**
Other countries	5,195	1,840	-	9,184	**16,219**
Total revenue	**96,761**	**1,876**	**-**	**9,188**	**107,825**
Product line					
Games	96,761	1,876	-	-	**98,637**
Trademark, performance bond and PCF Framework	-	-	-	9,188	**9,188**
Total revenue	**96,761**	**1,876**	**-**	**9,188**	**107,825**
Timing of transfer of goods/services					
At a point in time	-	1,876	-	9,188	**11,064**
Over time	96,761	-	-	-	**96,761**
Total revenue	**96,761**	**1,876**	**-**	**9,188**	**107,825**

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

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	113,798	1,547	-	4,791	**120,136**
Total revenue	113,798	1,547	-	4,791	**120,136**
Segment's operating profit (loss)	37,443	1,504	-	3,718	**42,665**
Other information					
Amortisation and depreciation expense	7,567	42	-	1,073	**8,682**
Segment's assets	171,575	-	134,494	18,461	**324,530**
Expenditure on segment's property, plant and equipment and intangible assets	6,262	-	133,892	15,246	**155,400**
Jan 1–Dec 31 2021					
Revenue from external customers	96,761	1,876	-	9,188	**107,825**
Total revenue	96,761	1,876	-	9,188	**107,825**
Segment's operating profit (loss)	30,112	1,659	-	9,188	**40,959**
Other information					
Amortisation and depreciation expense	7,078	218	-	-	**7,296**
Segment's assets	251,944	42	602	4,289	**256,877**
Expenditure on segment's property, plant and equipment and intangible assets	5,248	-	602	4,289	**10,139**

Reconciliation of total revenue, profit or loss and assets of the operating segments to the corresponding items of the Company's financial statements:

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Segments' revenue		
Total revenue of operating segments	120,136	107,825
Revenue	**120,136**	**107,825**
Segments' profit or loss		
Segments' operating profit (loss)	42,665	40,959
Operating profit (loss)	**42,665**	**40,959**
Finance income	2,957	3,371
Finance costs	(1,093)	(431)
Profit (loss) before tax	**44,529**	**43,899**

	Dec 31 2022	Dec 31 2021
Segments' assets		
Total assets of operating segments	324,530	256,877
Total assets	**324,530**	**256,877**

Business risk

The Company 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 Company 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 Company bears the risk of such games' commercial failure.

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

The Company mitigates this risk through business diversification consisting in contract development of video games for third-party publishers. Contract development projects provide the Company 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 34 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	**2,227**	**42**	**4,890**	**7,159**
Increase (purchase, development, lease)	4,568	-	149,139	**153,707**
Acceptance of completed development work	-	10,125	(10,125)	**-**
Amortisation expense	(3,467)	(1,116)	-	**(4,583)**
Net carrying amount as at Dec 31 2022	**3,328**	**9,051**	**143,904**	**156,283**
Jan 1–Dec 31 2021				
Net carrying amount as at Jan 1 2021	**2,240**	**261**	**85**	**2,586**
Increase (purchase, construction, lease)	2,661	-	4,890	**7,551**
Decrease (disposal, retirement)	-	-	(85)	**(85)**
Amortisation expense	(2,674)	(219)	-	**(2,893)**
Net carrying amount as at Dec 31 2021	**2,227**	**42**	**4,890**	**7,159**

In terms of the carrying amount, the most significant item of patents, licences and software is a licence for the Unreal Engine game engine whose total carrying amount was PLN 806 thousand as at December 31st 2022 and PLN 1,139 thousand as at December 31st 2021. The amortisation period from initial recognition was estimated at 10 years. The useful life of the graphics engine is estimated based on the Management Board's knowledge and the planned use of the engine in the current game development projects. As at December 31st 2022, the engine was 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 33 for details);
- further development of PCF Framework (see Note 33 for details).

The Company 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.

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

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

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

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Cost of sales	2,984	551
General and administrative expenses	1,119	2,342
Amortisation capitalised under development work	480	-
Total amortisation of intangible assets	**4,583**	**2,893**

As at each reporting date, the Company analysed indications of impairment of intangible assets. Tests performed by the Company did not indicate any impairment of the tested intangible assets.

Following an analysis, no indications that impairment losses had to be recognised for the other intangible assets were identified.

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 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	**1,569**	**2,279**	**216**	**-**	**4,064**
Increase (purchase, construction)	224	1,381	27	62	1,694
Decrease (disposal, retirement)	-	(11)	-	-	(11)
Other changes (reclassification, transfers, etc.)	-	-	483	(62)	421
Depreciation expense	(316)	(1,338)	(169)	-	(1,823)
Net carrying amount as at Dec 31 2022	**1,477**	**2,311**	**557**	**-**	**4,345**
Jan 1–Dec 31 2021					
Net carrying amount as at Jan 1 2021	**2,067**	**643**	**150**	**-**	**2,860**
Increase (purchase, construction)	-	2,448	140	-	2,587
Depreciation expense	(498)	(812)	(74)	-	(1,383)
Net carrying amount as at Dec 31 2021	**1,569**	**2,279**	**216**	**-**	**4,064**

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

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Cost of sales	853	-
General and administrative expenses	704	1,383
Depreciation capitalised under development work	266	-
Total depreciation of property, plant and equipment	**1,823**	**1,383**

As at each reporting date, the Company analysed 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.

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

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	**11,000**	**167**	**637**	**11,804**
Increases (leases)	4,932	1,008	618	**6,558**
Decrease (disposal, retirement)	(15)	-	-	**(15)**
Other changes (reclassification, transfers, etc.)	-	-	(483)	**(483)**
Depreciation expense	(2,703)	(223)	(144)	**(3,070)**
Net carrying amount as at Dec 31 2022	**13,214**	**952**	**628**	**14,794**
Jan 1–Dec 31 2021				
Net carrying amount as at Jan 1 2021	**8,666**	**648**	**829**	**10,143**
Increases (leases)	4,680	-	-	**4,680**
Amortisation and depreciation expense	(2,346)	(481)	(192)	**(3,019)**
Net carrying amount as at Dec 31 2021	**11,000**	**167**	**637**	**11,804**

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.

