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PCF GROUP SPÓŁKA AKCYJNA

GROUP

FULL-YEAR CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED DECEMBER 31ST 2023

PCF GROUP SPÓŁKA AKCYJNA GROUP Full-year consolidated financial statements for the financial year ended 31 December 2023 (all amounts in PLN thousand, unless stated otherwise)

PCF Group Spółka Akcyjna Group

FINANCIAL HIGHLIGHTS TRANSLATED INTO THE EURO

	PLN		EUR	
	31 Dec 2023	31 Dec 2022	**31 Dec 2023**	31 Dec 2022
Statement of financial position				
Assets	513,461	350,804	118,091	74,800
Non-current liabilities	32,321	43,418	7,434	9,258
Current liabilities	53,260	29,757	12,249	6,345
Equity	427,880	277,629	98,408	59,197
Equity attributable to owners of the Parent	422,756	272,306	97,230	58,062
PLN/EUR exchange rate at end of period	-	-	4.3480	4.6899

	PLN		EUR	
	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022	**1 Jan–31 Dec 2023**	1 Jan–31 Dec 2022
Statement of profit or loss				
Revenue	150,124	171,485	33,152	36,577
Operating profit (loss)	(86,452)	31,078	(19,091)	6,629
Profit (loss) before tax	(91,236)	30,435	(20,148)	6,492
Net profit (loss)	(75,575)	21,984	(16,689)	4,689
Net profit (loss) attributable to owners of the Parent	(76,717)	18,672	(16,941)	3,983
Earnings per share (PLN)	(2.31)	0.73	(0.51)	0.16
Diluted earnings per share (PLN)	(2.27)	0.72	(0.50)	0.15
Average PLN/EUR exchange rate in period	-	-	4.5284	4.6883

	PLN		EUR	
	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022	**1 Jan–31 Dec 2023**	1 Jan–31 Dec 2022
Statement of cash flows				
Net cash from operating activities	12,200	59,168	2,694	12,620
Net cash from investing activities	(175,717)	(108,970)	(38,803)	(23,243)
Net cash from financing activities	220,601	(17,872)	48,715	(3,812)
Total net cash flows (net of the effect of foreign currency translation on cash)	57,084	(67,674)	12,606	(14,435)
Average PLN/EUR exchange rate in period	-	-	4.5284	4.6883

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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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Note	31 Dec 2023	31 Dec 2022
Non-current assets			
Goodwill	7	52,143	55,503
Intangible assets	4	167,506	130,023
Property, plant and equipment	5	12,105	11,780
Right-of-use assets	6	28,797	30,095
Receivables and loans advanced	13	117	-
Long-term prepayments and accrued income	11	57	277
Deferred tax assets	8	22,239	222
Non-current assets		**282,964**	**227,900**
Current assets			
Contract assets	9	8,611	30,451
Trade and other receivables	10	58,677	23,448
Current tax assets		1,173	-
Other current financial assets	13	35,397	-
Short-term prepayments and accrued income	11	2,623	1,022
Cash and cash equivalents	12	124,016	67,983
Current assets		**230,497**	**122,904**
Total assets		**513,461**	**350,804**

PCF GROUP SPÓŁKA AKCYJNA GROUP Full-year consolidated financial statements for the financial year ended 31 December 2023 (all amounts in PLN thousand, unless stated otherwise)

EQUITY AND LIABILITIES	Note	**31 Dec 2023**	31 Dec 2022
Equity			
Equity attributable to owners of the Parent:			
Share capital	14	719	599
Share premium	14	357,654	121,869
Other components of equity	14	45,585	54,988
Retained earnings		18,798	94,850
Equity attributable to owners of the Parent		**422,756**	**272,306**
Non-controlling interests		**5,124**	**5,323**
Equity		**427,880**	**277,629**
Liabilities			
Non-current liabilities			
Borrowings, other debt instruments	15	1,637	3,490
Leases	16	23,598	27,822
Deferred tax liability	8	911	2,289
Long-term prepayments and accrued income	11	6,175	9,817
Non-current liabilities		**32,321**	**43,418**
Current liabilities			
Trade and other payables	17	13,240	11,167
Contract liabilities	9	3,863	2,792
Current tax liabilities		7,147	7,591
Borrowings, other debt instruments	15	1,490	2,089
Leases	16	5,988	4,198
Employee benefit obligations and provisions	18	1,733	1,717
Other short-term provisions		76	-
Short-term prepayments and accrued income	11	19,723	203
Current liabilities		**53,260**	**29,757**
Total liabilities		**85,581**	**73,175**
Total equity and liabilities		**513,461**	**350,804**

PCF GROUP SPÓŁKA AKCYJNA GROUP Full-year consolidated financial statements for the financial year ended 31 December 2023 (all amounts in PLN thousand, unless stated otherwise)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	**1 Jan–31 Dec 2023**	1 Jan–31 Dec 2022
Continuing operations			
Revenue	3	150,124	171,485
Cost of sales	19	98,005	85,202
Gross profit (loss)		**52,119**	**86,283**
General and administrative expenses	19	67,641	55,438
Other income	19	1,102	1,141
Other expenses	19	72,032	908
Operating profit (loss)		**(86,452)**	**31,078**
Finance income	20	2,248	1,771
Finance costs	20	7,032	2,414
Profit (loss) before tax		**(91,236)**	**30,435**
Income tax	21	(15,661)	8,451
Net profit (loss) from continuing operations		**(75,575)**	**21,984**
Discontinued operations			
Net profit (loss) from discontinued operations		-	-
Net profit (loss)		**(75,575)**	**21,984**
Net profit (loss) attributable to:			
- owners of the Parent		(76,717)	18,672
- non-controlling interests		1,142	3,312

EARNINGS (LOSS) PER ORDINARY SHARE (PLN)

	Note	**1 Jan–31 Dec 2023**	1 Jan–31 Dec 2022
from continuing operations			
- basic	24	(2.31)	0.73
- diluted	24	(2.27)	0.72
from continuing and discontinued operations			
- basic	24	(2.31)	0.73
- diluted	24	(2.27)	0.72

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

PCF GROUP SPÓŁKA AKCYJNA GROUP Full-year consolidated financial statements for the financial year ended 31 December 2023 (all amounts in PLN thousand, unless stated otherwise)