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

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

PCF GROUP SPÓŁKA AKCYJNA

FULL-YEAR FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED DECEMBER 31ST 2022

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

7. Investments in subsidiaries

The Company holds shares in subsidiaries. The table below presents the holdings of the shares.

Subsidiary	Place of business and country of registration	Principal business	Ownership interest		Carrying amount of shares held	
			Dec 31 2022	Dec 31 2021	**Dec 31 2022**	Dec 31 2021
People Can Fly UK Limited	Gateshead, United Kingdom	development of video games	100.00%	100.00%	51	51
People Can Fly Canada Inc.	Montreal, Canada	development of video games	100.00%	100.00%	30	30
People Can Fly U.S., LLC	New York, USA	development of video games	100.00%	100.00%	9,630	9,630
Game On Creative Inc.	Montreal, Canada	development of video games	100.00%	100.00%	25,368	25,685
Incuvo S.A.	Katowice, Poland	development of video games	50.01%	50.01%	20,325	20,325

As at the reporting date, PCF Group S.A. was the founder of four foreign subsidiaries. People Can Fly UK Limited was incorporated on November 14th 2016, People Can Fly U.S. LLC – on April 4th 2017, and People Can Fly Canada Inc. – on August 24th 2017. On April 6th 2021, People Can Fly U.S., LLC incorporated a single-member subsidiary People Can Fly Chicago LLC.

On April 27th 2021, PCF Group S.A. acquired all shares in Game On Creative Inc. and thus all voting rights at its General Meeting. On December 13th 2021, the Company acquired a 50.01% interest in the share capital of and total voting rights in Incuvo S.A., which as at the reporting date held an 87% interest in the share capital of and total voting rights in Spectral Applications sp. z o.o. w likwidacji (in liquidation).

On January 27th 2023, the Company decided to take the necessary legal and factual steps to increase its equity interest in Incuvo S.A. 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 Company and Andrzej Wychowaniec, and between the Company and Radomir Kucharski, the Company acquired approximately 12.25% of shares and voting rights in Incuvo S.A. As a result of the transaction, the Company holds approximately 62.25% of shares in Incuvo S.A.'s share capital and the same proportion of voting rights.

February 2nd 2023 saw the registration of People Can Fly Ireland Limited, the Company's single-member subsidiary based in Dublin, Ireland.

	Dec 31 2022	Dec 31 2021
Change in investments in subsidiaries		
As at beginning of period:	55,721	7,862
Increase:	**-**	**47,859**
Share capital increase at People Can Fly U.S. LLC	-	1,849
Acquisition of all shares in Game On Creative Inc.	-	25,685
Acquisition of a 50.01% interest in Incuvo S.A.	-	20,325
Decrease:	**(317)**	**-**
Game On Creative Inc.'s unachieved earn-out	(317)	-
As at end of period:	**55,404**	**55,721**

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

8. Non-bank borrowings

Borrower	Principal outstanding as at:		Interest outstanding as at:	
	Dec 31 2022	Dec 31 2021	**Dec 31 2022**	Dec 31 2021
People Can Fly U.S., LLC	-	20,300	-	300
People Can Fly UK Limited	-	2,521	-	21
People Can Fly Canada, Inc.	2,813	7,980	92	12
Total	**2,813**	**30,801**	**92**	**333**

On December 31st 2022, the Company offset receivables under borrowings with trade payables to related parties.

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

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

	Dec 31 2022	Dec 31 2021
Balance at beginning of period		
Deferred tax assets	1,987	2,443
Deferred tax liability	3,044	3,606
Net deferred tax at beginning of period	**(1,057)**	**(1,163)**
Changes in period recognised in:		
Profit or loss	900	106
Net deferred tax at end of period, including:	**(157)**	**(1,057)**
Deferred tax assets	4,277	1,987
Deferred tax liability	4,434	3,044

As the Management Board of the Company estimated that no taxable income is expected to be generated in subsequent reporting periods from activities excluded from the IP Box tax relief, the 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:			
Property, plant and equipment	-	99	**99**
Trade receivables	16	(16)	**-**
Contract assets	388	417	**805**
Other assets	9	184	**193**
Liabilities:			
Provisions for employee benefit obligations	7	4	**11**
Other provisions	50	135	**185**
Trade payables	30	(27)	**3**
Other liabilities	1,487	1,494	**2,981**
Total	**1,987**	**2,290**	**4,277**
of which:			
Deferred tax assets at tax rate of 5%	395	452	**847**
Deferred tax assets at tax rate of 19%	1,592	1,838	**3,430**

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

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	(6)	**-**
Trade receivables	20	(4)	**16**
Contract assets	437	(49)	**388**
Other assets	-	9	**9**
Liabilities:			
Provisions for employee benefit obligations	50	(43)	**7**
Other provisions	-	50	**50**
Trade payables	-	30	**30**
Other liabilities	1,930	(443)	**1,487**
Total	**2,443**	**(456)**	**1,987**
of which:			
Deferred tax assets at tax rate of 5%	875	(480)	**395**
Deferred tax assets at tax rate of 19%	1,568	24	**1,592**

Deferred tax liabilities:

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	46	(3)	**43**
Property, plant and equipment	94	53	**147**
Right of use	1,343	1,334	**2,677**
Trade receivables	132	(132)	**-**
Contract assets	1,119	386	**1,505**
Other assets	309	(292)	**17**
Liabilities:			
Trade payables	1	44	**45**
Total	**3,044**	**1,390**	**4,434**
of which:			
Deferred tax liability at tax rate of 5%	1,234	410	**1,644**
Deferred tax liability at tax rate of 19%	1,810	980	**2,790**

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	1	45	**46**
Property, plant and equipment	13	81	**94**

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

Right of use	1,828	(485)	**1,343**
Trade receivables	221	(89)	**132**
Contract assets	1,078	41	**1,119**
Other assets	125	184	**309**
Liabilities:			
Trade payables	7	(6)	**1**
Borrowings, other debt instruments	333	(333)	**-**
Total	**3,606**	**(562)**	**3,044**
of which:			
Deferred tax liability at tax rate of 5%	1,458	(224)	**1,234**
Deffered tax liability at tax rate of 15%	5	(5)	**-**
Deferred tax liability at tax rate of 19%	2,143	(333)	**1,810**

10.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 Company 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 Company 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 Company may invoice the publisher for the milestone.

In the separate and consolidated financial statements, the Company recognises contract assets that represent the Company's right to consideration in exchange for goods or services transferred by the Company 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 Company 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 statement of financial position relate to development work performed by the Company 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 Company 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 Company becomes eligible to invoice the publisher, i.e. upon receipt of a milestone acceptance notice from the publisher.

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

Contract liabilities

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

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

	Dec 31 2022	Dec 31 2021
Gross contract assets	30,355	22,385
Impairment of contract assets	-	-
Contract assets	**30,355**	**22,385**

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 Company 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	22,385	21,577
Revenue recognised as contract assets in reporting period	101,923	91,908
Reclassification to trade receivables	(93,953)	(91,100)
Contract assets at end of period	**30,355**	**22,385**

The Company did not incur capitalised costs of acquiring 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 Company updates the contract budget gradually, based on the knowledge gained. The Management Board updates the projected results of a contract gradually, based on the best knowledge of costs necessary to be incurred, to reflect milestones added to the contract.

11.Trade and other receivables

The table below presents trade and other receivables disclosed by the Company under receivables and loans (see Note 15).

	Dec 31 2022	Dec 31 2021
Financial assets (IFRS 9):		
Trade receivables	658	24,684
Net trade receivables	**658**	**24,684**

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Receivables on disposal of non-current assets	-	1,637
Retentions (security deposits) under contracts	1,439	956
Other receivables	8,426	5,922
Impairment loss on other financial receivables	(99)	-
Other net financial receivables	**9,766**	**8,515**
Financial receivables	**10,424**	**33,199**
Total short-term receivables	**10,424**	**33,199**

The Company considers the carrying amount of trade receivables as a reasonable approximation of their fair value (see Note 14).

The Company 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 statement of profit or loss were as follows:

- on trade receivables – none,
- on other current and non-current financial receivables – PLN 99 thousand.

For trade receivables, the Company 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 Company uses historical data and current information to determine the amount of the expected losses. The Company also 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 Company did not recognise an expected credit loss allowance for receivables as its estimated amount was immaterial.

12.Prepayments and accrued income

Prepayments comprise costs that the Company 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 Company 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
Assets – prepayments and accrued income:				
Prepayments	571	575	58	101
Assets – prepayments and accrued income	**571**	**575**	**58**	**101**
Liabilities – accrued expenses and deferred income				
Advance payments for project execution	-	-	7,477	-
Liabilities – total accrued expenses and deferred income	**-**	**-**	**7,477**	**-**

13.Cash and cash equivalents

	Dec 31 2022	Dec 31 2021
Cash at bank in PLN-denominated accounts	6,526	35,264

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Cash at bank in foreign currency accounts	42,865	8,935
Short-term deposits	-	46,536
Total cash and cash equivalents	**49,391**	**90,735**

As at December 31st 2022, the Company held restricted cash of PLN 91 thousand in the VAT account (December 31st 2021: restricted bank deposits of PLN 46,536 thousand). As at December 31st 2022 and December 31st 2021, the Company had no cash equivalents.

For the purposes of preparing the statement of cash flows, the Company classifies cash in the manner used to present cash in the statement of financial position.

14.Financial assets and liabilities

Categories of financial instruments in accordance with IFRS 9	Financial assets at amortised cost*	Non-IFRS 9	**Total**
As at Dec 31 2022			
Non-current assets:			
Receivables and loans advanced	2,905	-	**2,905**
Current assets:			
Trade and other receivables	10,424	-	**10,424**
Cash and cash equivalents	49,391	-	**49,391**
Total financial assets	**62,720**	**-**	**62,720**

Categories of financial instruments in accordance with IFRS 9	Financial assets at amortised cost*	Non-IFRS 9	**Total**
As at Dec 31 2021			
Non-current assets:			
Receivables and loans advanced	31,134	-	**31,134**
Current assets:			
Trade and other receivables	33,199	-	**33,199**
Cash and cash equivalents	90,735	-	**90,735**
Total financial assets	**155,068**	**-**	**155,068**

*Financial assets at amortised cost

Categories of financial instruments in accordance with IFRS 9	Liabilities at amortised cost**	Financial liabilities at fair value through profit or loss***	Non-IFRS 9	**Total**
As at Dec 31 2022				
Non-current liabilities:				
Leases	-	-	12,850	**12,850**
Current liabilities:				
Current tax liabilities	-	-	2,329	**2,329**
Trade and other payables	26,213	-	-	**26,213**
Borrowings, other debt instruments	510	-	-	**510**

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

Leases	-	-	3,163	**3,163**
Total financial liabilities	**26,723**	**-**	**18,342**	**45,065**