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Note	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Net profit (loss)		**(75,575)**	**21,984**
Other comprehensive income			
Items reclassified to profit or loss			
Exchange differences on translation of foreign operations		(5,314)	2,718
Other comprehensive income, net of tax		**(5,314)**	**2,718**
Comprehensive income		**(80,889)**	**24,702**
Comprehensive income attributable to:			
- owners of the Parent		(82,031)	21,390
- non-controlling interests		1,142	3,312

PCF GROUP SPÓŁKA AKCYJNA GROUP Full-year consolidated financial statements for the financial year ended 31 December 2023 (all amounts in PLN thousand, unless stated otherwise)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to owners of the Parent						
	Share capital	Share premium	Other components of equity	Retained earnings	**Total**	Non-controlling interests	**Total equity**
As at 1 Jan 2023	**599**	**121,869**	**54,988**	**94,850**	**272,306**	**5,323**	**277,629**
Changes in equity in 1 Jan–31 Dec 2023							
Cost of issue of Series C, Series E, Series F and Series G shares	-	(5,090)	-	-	**(5,090)**	-	**(5,090)**
Issue of Series E, Series F and Series G shares	120	240,875	-	-	**240,995**	-	**240,995**
Cost of Incuvo S.A. incentive scheme	-	-	209	-	**209**	-	**209**
Repayment of overpaid income tax for 2021 and 2022	-	-	-	665	**665**	-	**665**
Changes in Group structure (transactions with non-controlling shareholders)	-	-	(4,297)	-	**(4,297)**	(1,341)	**(5,638)**
Net profit (loss) for 1 Jan–31 Dec 2023	-	-	-	(76,717)	**(76,717)**	1,142	**(75,575)**
Other comprehensive income net of tax for 1 Jan–31 Dec 2023	-	-	(5,315)	-	**(5,315)**	-	**(5,315)**
As at 31 Dec 2023	**719**	**357,654**	**45,585**	**18,798**	**422,756**	**5,124**	**427,880**

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

PCF GROUP SPÓŁKA AKCYJNA GROUP Full-year consolidated financial statements for the financial year ended 31 December 2023 (all amounts in PLN thousand, unless stated otherwise)

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

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

PCF GROUP SPÓŁKA AKCYJNA GROUP Full-year consolidated financial statements for the financial year ended 31 December 2023 (all amounts in PLN thousand, unless stated otherwise)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	**1 Jan–31 Dec 2023**	1 Jan–31 Dec 2022
Cash flows from operating activities			
Profit (loss) before tax		**(91,236)**	**30,435**
Adjustments:			
Depreciation of property, plant and equipment	22	4,079	4,852
Amortisation of intangible assets	22	10,686	7,696
Depreciation of right-of-use asset	22	4,919	4,570
Impairment losses on intangible assets		69,377	-
Gain (loss) on disposal of non-financial non-current assets		(3)	(13)
Gain/(loss) on sale of non-derivative financial assets		-	(531)
Foreign exchange gains (losses)		(1,494)	2,908
Interest expense		2,545	1,655
Interest and dividend income		(1,454)	(1,359)
Other adjustments		(49)	1,616
Change in receivables	22	(17,418)	(5,418)
Change in financial assets		-	294
Change in liabilities	22	1,819	1,354
Change in provisions, accruals and deferrals		14,589	9,123
Change in contract assets and liabilities		22,911	5,604
Income tax paid		(7,071)	(3,618)
Net cash from operating activities		**12,200**	**59,168**
Cash flows from investing activities			
Payments for intangible assets		(135,232)	(104,980)
Payments for property, plant and equipment		(6,425)	(5,511)
Proceeds from disposal of property, plant and equipment		3	13
Net expenditure on acquisition of subsidiaries		-	(1,084)
Payments for other financial assets		(45,178)	-
Proceeds from sale of other financial assets		9,948	851
Interest received		1,120	1,741
Dividends received		47	-
Net cash from investing activities		**(175,717)**	**(108,970)**
Cash flows from financing activities			
Net proceeds from issue of shares		235,327	-
Share issue costs		(5,090)	-
Proceeds from borrowings and subsidies		5,422	613
Repayment of borrowings		(7,504)	(2,907)
Payment of lease liabilities		(5,713)	(5,534)
Interest paid		(1,841)	(170)
Dividends paid		-	(9,874)
Net cash from financing activities		**220,601**	**(17,872)**
Total net cash flows		**57,084**	**(67,674)**

Effect of foreign currency translation on cash	(1,051)	(1,445)
Net change in cash	**56,033**	**(69,119)**
Cash and cash equivalents at beginning of period	67,983	137,102
Cash and cash equivalents at end of period	**124,016**	**67,983**

PCF GROUP SPÓŁKA AKCYJNA

GROUP

FULL-YEAR CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED DECEMBER 31ST 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

The Parent

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

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

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

Composition of the Parent's Management Board and Supervisory Board

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

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

In the period from 1 January 2023 to the date of authorisation of these consolidated financial statements for issue, the composition of the Management Board did not change.

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

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

In the period from 1 January 2023 to the date of authorisation of these consolidated financial statements for issue, the composition of the Supervisory Board did not change.

Business of the Group

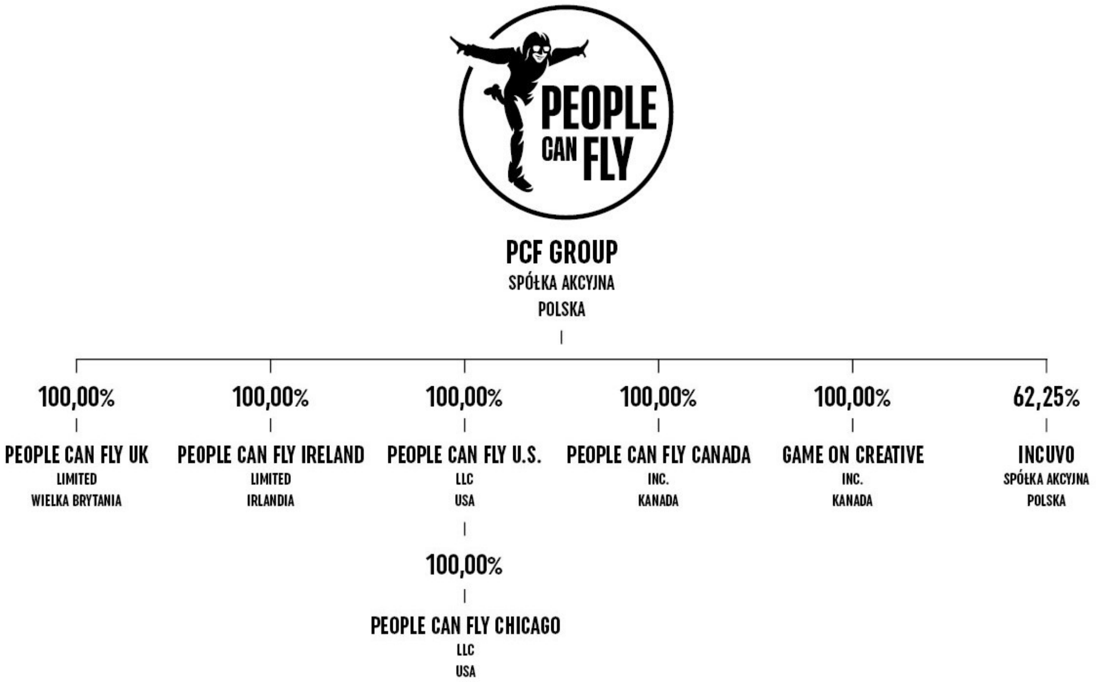
The principal business of the Parent and its subsidiaries is development of video games. For a more detailed description of the business of the Group, see Note 3 on revenue and operating segments.