Categories of financial instruments in accordance with IFRS 9	Liabilities at amortised cost**	Financial liabilities at fair value through profit or loss***	Non-IFRS 9	**Total**
As at Dec 31 2021				
Non-current liabilities:				
Borrowings, other debt instruments	510	-	-	**510**
Leases	-	-	9,710	**9,710**
Current liabilities:				
Current tax liabilities	-	-	1,395	**1,395**
Trade and other payables	4,123	302	-	**4,425**
Borrowings, other debt instruments	875	-	-	**875**
Leases	-	-	2,920	**2,920**
Total financial liabilities	**5,508**	**302**	**14,025**	**19,835**

** Financial liabilities at amortised cost
*** Financial liabilities at fair value through profit or loss

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	Note	Fair value	Carrying amount	Fair value	Carrying amount
Assets:					
Non-bank borrowings		2,905	2,905	31,134	31,134
Trade and other receivables	11	10,424	10,424	33,199	33,199
Cash and cash equivalents	13	49,391	49,391	90,735	90,735
Liabilities:					
Non-bank borrowings		510	510	1,385	1,385
Leases		16,013	16,013	12,630	12,630
Trade and other payables	18	26,213	26,213	4,425	4,425

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 Company'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 16 is disclosed in the line item ‘Borrowings’. 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.

15.Equity

Share capital

The following changes in the number of shares occurred during the period covered by these separate 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, the Company did not hold any of its own shares, nor were any Company shares held by its subsidiaries.

Shareholding structure

The following tables present the shareholding structure as of the respective reporting dates covered by these 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

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

Other components of equity created prior to transition to IAS	36,997	36,997
Other components of equity – incentive scheme	10,207	10,207
Other components of equity – measurement of warrants due to Square Enix Limited (publisher)	2,694	1,151
Total	**49,898**	**48,355**

16.Borrowings

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

On April 30th 2020, the Company 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 Company for the purposes detailed in the Programme rules. Based on the statement submitted by the Company 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.

	Current liabilities		Non-current liabilities	
	Dec 31 2022	Dec 31 2021	**Dec 31 2022**	Dec 31 2021
Financial liabilities measured at amortised cost				
Non-bank borrowings	510	875	-	510
Financial liabilities measured at amortised cost	**510**	**875**	**-**	**510**
Total borrowings, other debt instruments	**510**	**875**	**-**	**510**

17.Leases

The Company's lease contracts include mainly leases of 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.

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.

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

Under 'Machinery and equipment' the Company 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:	12,159	430	261	**12,850**
Current liabilities:	2,608	347	208	**3,163**
As at Dec 31 2021				
Non-current liabilities:	9,710	-	-	**9,710**
Current liabilities:	2,514	139	267	**2,920**

For information on interest on lease liabilities, see Note 21.

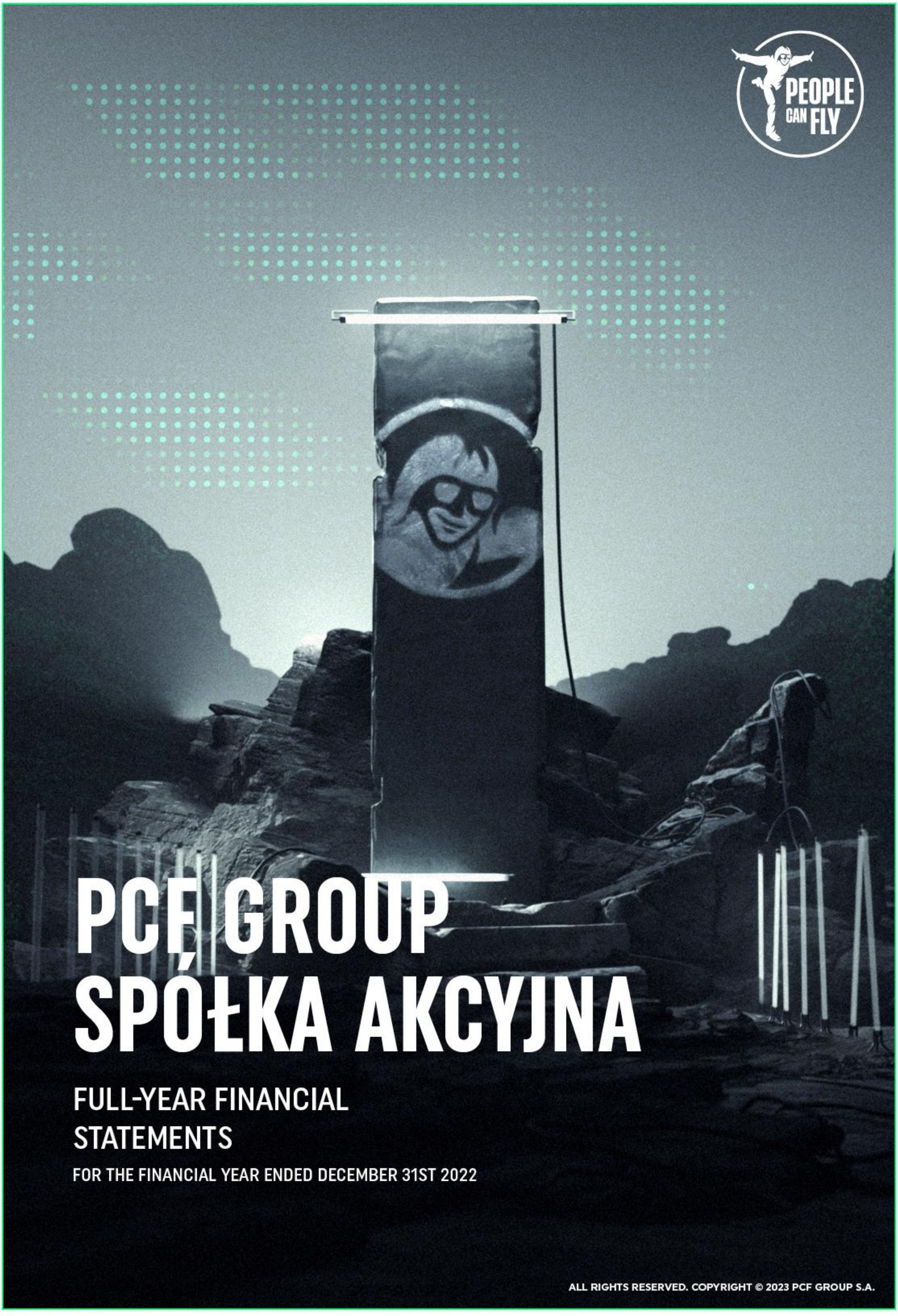
For an analysis of the maturity dates of lease liabilities, see Note 28.