Composition of the Group

PCF Group S.A. is the Parent of the PCF Group S.A. Group. The Group comprises the following subsidiaries:

- People Can Fly UK Limited, United Kingdom, Parent's equity interest: 100%
- People Can Fly Ireland Limited, Ireland, Parent's equity interest: 100%
- People Can Fly U.S. LLC, USA, Parent's equity interest: 100%
- People Can Fly Chicago LLC, USA, People Can Fly U.S. LLC's equity interest: 100%
- People Can Fly Canada Inc., Canada, Parent's equity interest: 100%
- Game On Creative Inc., Canada, Parent's equity interest: 100%
- Incuvo S.A., Poland, Parent's equity interest: 62.25%

The chart below presents the composition and structure of the Group as at 31 December 2023.



The Parent 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. Wrzesława Romańczuka 6, 35-302 Rzeszów, Poland.

The subsidiaries do not have any branches.

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

In the period from 1 January 2023 to the date of authorisation of these consolidated financial statements for issue, there were no changes in the name or other particulars of the Parent.

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

The following changes occurred in the 12 months ended 31 December 2023:

- On 2 February 2023, People Can Fly Ireland Limited, a single-member subsidiary of the Parent, was registered. The subsidiary provides publishing services within the Group.

- On 17 February 2023, the Parent's equity interest in Incuvo S.A. increased from 50.01% to approximately 62.25% of the share capital and total voting rights at Incuvo S.A.'s General Meeting.
- On 4 October 2023, the District Court for Katowice-Wschód in Katowice, 8th Commercial Division of the National Court Register, issued a decision to delete Spectral Applications spółka z ograniczoną odpowiedzialnością w likwidacji (in liquidation) from the Business Register of the National Court Register.

PCF GROUP SPÓŁKA AKCYJNA

GROUP

FULL-YEAR CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED DECEMBER 31ST 2023

2. Basis of accounting and accounting policies

Basis of accounting used in preparing the consolidated financial statements

These consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ('IFRS') as endorsed by the European Union and effective as at 31 December 2023.

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

The consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future.

The Management Board of the Parent prepares detailed profit and cash flow forecasts covering a five-year period and updates them periodically. The current forecast covers the years 2024-2028. These forecasts are based on the assumptions of the Management Board of the Parent regarding current and future economic conditions, as anticipated by the Management Board to prevail during that period. These forecasts also include assumptions concerning the further development of games in the pipeline, both those being implemented by the Group as of the date of authorisation of these consolidated financial statements for issue and those which the Group intends to acquire. The forecasts also include various scenarios reflecting the Group's plans, opportunities, internal and external risks, and risk mitigation measures.

The Management Board of the Parent continues to seek additional sources of revenue and financing available to the Group to sustain the development of the in-house game production and publishing segment (self-publishing) beyond the fourth quarter of 2024. These potential revenue sources include further collaboration with external publishers and receiving compensation in the form of development fees with an appropriate margin, or additional capital raising at the right time. Based on these considerations, the Management Board of the Parent is confident that the Group will have sufficient financial resources to meet its maturing obligations for at least twelve months from the date of the authorisation of the consolidated financial statements, which have been prepared on the assumption that the Group would continue as a going concern.

Accounting policies

Presentation of financial statements

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

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

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

Consolidation

These financial statements include the financial statements of the Parent and of the companies controlled by the Parent, i.e., the subsidiaries, prepared as at and for the years ended 31 December 2023 and 31 December 2022. The Parent controls an investee if it:

- The Parent has authority over the entity,

- The Parent is exposed to variable returns or has rights to variable returns from its involvement with the investee,
- The Parent has the ability to use its authority over the entity to affect the amount of returns obtained by the Parent.

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

Subsidiaries are consolidated using the acquisition method of accounting.

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

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

Functional currency and presentation currency

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

Transactions and balances

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

Operating segments

In distinguishing operating segments, the Management Board of the Parent is guided by the type of income generated. Each of the segments is managed separately within their respective revenue streams: (i) contract game development (includes development fee), (ii) copyrights to produced games (includes revenue earned by the Group from sales of games by a publisher - royalties), (iii) in-house game production and publishing (self-publishing) (includes the Group's share in licensing fees paid by players – royalties), and (iv) others.

As required under International Financial Reporting Standard 8 *Operating Segments* (‘IFRS 8’), results of operating segments are based on internal reports periodically reviewed by the Management Board of the Parent (the chief operating decision maker of the Group). The Management Board analyses results of the operating segments at the level of operating profit (loss). The measurement of the operating segments' results used in management calculations aligns with the accounting policies applied in preparing these consolidated financial statements. The segmentation into operating segments has been presented in a manner consistent with IFRS.

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

Revenue

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

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

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

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

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

The Group distinguishes four sources of revenue:

- revenue from contract development of video games (development fee),
- revenue from sale of copyrights to developed games (royalties),
- development and publication of games without the involvement of an external publisher (self-publishing) (royalties);
- other revenue.

Policy for recognition of revenue from contract development of video games

Identifying the contract

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

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

Identifying performance obligations

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

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

Determining the transaction price

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

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

Allocating the transaction price to performance obligations

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

Recognition of revenue when or as performance obligations are satisfied.

Under IFRS 15, an entity recognises revenue in an amount of the consideration to which the Group 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. The copyrights to the game transfer to the publisher as the game is being developed, specifically upon reaching successive key stages (known as milestones). This is consistent with IFRS 15.35c which states the performance does not create an asset with an alternative use to the entity and the Group has an enforceable right to payment for performance completed to date, therefore the Group's revenue is recognised over time. Subcontractor work is recognised in accordance with the method described in IFRS 15.B.19(b), i.e., revenue is recognised to the extent of costs incurred and billed by the reporting date, while the realised margin is added to the total contract revenue. Revenue as at the reporting date is estimated on the basis of the stage of contract completion determined based on the amount of costs incurred cumulatively in relation to the total costs planned to be incurred to perform the contract obligation. Revenue is estimated at each reporting date in accordance with best available estimates and is adjusted for foreseeable adjustments, bonuses and other variable elements.

Advance payments received from customers

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

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

After the game's production has concluded and the game has been released by an external publisher, the Group is entitled to contractual royalties. These royalties are payable if the specified amount of revenue (defined in the development and publishing agreement) from game sales provide the publisher with a return, at a specified level, on the costs incurred in connection with the development, promotion, and distribution of the game. Therefore, the amount of the Group's royalties indirectly depends on the volume of sales the publisher makes to the end consumer in a given period. Directly, it represents the Group's share of the profits earned by the publisher after recouping costs associated with the game's development, promotion, and distribution. The transaction price is determined as a percentage of the amount of sales generated by the publisher. Consequently, the Group recognises royalty revenue at the moment the game publisher sells the product to end consumers. This revenue is determined based on sales reports provided to the Group by the game publisher. The Group receives sales reports on a quarterly basis, after the end of each quarter.

The above does not apply to the remastered version of Bulletstorm, titled Bulletstorm: Full Clip Edition ('BS:FC'), published by Gearbox Publishing, LLC. For this version, the Group incurred the entire development costs and earned consideration as a percentage of the sales generated by the publisher.

Policy for recognition of revenue from sale of self-published video games (licence fees)

The Group also undertakes projects involving the development and self-publishing of its own games (self-publishing). In this model, the Parent, based on existing or newly created intellectual property (IP) by the Parent, is responsible for game production, which is published by another Group company, namely People Can Fly Ireland Limited. People Can Fly Ireland Limited engages in publishing activities, including the promotion, distribution, and sale of games developed by the Parent, under a license granted by the Parent.

Revenue recognised by People Can Fly Ireland Limited comprises the licensing fees it charges for each game sold to the end user, adjusted for the profits earned by intermediary distribution platforms.

Operating expenses

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

Finance income and costs

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

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

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 taxable amounts used to calculate the amount of income tax.

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 the deferred tax asset is reassessed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilise all or part of the deferred tax asset.

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 acquisition cost of the asset, as applicable;
- receivables and payables which are recognised inclusive of value-added tax.

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

Goodwill

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

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

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

Intangible assets – development expenditure

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

Expenditure directly attributable to development work is recognised as an intangible asset only when the following criteria are met in accordance with 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 Group's assessment that it has the necessary knowledge to produce a game which will be recognised as development work, as well as the Group's assessment that the game will have commercial potential – this assessment is made based on, among other things, publicly available sales data for comparable games and the game's production budget prepared by the Management Board of the Parent, including estimates of future sales and profitability.

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

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

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

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

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

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

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

Intangible assets – other intangible assets, licences and software

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

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

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

Intangible assets are recognised at acquisition cost less amortisation expense and impairment losses. Amortisation is calculated on a straight-line basis. Research costs are not capitalised and are presented in the statement of profit or loss as costs in the period in which they were incurred.

Two licences for the Unreal Engine game engine were the most significant items of other intangible assets, licences and computer programs. For these licenses, the amortisation period from initial recognition in 2015 was estimated at 10 years. When determining their useful lives, the Parent's Management Board primarily takes into account their expected use by the Group over the game development period, which is the same as the typical life cycle of a game engine licence, as each such licence can be used to publish and commercialise one game only.

It is also possible that a publisher will be obliged under a development and publishing agreement to procure for itself a game engine licence to publish and commercialise a video game and to sublicense the engine to the Parent 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 Parent controls the asset (licence).

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

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

Property, plant and equipment

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

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

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

Leased assets are depreciated over their economic useful lives.

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

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

Right-of-use assets and leases

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

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

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

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

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

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

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

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

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

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

A lease liability includes the following payments:

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

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

For:

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

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

Financial assets

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

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

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

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

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

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

Financial assets measured at amortised cost include:

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

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

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

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

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

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

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

Interest income, impairment gains and losses, and foreign exchange gains and losses on such assets are calculated and recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

Other changes in the fair value of these assets are recognised through other comprehensive income. When a financial asset measured at fair value through other comprehensive income is derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified from equity to profit or loss.

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

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

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

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

- For trade receivables and contract assets, the Group applies a practical expedient and measures the allowance for expected credit losses at an amount equal to the expected credit losses over the life of the instrument. Allowances are estimated by counterparty and have been grouped based on the number of days past due. Impairment losses are estimated based mainly on historical data on days past due and a relationship between days past due and actual payments over the last four years, taking into account available information relating to the future. The Group has assumed that the risk increases significantly when the time past due exceeds 60 days. The Group has assumed that a default occurs when the time past due has reached 90 days.
- For cash, the Group applies a practical expedient and measures allowances for expected credit losses at an amount equal to the expected credit losses over the life of the instrument. The estimation is made on the basis of the assessment of risk of credit loss based on the available information on credit ratings of the banks at which the Group holds cash. If a rating falls below BBB(-), the Group assesses the degree of uncertainty and its impact on the likelihood of credit losses occurring.

Cash and cash equivalents

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

Prepayments and accrued income

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

Equity

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

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

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

Non-controlling interests

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

Dividend payment

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

Financial liabilities

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

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

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

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

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

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

Interest-bearing borrowings

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

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

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

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

Provisions

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

Employee benefits

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

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

Grants

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

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

Significant judgements and assumptions

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

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

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

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

Revenue recognition estimates

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

The Management Board of the Parent updates the projected results of a contract progressively, based on the best knowledge of the costs to be incurred, corresponding to the stages (known as 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 Group updates the contract budget progressively as additional information is obtained. Changes in the cost estimates are reflected in the change in the final margin of the contract.