18.Trade and other payables

Trade and other payables are presented below.

	Dec 31 2022	Dec 31 2021
Financial liabilities (IFRS 9):		
Trade payables	23,859	3,417
Purchase of non-current assets	92	116
Other financial liabilities	2,262	892
Financial liabilities	**26,213**	**4,425**
Non-financial liabilities (non-IFRS 9):		
Taxes, social security and other payables	2,329	1,395
Non-financial liabilities	**2,329**	**1,395**
Total current liabilities	**28,542**	**5,820**

The Company considers the carrying amount of trade payables as a reasonable approximation of their fair value (see Note 14).



PCF GROUP SPÓŁKA AKCYJNA

FULL-YEAR FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED DECEMBER 31ST 2022

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

19.Employee benefits

Salaries, wages and other employee benefits

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Salaries and wages	8,302	6,299
Social security	522	334
Training costs and other employee benefits	1,021	204
Future employee benefits (provisions for accrued holiday entitlements)	22	(57)
Total employee benefits expense	**9,867**	**6,780**
of which: capitalised costs of salaries and wages	2,520	697

Employee benefit obligations and provisions

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

	Dec 31 2022	Dec 31 2021
Short-term employee benefits:		
Salaries and wages payable	7	5
Social security contributions payable	269	239
Provisions for accrued holiday entitlements	58	36
Short-term employee benefits	**334**	**280**
Total employee benefit obligations and provisions	**334**	**280**

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

20.Operating income and expenses

Costs by nature of expense

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Amortisation and depreciation expense	9,490	7,296
Employee benefits	9,867	6,780
Raw materials and consumables used	1,550	837
Services	204,952	59,842
Taxes and charges	137	200
Other expenses	1,717	1,463
Total costs by nature of expense	**227,713**	**76,418**
Cost of work performed by entity and capitalised	(149,138)	(4,890)
Costs by nature of expense recognised in profit or loss	**78,575**	**71,528**
Cost of services sold	50,099	45,435
General and administrative expenses	28,476	26,093
Total	**78,575**	**71,528**

Services

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Costs of services	186,777	44,056
Professional, legal and accounting services	11,264	11,485

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

Telecommunications, IT services, software lease	4,184	2,483
Office maintenance costs	385	223
Other activities	2,342	1,595
Total	**204,952**	**59,842**

Costs by nature of expense include mainly salaries and wages of the Company'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:

- Costs of purchase by the Company of intellectual property rights to projects completed by subsidiaries until December 31st 2022;
- An overall increase in costs related to a greater scale of operations, which translated into the need to expand the Company's development and back office resources.

Other income

Other income includes income from:

- back office services provided to the subsidiary Incuvo S.A.,
- reinvoicing of medical services and other services for entities cooperating with the Company.

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Gain on disposal of non-financial non-current assets	13	20
Back office services provided to group entities	1,018	-
Costs of technical infrastructure re-charged to the Company's contractors	-	3,475
Subleases re-charged to the Company's contractors	-	1,285
Other costs re-charged to the Company's contractors	213	814
Other income	514	194
Total other income	**1,758**	**5,788**

Other expenses

Other expenses include expenses related to:

- purchase of medical services and other benefits for entities cooperating with the Company;
- 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
Compensation and penalties paid	-	73
Costs re-charged to the Company's contractors	237	937
Donations made to aid Ukraine	220	
Impairment losses on financial receivables*	118	-
Other expenses	79	32
Total other expenses	**654**	**1,126**

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

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

Losses on expected credit losses

In the period covered by these separate financial statements the Company 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	932
Loans and receivables	1,596	333
Interest income calculated using the effective interest rate	**2,957**	**1,265**
Foreign exchange gains (losses):		
Cash and cash equivalents	-	2,275
Loans and receivables	-	(113)
Financial liabilities at amortised cost	-	(56)
Foreign exchange gains (losses)	**-**	**2,106**
Total finance income	**2,957**	**3,371**

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	750	430
Trade and other payables	2	-
Interest expense on financial liabilities other than at fair value through profit or loss	**752**	**430**
Foreign exchange gains (losses) (+/-):		
Cash and cash equivalents	(2,148)	1
Loans and receivables	1,750	-
Financial liabilities at amortised cost	739	-
Foreign exchange gains (losses) (+/-)	**341**	**1**
Total finance costs	**1,093**	**431**

The increase in lease interest resulted from an increase in the amount of lease liabilities (for details, see Note 17).

22.Income tax

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Current tax:		
Tax for reporting period	3,093	2,162
Adjustments to tax expense for previous periods	-	91
Current tax	**3,093**	**2,253**
Deferred tax:		
Origination and reversal of temporary differences	(900)	(106)
Deferred tax	**(900)**	**(106)**

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

Total income tax	**2,193**	**2,147**

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 Company availed itself of the IP Box tax relief in accordance with the ruling, and so the eligible income from eligible intellectual property rights within the meaning of IP Box regulations was taxed by the Company at a preferential corporate income tax rate of 5%. Accordingly, the current portion of the Company'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 income tax disclosed in the statement of profit or loss.