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

Professional judgement on development work

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

- the expenditure was identified and measured correctly,
- the expenditure will generate economic benefits in the form of profits from the sale of game licences,
- development of individual games is feasible from a financial and technical point of view,
- the games and game components would be completed and marketed as separate licences.

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

Impairment of assets

Goodwill

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

Impairment of goodwill is determined by estimating the recoverable amount of the cash-generating unit to which the goodwill has been allocated. If the carrying amount of the unit exceeds the recoverable amount of the unit, the Group recognises an impairment loss, which is not reversible. If goodwill is a part of a cash-generating unit and the Group sells a part of the CGU’s business, the goodwill pertaining to the sold business is included in the carrying amount of the sold business for the purpose of calculating gain or loss on disposal of the part of business.

In such a case the goodwill disposed of is measured on the basis of the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Intangible assets and property, plant and equipment

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

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

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

Indications based on external sources of information:

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

Indications based on internal sources of information:

- evidence is available that the asset has become obsolete or physically damaged,
- significant changes in the extent to which, or manner in which, the asset is used or is expected to be used have taken place during the period, or are expected to take place in the near future, and the changes have had or will have a material adverse effect on the entity. Such changes include the asset becoming idle, plans to discontinue or restructure the operation to which the asset belongs, or plans to dispose of the asset before the previously expected date, and reassessment of the useful life of the asset from indefinite to finite.

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

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

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

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

Financial assets

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

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

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

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

Useful life of intangible assets and property, plant and equipment

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

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

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

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

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

Deferred tax assets and deferred tax liabilities

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

In reviewing the criteria for qualifying for tax relief at one of its subsidiaries, related to the subsidy of certain operating expenses, the Management Board of the Parent determined that the tax effects of the relief will only be recognised when it is probable that the relief will be granted, specifically upon receipt of the funds, in accordance with applicable tax regulations.

The Management Board of the Parent has estimated that in future reporting periods, sufficient taxable income from activities under standard taxation will be generated to offset tax losses from 2021-2022, totalling PLN 15,667 thousand. The deferred tax asset is 19% of that amount, i.e., PLN 2,977 thousand. In adherence to the principle of prudent valuation, the Management Board of the Parent has opted not to recognise a deferred tax asset for the tax loss incurred in 2020. The amount of the unrecognised asset is PLN 585 thousand. As at 31 December 2022, the amount of the unrecognised asset was PLN 2,295 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 15 July 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 Parent obtained a private letter ruling of 30 April 2020, according to which the Company has been using the IP Box tax relief in its corporate income tax settlements since 2019. Additionally, the Parent has obtained a private letter interpretation dated 6 March 2023, concerning the settlement of the IP Box tax relief within the self-publishing segment.

Share-based payments

Following the issue of subscription warrants by Group companies, the Group recognises and measures warrants in accordance with IFRS 2. The fair value of equity instruments granted is determined at the measurement date based on stock market prices. The Group measures warrants until they are exercised (or expire). Any change in their value is disclosed in the Group's profit or loss. The entire warrant issuance program is described in greater detail in Note 23.

Leases

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

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

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

The Group adopted the incremental borrowing rate used to discount future cash flows of 2.4%–10.1%, depending on the duration of the contract and the country in which a given Group company operates. For a detailed description of the estimates, see Note 16.

Amendments to International Financial Reporting Standards

Amendments to standards and interpretations applied by the Group as of 2023

New or revised standards and interpretations effective as of 1 January 2023 and their effect on the Group's consolidated financial statements:

- **New IFRS 17 *Insurance Contracts***

  The new standard governs recognition, measurement, presentation and disclosure of insurance and reinsurance contracts. The standard replaced the existing IFRS 4. The standard is effective for annual periods beginning on or after 1 January 2023.

  The new standard does not affect the financial statements of the Group, as the contracts it holds do not meet the definition of insurance contracts.

- **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 1 January 2023.

  The amendment did not affect the Group's 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 standardised 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 1 January 2023.

  The amendment did not affect the Group's 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 1 January 2023.

  The amendment did not affect the Group's financial statements.

- **Amendment 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 1 January 2023.

  The amendment did not affect the Group's financial statements.

- **Amendment to IAS 12 *Income Taxes***

  The amendment introduces a temporary exception to the accounting for deferred tax assets and liabilities arising from the implementation of international tax reform (Pillar Two) and a requirement to make additional disclosures. The amendment is effective for annual periods beginning on or after 1 January 2023.

The amendment did not affect the Group's financial statements.

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

Early application of standards or interpretations

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

Published standards and interpretations that are not effective for periods beginning on 1 January 2023 and their impact on the Group's financial statements:

As at the date of issue of these consolidated financial statements, the following new or amended standards and interpretations effective for annual periods subsequent to 2023 were published. The list also includes amendments, standards and interpretations published but not yet endorsed by the European Union.

- **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 1 January 2024.

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

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

  The Board clarified that covenants with which the entity must comply in the future do not affect the classification of a liability as current or non-current as at the reporting date. However, the entity should disclose such covenants in the notes to the financial statements. The amendment is effective for annual periods beginning on or after 1 January 2024.

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

- **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 1 January 2024.

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

- **Amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments. Disclosures***

  The amendments specify the characteristics of arrangements for financing liabilities to suppliers, commonly known as reverse factoring arrangements, and mandate the disclosure of details about contracts with suppliers. This includes information on the contract terms and conditions, the amounts of these liabilities, payment terms, and associated liquidity risks. The amendments are effective for annual periods beginning on or after 1 January 2024.