	Jan 1–Dec 31 2022	Jan 1–Dec 31 2021
Profit or loss before tax	**44,529**	**43,899**
Income tax at 5%	3,093	2,162
Income tax at 19%	(2,295)	(689)
Reconciliation of income tax due to:		
Non-taxable income	-	(1)
Expenses which are permanently non-deductible	200	116
Unrecognised deferred tax asset on tax losses	2,295	689
Technical settlement between 5% and 19% tax rates	(1,100)	(221)
Adjustments to tax expense for previous periods	-	91
Income tax	**2,193**	**2,147**
Average tax rate applied	**5%**	**5%**

23.Notes to the 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 statement of cash flows.

Item in statement of cash flows	Change in statement of financial position or statement of profit or loss	Change disclosed	Difference	Reason
Change in liabilities	21,788	103,435	(81,576)	elimination of change in liabilities resulting from a deduction made as at December 31st 2022
			(71)	elimination of change in liabilities on purchase of property, plant and equipment and intangible assets

24.Share-based payments

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

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

On August 29th 2021, the Company 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 Company under Resolution No. 5 of the Extraordinary General Meeting of the Company 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 Company'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 Company'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 Company, each conferring the right to subscribe for one Series C ordinary bearer share in the Company 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 Company'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 separate financial statements, the Company 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 Company's share capital.

Given the occurrence of the Grant Date, in these financial statements the subscription warrants were measured and recognised as at August 29th 2021 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 separate financial statements:

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

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

The issue of warrants was accounted for in accordance with IFRS 2 Share-based Payment, and the Management Board of the Company 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%

25.Earnings per share and dividends paid

Earnings per share

To calculate basic earnings (loss) per share, the Company uses the amount of net profit (loss) attributable to owners of the Company 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	42,336	41,752
Basic earnings (loss) per share (PLN)	1.41	1.41
Diluted earnings (loss) per share (PLN)	1.39	1.41
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)	42,336	41,752
Basic earnings (loss) per share (PLN)	1.41	1.41
Diluted earnings (loss) per share (PLN)	1.39	1.41

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Dividends

On June 28th 2022, the Annual General Meeting of the Company passed Resolution No. 7/06/2022 on the appropriation of the Company'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 update of the People Can Fly Group's growth strategy adopted by the Company's Management Board on January 31st 2023, the Management Board plans not to recommend that the General Meeting approves payment of dividend until the Company 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.

26.Related-party transactions

Ultimate parent

The ultimate parent is Sebastian Wojciechowski by virtue of his being a major shareholder of the Company, holding 49.98% of the Company shares as at December 31st 2022, and as at the date of authorisation these separate financial statements for issue – holding 49.76% of the share capital and total voting rights at the General Meeting of the Company, 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 Company, 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 Company.

Transactions with shareholders

The following tables present transactions with shareholders of the Company which took place in the periods covered by these financial statements.

As at and for the period ended December 31st 2022	Sale	Purchase	Receivables	Liabilities	Borrowings	Dividends paid
Company shareholders	5	3,323	-	-	-	5,717

As at and for the period ended Dec 31 2021	Sale	Purchase	Receivables	Liabilities	Borrowings	Dividends paid
Company shareholders	104	3,302	1	189	-	4,002

As regards disclosure of transactions with shareholders, the Company applies a practical expedient and presents transactions with shareholders whose share in total voting rights in the Company is no less than 5%. The Company also discloses transactions executed by persons discharging managerial responsibilities and their close persons who have been notified to the Company 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).

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Related-party transactions

Below are presented transactions between the Company and its subsidiaries in the periods covered by the financial statements.

As at and for the period ended December 31st 2022	Sale	Purchase	Receivables	Liabilities	Loans advanced	Dividends	Capital increase
Incuvo S.A.	1,015	3,715	420	1,346	-	-	-
People Can Fly UK Limited	4	13,316	-	1,612	1,903	-	-
People Can Fly U.S., LLC	10,225	94,734	-	18,225	24,495	-	-
People Can Fly Chicago, LLC	4	206	9	206	-	-	-
People Can Fly Canada Inc.	4	33,570	176	-	28,007	-	-
Game On Creative Inc.	-	-	-	65	-	-	-
Total	**11,252**	**145,541**	**605**	**21,454**	**54,405**	**-**	**-**

As at and for the period ended Dec 31 2021	Sale	Purchase	Receivables	Liabilities	Loans advanced	Dividends	Capital increase
Incuvo S.A.	-	600	600	-	-	-	-
People Can Fly UK Limited	4	5,165	58	1,158	2,447	-	-
People Can Fly U.S., LLC	14,371	44	19,693	46	19,802	-	1,849
People Can Fly Chicago, LLC	4	-	4	-	-	-	-
People Can Fly Canada Inc.	4	1,335	4	197	8,028	-	-
Game On Creative Inc.	-	64	-	64	-	-	-
Total	**14,383**	**7,081**	**19,759**	**1,465**	**30,277**	**-**	**1,849**

27.Financial guarantees, contingent assets and liabilities

The Company 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 instrument described above, the Company did not have any other financial guarantees or assets and contingent liabilities.

28.Risk related to financial instruments

The Company is exposed to a number of risks related to financial instruments. For information on the Company's financial assets and liabilities by category, see Note 13. The Company is exposed to the following risks:

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

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The following are the key objectives of financial risk management:

- to hedge short- and medium-term cash flows,
- to prevent volatility of the Company's financial result,
- to deliver the assumed financial targets through budget discipline.

The Company 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

The Company is exposed to currency risk, as most of the Company's costs are denominated in PLN, while the majority of the Company's revenue is denominated in foreign currencies, mainly in EUR and USD. Therefore, the Company is exposed to foreign exchange risk related to movements of exchange rates.

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

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

		Effect on profit or loss / equity:				
	Exchange rate movements	EUR	USD	GBP	CAD	**Total**
As at Dec 31 2022						
Increase in exchange rate	10%	3,586	(1,170)	(150)	315	**2,581**
Decrease in exchange rate	-10%	(3,586)	1,170	150	(315)	**(2,581)**
As at Dec 31 2021						
Increase in exchange rate	10%	5,811	4,419	92	779	**11,101**
Decrease in exchange rate	-10%	(5,811)	(4,419)	(92)	(779)	**(11,101)**

	Amount in foreign currency:				
	EUR	USD	GBP	CAD	**Amount translated into PLN**
As at Dec 31 2022					
Financial assets:					
Non-bank borrowings	-	-	-	894	**2,905**
Trade and other receivables	1	53	-	53	**412**
Cash and cash equivalents	7,711	1,502	4	23	**42,865**
Financial liabilities:					

Trade and other payables	(65)	(4,186)	(286)	-	**(20,243)**
Total exposure to currency risk	**7,647**	**(2,631)**	**(282)**	**970**	**25,940**
As at Dec 31 2021					
Financial assets:					
Non-bank borrowings	252	5,074	252	2,504	**31,134**
Trade and other receivables	1,369	4,931	-	-	**26,320**
Cash and cash equivalents	11,066	894	99	-	**55,071**
Financial liabilities:					
Trade and other payables	(54)	(29)	(183)	(62)	**(1,570)**
Total exposure to currency risk	**12,633**	**10,870**	**168**	**2,442**	**110,954**

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 2021, the Company was exposed to the risk of changes in interest on lease liabilities. In the reporting period, the Company did not take any specific measures to hedge against the interest rate risk. For detailed information on the Company's non-bank borrowings, see Note 16.

The Company did not prepare any sensitivity analysis regarding the effect of interest rate movements on the value of the IRS instrument due to the expected low value of potential changes.

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

Credit risks

The Company'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 Company's maximum exposure to credit risk at the reporting date is represented by the carrying amount of these receivables.

The Company 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 Company has assumed that there is a significant increase in risk when, for instance, 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 trade receivables, which is the most significant asset class exposed to credit risk, and contract assets, the Company is exposed to credit risk in relation to a single significant counterparty. In the opinion of the Company, 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.

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As at Dec 31 2022	Contract assets	not past due	Past due trade receivables 0 – 30 days	31 – 90 days	over 90 days	Total
Impairment loss rate	0%	0%	0%	0%	0%	
Gross carrying amount - related entities	-	85	125	210	4	**424**
Impairment loss	-	-	-	-	-	**-**
Gross carrying amount - other entities	30,355	234	-	-	-	**30,589**
Impairment loss	-	-	-	-	-	**-**

As at Dec 31 2021	Contract assets	not past due	Past due trade receivables 0 – 30 days	31 – 90 days	over 90 days	Total
Impairment loss rate	0%	0%	0%	0%	0%	
Gross carrying amount - related entities	-	3,486	358	5,303	8,910	**18,057**
Impairment loss	-	-	-	-	-	**-**
Gross carrying amount - other entities	22,385	390	6,237	-	-	**29,012**
Impairment loss	-	-	-	-	-	**-**

In the period covered by these financial statements, the Company did not hold any negotiations or make any arrangements that would result from a significant increase in credit risk, as a result of which payment dates would change or expected cash flows from trade receivables and contract assets would be otherwise modified. The Company does not require any security for trade receivables.

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

Liquidity risk

The Company is exposed to liquidity risk, i.e. the risk of losing ability to timely meet its financial liabilities. The Company 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 monthly basis. The cash requirement is compared with the available cash sources and the Group’s placements of free cash. The Company does not use derivative instruments. As at the reporting dates, the Company did not have any credit limits available in current accounts, and the Company did not use such facilities in the past. The Company 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 Company's financial liabilities other than derivative instruments as at the reporting date are presented below.

	Current		Non-current		
	up to 3 months	from 3 months to 12 months	from 12 months to 60 months	from 60 months to 120 months	**Total cash flows before discounting**
As at Dec 31 2022					
Non-bank borrowings	219	291	-	-	**510**
Leases	791	2,372	11,614	1,236	**16,013**

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Trade and other payables	26,213	-	-	-	**26,213**
Total exposure to liquidity risk	**27,223**	**2,663**	**11,614**	**1,236**	**42,736**
As at Dec 31 2021					
Non-bank borrowings	219	656	510	-	**1,385**
Leases	730	2,190	8,474	1,236	**12,630**
Trade and other payables	4,425	-	-	-	**4,425**
Total exposure to liquidity risk	**5,374**	**2,846**	**8,984**	**1,236**	**18,440**

The table below presents the excess of cash available at the Company over the sum of trade and other payables and the current portion of the lease liability. In the period covered by these separate financial statements, as at the reporting date the Company 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	29,376	49,391	**20,015**
As at Dec 31 2021	7,345	90,735	**83,390**

29.Capital management

The Company manages capital to ensure the Company'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 Company's financial condition. The level of cash and the ability to pay trade liabilities are monitored on an ongoing basis.

The Company is not subject to externally imposed capital requirements.

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

	Dec 31 2022	Dec 31 2021
Capital:		
Equity	271,497	235,705
Capital	**271,497**	**235,705**
Total sources of funding:		
Equity	271,497	235,705
Borrowings, other debt instruments	510	1,385
Leases	16,013	12,630
Total sources of funding:	**288,020**	**249,720**
Equity to total sources of funding	**0.94**	**0.94**
EBITDA		
Operating profit (loss)	42,665	40,959
Amortisation and depreciation expense	8,682	7,296
EBITDA	**51,347**	**48,255**
Debt:		
Borrowings, other debt instruments	510	1,385
Leases	16,013	12,630
Debt	**16,523**	**14,015**
Debt to EBITDA*	**0.32**	**0.29**
Cash	49,391	90,735

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Current liabilities	32,549	9,895
Cash ratio**	**1.52**	**9.17**

* EBITDA is calculated as operating profit (loss) plus depreciation and amortisation expense.