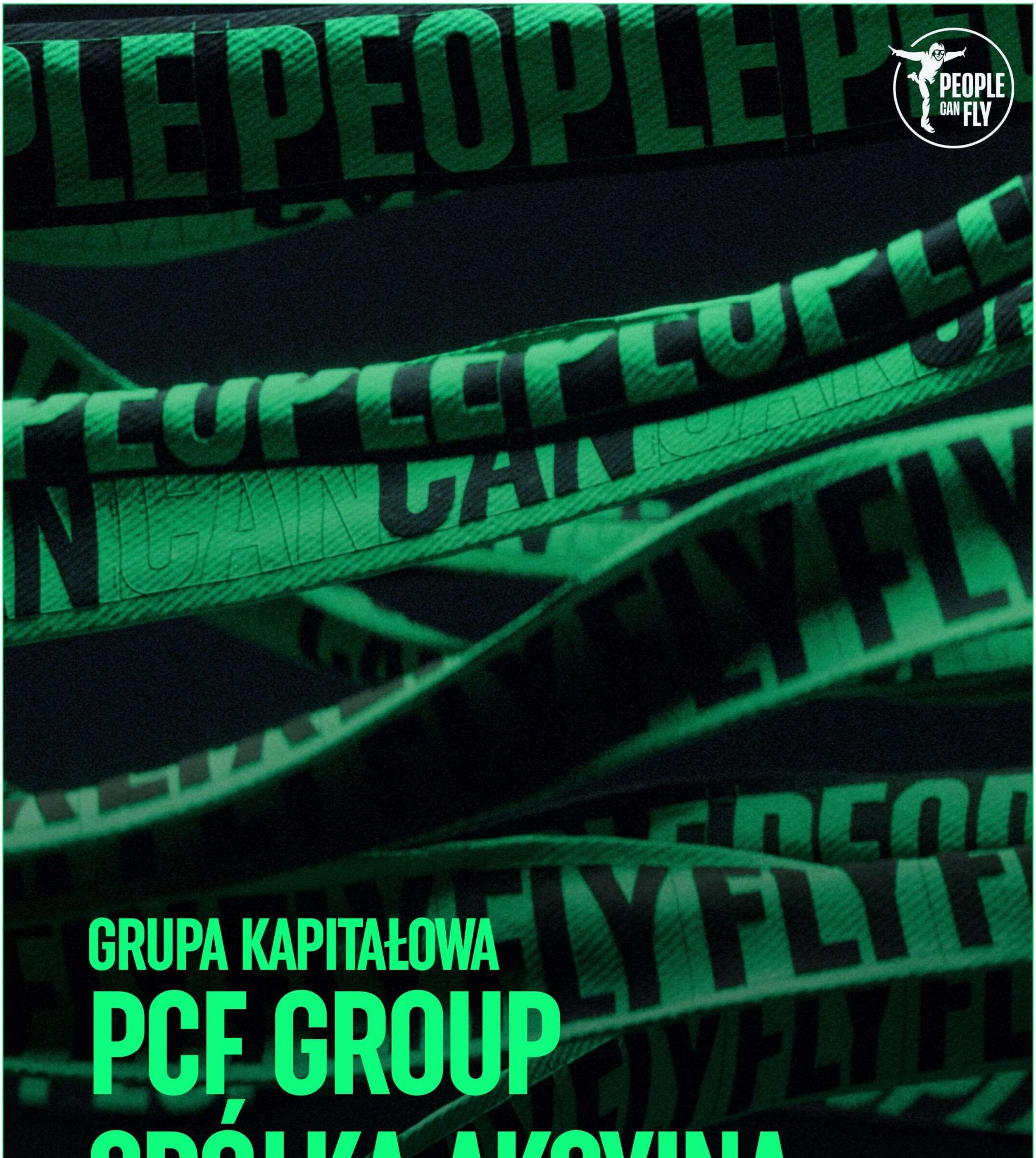
The Group does not expect the amendments to have an effect on its financial statements, as the Group does not enter into contracts affected by the amendments.

- **Amendment to IAS 21 *The Effects of Changes in Foreign Exchange Rates***

  The amendment clarifies how an entity should assess whether a currency is convertible and how it should determine the exchange rate in the event of non-convertibility, and requires disclosures that allow users of financial statements to understand the impact of currency non-convertibility. The amendment is effective for annual periods beginning on or after 1 January 2025.

  The Group estimates that the amendments will not affect its financial statements.

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



GRUPA KAPITAŁOWA

PCF GROUP SPÓŁKA AKCYJNA

ROCZNE SKONSOLIDOWANE SPRAWOZDANIE FINANSOWE

ZA ROK OBROTOWY ZAKOŃCZONY 31 GRUDNIA 2023 ROKU

3. Revenue and operating segments

The Group divides its operations into four operating segments:

- contract development of video games (development fee),
- copyrights to developed games (royalties),
- self-publishing (licence fees),
- other activities.

In 2023, the **contract development segment** included primarily revenue from, Project Gemini, a game development project carried out by the Group with Square Enix Limited. Positive cash flows from this segment enabled the Group to partially cover expenditure on games that the Group intends to publish on its own in the self-publishing model. In 2023, the consideration received from Square Enix Limited in this segment accounted for approximately 75% of total revenue.

Furthermore, following the execution of a development and publishing contract with Microsoft Corporation on 13 June 2023, the Group began to recognise revenue from Project Maverick, a game development and publishing project.

In 2022, the Group generated revenue from game development projects carried out mainly with two publishers: Square Enix Limited and Take-Two Interactive Software, Inc.

Project Gemini

Throughout 2023, the Group carried out work commissioned by the publisher Square Enix Limited under content riders to the production and publishing agreement. On 24 November 2023, the Group engaged in strategic discussions with Square Enix Limited regarding the structure of the game Project Gemini and the terms of further collaboration on Project Gemini, details of which are described in Note 32.

Project Maverick

The Group is performing a contract to develop an AAA game based on intellectual property rights of Microsoft Corporation.

The **copyrights (royalties) segment** encompassed revenue that the Group derives from contract consideration (royalties) for previously produced games.

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

Self-publishing segment (licence fees)

The Group also undertakes projects involving the development and self-publishing of its own games (self-publishing). Except for 'Green Hell VR', which was developed and released by Incuvo S.A., a subsidiary of the Parent, and 'Bulletstorm VR', also produced by Incuvo S.A., this model positions the Parent as responsible for game production. The production is based on either existing or newly developed intellectual property (IP) held by the Parent. The games produced under this arrangement are published by another Group company, People Can Fly Ireland Limited. People Can Fly Ireland Limited engages in publishing activities, which include promotion, distribution, and sale of games produced by the Parent, based on a license granted by the Parent for the games it has developed.

Revenue recognised by People Can Fly Ireland Limited comprises the licensing fees charged for each game sold to the end user, adjusted for the profits earned by intermediary distribution platforms.

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The **other activities** segment primarily includes expenditure on the 'PCF Framework', a software system developed by the Group. This framework serves as an overlay for the Unreal Engine graphics engine, designed to facilitate and optimise the development of video games.

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

In the twelve months ended 31 December 2023, there were no changes to the Group's accounting policies with respect to the identification of operating segments and the principles for measuring revenue, profit or loss and assets of the segments presented in the Group's most recent full-year consolidated financial statements.

	Contract development of video games (development fee)	Copyrights to developed games (royalties)	Self-publishing (licence fees)	**Total**
1 Jan–31 Dec 2023				
Region				
Europe	106,901	24	4,845	**111,770**
Other countries	30,421	1,191	6,742	**38,354**
Total revenue	**137,322**	**1,215**	**11,587**	**150,124**
Product line				
Games	137,322	1,215	11,587	**150,124**
Total revenue	**137,322**	**1,215**	**11,587**	**150,124**
Timing of transfer of goods/services				
At a point in time	-	1,215	-	**1,215**
Over time	137,322	-	11,587	**148,909**
Total revenue	**137,322**	**1,215**	**11,587**	**150,124**
1 Jan–31 Dec 2022				
Region				
Europe	117,863	24	15,265	**133,152**
Other countries	35,152	1,564	1,617	**38,333**
Total revenue	**153,015**	**1,588**	**16,882**	**171,485**
Product line				
Games	153,015	1,588	16,882	**171,485**
Total revenue	**153,015**	**1,588**	**16,882**	**171,485**
Timing of transfer of goods/services				
At a point in time	-	1,588	-	**1,588**
Over time	153,015	-	16,882	**169,897**
Total revenue	**153,015**	**1,588**	**16,882**	**171,485**

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

	Contract development of video games (development fee)	Copyrights to developed games (royalties)	Self-publishing (licence fees)	Other activities	**Total**
1 Jan–31 Dec 2023					
Revenue from external customers	137,322	1,215	11,587	-	**150,124**
Total revenue	137,322	1,215	11,587	-	**150,124**
Segment's operating profit (loss)	20,290	1,191	(107,933)	-	**(86,452)**
Other information:					
Amortisation and depreciation	16,610	-	3,074	-	**19,684**
Impairment of non-current non-financial assets	-	-	69,377	-	**69,377**
Segment's assets as at 31 Dec 2023	353,092	-	131,426	28,943	**513,461**
Expenditure on segment's intangible assets and property, plant and equipment	9,158	-	120,329	15,770	**145,257**
1 Jan–31 Dec 2022					
Revenue from external customers	153,015	1,588	16,882	-	**171,485**
Total revenue	153,015	1,588	16,882	-	**171,485**
Segment's operating profit (loss)	24,799	1,545	5,807	(1,073)	**31,078**
Other information:					
Amortisation and depreciation	13,630	42	2,373	1,073	**17,118**
Segment's assets as at 31 Dec 2022	230,577	-	102,658	17,569	**350,804**
Expenditure on segment's intangible assets and property, plant and equipment	12,344	-	84,585	14,354	**111,283**

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

	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Segments' revenue		
Total revenue of operating segments	150,124	171,485
Revenue	**150,124**	**171,485**
Segments' profit or loss		
Segments' operating profit (loss)	(86,452)	31,078
Operating profit (loss)	**(86,452)**	**31,078**
Finance income	2,248	1,771
Finance costs	(7,032)	(2,414)
Profit (loss) before tax	**(91,236)**	**30,435**

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	31 Dec 2023	31 Dec 2022
Segments' assets		
Total assets of operating segments	513,461	350,804
Total assets	**513,461**	**350,804**

4. Intangible assets

	Patents, licenses and software	Development work	Development work in progress	**Total**
1 Jan–31 Dec 2023				
Net carrying amount as at 1 Jan 2023	**4,786**	**12,527**	**112,710**	**130,023**
Increase (purchase, development)	5,184	7,131	126,517	**138,832**
Other changes (reclassification, transfers, etc.)	-	15,891	(35,549)	**(19,658)**
Amortisation	(5,564)	(6,638)	-	**(12,202)**
Impairment losses	-	-	(69,377)	**(69,377)**
Net exchange differences on translation	(177)	-	65	**(112)**
Net carrying amount as at 31 Dec 2023	**4,229**	**28,911**	**134,366**	**167,506**
1 Jan–31 Dec 2022				
Net carrying amount as at 1 Jan 2022	**4,298**	**501**	**25,939**	**30,738**
Increase (purchase, development)	5,204	1,629	98,939	**105,772**
Other changes (reclassification, transfers, etc.)	-	13,866	(13,866)	**-**
Amortisation	(4,706)	(3,469)	-	**(8,175)**
Net exchange differences on translation	(10)	-	1,698	**1,688**
Net carrying amount as at 31 Dec 2022	**4,786**	**12,527**	**112,710**	**130,023**

In terms of value, the most significant components of the 'Patents, licences, software' category are two licences for the Unreal Engine game engine. The carrying amount as of 31 December 2023 was PLN 735 thousand while on 31 December 2022, it stood at PLN 1,253 thousand. The amortisation period, calculated from the initial recognition, has been estimated at 10 years. The useful life of graphics engines is estimated based on the knowledge of the Management Board of the Parent and the planned use of the engines in the current game development projects. As at 31 December 2022, the engines were used to develop games.

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

As at 31 December 2023, the most material components of development work in progress were:

- development of new games to be self-published (see Note 32 for details);
- further development of PCF Framework (see Note 32 for details).

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

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

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

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	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Cost of sales	9,052	6,577
General and administrative expenses	1,980	1,119
Amortisation capitalised under development work	1,516	479
Total amortisation of intangible assets	**12,548**	**8,175**

As of 31 December 2023, the Group conducted an analysis of indicators for potential impairment of intangible assets and identified components requiring impairment testing. Consequently, in 2023 a total impairment loss of PLN 69,377 thousand was recognised on three projects:

Dagger impairment loss of PLN 68,331 thousand,

Blue impairment loss of PLN 589 thousand,

Dolphin impairment loss of PLN 457 thousand.

For more information on the recognition of impairment losses on the Dagger project, see Note 33.