** The cash ratio is calculated as cash to current liabilities.

30.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:

	Remuneration	Other benefits	**Total**
Jan 1–Dec 31 2022			
President of the Management Board – Sebastian Wojciechowski	48	959	**1,007**
Supervisory Board members	134	-	**134**
Total	**182**	**959**	**1,141**
Jan 1–Dec 31 2021			
President of the Management Board – Sebastian Wojciechowski	48	1,055	**1,103**
Supervisory Board members	136	265	**401**
Total	**184**	**1,320**	**1,504**

Management Board

In 2022, the Company 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 nil as at December 31st 2022 and PLN 65 thousand as at December 31st 2021.

In 2022, the Company made no sales to entities controlled by the Management Board (2021: PLN 5 thousand). The balance of receivables under such transactions was nil 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 Company.

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

31. Auditor's fees

Pursuant to Art. 15.2.4 of the Articles of Association, the Supervisory Board appoints an audit firm to audit the Company'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 Company'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,
- Grant Thornton was appointed the audit firm authorised to audit the Company's financial statements and the Group's consolidated financial statements for the financial years 2021 and 2022 prepared in accordance with IFRS/IAS.

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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 other interests in the Company, and in particular, as at the date of these financial statements, it did not hold any equity instruments of the Company, in particular any shares or subscription warrants issued by the Company.

Consideration paid to the auditor for the provision of its services is presented below.

	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**

32.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
As at beginning of period:	284	236
New hires/new independent contractors in period	63	72
Employee/contractor terminations in period (-)	(44)	(24)
As at end of period	**303**	**284**

33.Significant events and transactions

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

- **Acquisition by Square Enix Limited of the right to acquire shares of the Company**

  On January 18th 2022, the Company'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 (tranche A3), i.e., 90,000 warrants issued by the Company, each conferring the right to subscribe for one Series C ordinary bearer share of the Company 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 Company 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 Company as the Company's revenue under 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 Company, including of their exercise by Square Enix Limited to subscribe for Company shares, see the Company's Current Report No. 40/2021 of August 29th 2021.

- **Registration of subscription warrants with CSDP**

  On March 4th 2022, in response to the Company'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 Company to register 270,000 Series A registered subscription warrants (tranches A1-A3) issued for no consideration and with no par value under ISIN PLPCFGR00044.

- **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.

- **Acquisition by Square Enix Limited of the right to acquire shares of the Company**

  On June 30th 2022, the Company'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 Company on the terms described above.

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

- **Payment of dividend by the Company**

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

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

  On November 1st 2022, the Company'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 Company on the terms described above.

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

- **War in Ukraine**

  Since the very outbreak of the hostilities in Ukraine, the Management Board has been carefully and continuously analysing the situation in terms of potential risks that could affect the Company'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 Company 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 Company's Management Board does not believe that the ongoing war poses an existential threat to the Company as long as Poland is not directly engaged in the conflict. In particular, in the opinion of the Company's Management Board, as at the date of authorisation of these separate financial statements for issue, the situation did not affect the figures presented herein, nor should it pose a threat to the Company's continuing as a going concern within one year from the reporting date.

  Moreover, as the Company does not operate in Ukraine as at the date of issue of these 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 Company 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 Company has not assumed at present, and any assessments and forecasts in this respect are subject to uncertainty, and the Company will continue to review them on an ongoing basis.

34.Events after the reporting date

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

- **Registration of subscription warrants with CSDP**

  On January 24th 2023, in response to the Company'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 Company 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 Company's Management Board passed a resolution to adopt an update of the Company'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 Company 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 Company 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 Company 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 Company shares, together with (i) the Company's own cash, (ii) funds generated by the Company from operations and (iii) other available sources of financing which do not result in dilution of shareholders' equity interests, will allow the Company to fully implement its 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 Company's Management Board passed a resolution to, among others, increase the Company'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 Company'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 Company's decision to increase the Company'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 Company's existing shareholders' pre-emption rights waived, in exchange for an in-kind contribution to the Company'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 Company and Andrzej Wychowaniec, and between the Company and Radomir Kucharski, the Company acquired approximately 12.25% of shares and voting rights in Incuvo S.A. As a result of the transaction, the Company holds approximately 62.25% of shares in Incuvo S.A.'s share capital and the same proportion of voting rights.

The increase of the Company'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 Company'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 Company's Extraordinary General Meeting passed a resolution to, among others, increase the Company'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 Company's share capital and the same proportion of total voting rights at the Company's General Meeting (the "Series F Shares Issue Resolution").

The adoption of the Series F Shares Issue Resolution was related to the Company'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 development teams of the Company's Group 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 separate 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 Company's share capital. The Company expects this to take place immediately after the expiry of the period of 10 business days from the date of issue of the Company's interim consolidated financial statements for the first quarter of 2023 (see below).

- **Waiver of provisions concerning authorised capital**

On February 28th 2023, the Company'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 Company as part of the issue of Series F shares**

As part of the process (described above) to increase the Company's share capital, on March 28th 2023 an investment agreement was signed between the Company, Sebastian Wojciechowski as the Company'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 Company'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 Company's share capital and voting rights at the Company'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 Company 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 Company 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 Company, 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 Company cancels or fails to carry out the offering, within 10 business days from the date of issue of the Company'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 Company'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 Company as the Company's revenue under 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 Company, including of their exercise by Square Enix Limited to subscribe for Company shares, see the Company's Current Report No. 40/2021 of August 29th 2021.

35.Authorisation for issue

These financial statements were authorised for issue by the 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 FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED DECEMBER 31ST 2022