5. Property, plant and equipment

	Buildings and structures	Machinery and equipment	Other property, plant and equipment	Property, plant and equipment under construction	**Total**
1 Jan–31 Dec 2023					
Net carrying amount as at 1 Jan 2023	**3,452**	**7,386**	**805**	**137**	**11,780**
Increase (purchase, construction)	47	5,667	459	252	**6,425**
Decrease (disposal, retirement)	-	(47)	-	-	**(47)**
Other changes (reclassification, transfers, etc.)	(15)	115	24	(130)	**(6)**
Depreciation	(506)	(4,484)	(419)	-	**(5,409)**
Net exchange differences on translation	(142)	(448)	(47)	(1)	**(638)**
Net carrying amount as at 31 Dec 2023	**2,836**	**8,189**	**822**	**258**	**12,105**
1 Jan–31 Dec 2022					
Net carrying amount as at 1 Jan 2022	**2,895**	**7,269**	**548**	**134**	**10,846**
Increase (purchase, construction)	990	4,403	56	62	**5,511**
Decrease (disposal, retirement)	-	(11)	-	-	**(11)**
Other changes (reclassification, transfers, etc.)	-	-	483	(62)	**421**
Depreciation	(466)	(4,365)	(287)	-	**(5,118)**
Net exchange differences on translation	33	90	5	3	**131**
Net carrying amount as at 31 Dec 2022	**3,452**	**7,386**	**805**	**137**	**11,780**

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

	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Cost of sales	3,283	3,542
General and administrative expenses	1,851	1,310
Depreciation capitalised under development work	1,330	266
Total depreciation of property, plant and equipment	**6,464**	**5,118**

As at each reporting date, the Group analyses indications of impairment of property, plant and equipment. No indication of a need to test the assets for impairment was identified as at 31 December 2023 and 31 December 2022.

As at 31 December 2023 and 31 December 2022, 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**
1 Jan–31 Dec 2023				
Net carrying amount as at 1 Jan 2023	**28,516**	**952**	**627**	**30,095**
Increase (leases)	5,245	-	-	**5,245**
Decrease (disposal, retirement)	(95)	-	-	**(95)**
Depreciation	(4,558)	(315)	(142)	**(5,015)**
Net exchange differences on translation	(1,433)	-	-	**(1,433)**
Net carrying amount as at 31 Dec 2023	**27,675**	**637**	**485**	**28,797**
1 Jan–31 Dec 2022				
Net carrying amount as at 1 Jan 2022	**27,401**	**167**	**637**	**28,205**
Increase (leases)	4,932	1,008	617	**6,557**
Other changes (reclassification, transfers, etc.)	-	-	(483)	**(483)**
Depreciation	(4,250)	(223)	(144)	**(4,617)**
Net exchange differences on translation	433	-	-	**433**
Net carrying amount as at 31 Dec 2022	**28,516**	**952**	**627**	**30,095**

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 Kraków,
- lease contract for office space in Newcastle,
- lease contract for office space in Montreal.

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

Depreciation of right-of-use assets is presented in the following items of the consolidated statement of profit or loss:

	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Cost of sales	205	142
General and administrative expenses	4,735	4,428
Depreciation capitalised under development work	75	47
Total depreciation and of right-of-use assets	**5,015**	**4,617**

PCF GROUP SPÓŁKA AKCYJNA

GROUP

FULL-YEAR CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED DECEMBER 31ST 2023

PCF GROUP SPÓŁKA AKCYJNA GROUP Full-year consolidated financial statements for the financial year ended 31 December 2023 (all amounts in PLN thousand, unless stated otherwise)

7. Goodwill

The following changes in goodwill occurred during the 12 months to 31 December 2023.

	31 Dec 2023	31 Dec 2022
As at beginning of period	**55,503**	**54,604**
Increase		
Acquisition/loss of control of companies	-	141
Failure to achieve planned earn-out	-	(317)
Exchange differences	**(3,360)**	**1,075**
As at end of period	**52,143**	**55,503**

	31 Dec 2023	31 Dec 2022
Goodwill at cost	52,803	52,803
Loss of control of companies	141	141
Failure to achieve planned earn-out	(317)	(317)
Exchange differences	(484)	2,876
Goodwill, net of impairment losses	**52,143**	**55,503**

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

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

	31 Dec 2023	31 Dec 2022
Balance at beginning of period		
Deferred tax assets	4,499	2,188
Deferred tax liability	6,566	4,976
Net deferred tax at beginning of period	**(2,067)**	**(2,788)**
Changes in period recognised in:		
Profit or loss	23,250	753
Other (net exchange differences on translation)	145	(32)
Net deferred tax at end of period, including:	**21,328**	**(2,067)**
Deferred tax assets	28,607	4,499
Deferred tax liability	7,279	6,566

The Management Board of the Parent has estimated that in future reporting periods, sufficient taxable income from activities under standard taxation will be generated to offset tax losses from 2021-2022, totalling PLN 15,667 thousand. The deferred tax asset is 19% of that amount, i.e., PLN 2,977 thousand. In adherence to the principle of prudent valuation, the Management Board of the Parent has opted not to recognise a deferred tax asset for the tax loss incurred in 2020. The amount of the unrecognised asset is PLN 585 thousand. As at 31 December 2022, the amount of the unrecognised asset was PLN 2,295 thousand.

The consolidated statement of financial position prepared as at 31 December 2023 presents a deferred tax liability amounting to PLN 911 thousand, which pertains to the subsidiary Game On Creative Inc., based in Montreal, Canada and operating within the Canadian tax jurisdiction.

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Deferred tax assets:

Temporary differences	Balance at beginning of period	Change in period: profit or loss	**Balance at end of period**
As at 31 Dec 2023			
Assets:			
Intangible assets	17	15,260	**15,277**
Property, plant and equipment	63	47	**110**
Trade receivables	-	(9)	**(9)**
Contract assets	(62)	(13)	**(75)**
Other assets	193	282	**475**
Liabilities:			
Provisions for employee benefit obligations	32	(1)	**31**
Other provisions	354	(264)	**90**
Trade payables	7	(5)	**2**
Contract liabilities	-	460	**460**
Short-term prepayments and accrued income	-	3,982	**3,982**
Leases	2,980	(536)	**2,444**
Other:			
Unsettled tax losses	110	2,867	**2,977**
Expenses constituting tax expense of future period	805	2,038	**2,843**
Total	**4,499**	**24,108**	**28,607**
of which:			
Deferred tax assets at tax rate of 5%	846	(846)	**-**
Deferred tax assets at tax rate of 19%	3,653	24,954	**28,607**

Temporary differences	Balance at beginning of period	Change in period: profit or loss	**Balance at end of period**
As at 31 Dec 2022			
Assets:			
Intangible assets	24	(7)	**17**
Property, plant and equipment	-	63	**63**
Trade receivables	15	(15)	**-**
Contract assets	180	(242)	**(62)**
Other assets	9	184	**193**
Liabilities:			
Provisions for employee benefit obligations	6	26	**32**
Other provisions	50	304	**354**

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Trade payables	30	(23)	**7**
Leases	1,486	1,494	**2,980**
Other:			
Unsettled tax losses	-	110	**110**
Expenses constituting tax expense of future period	388	417	**805**
Total	**2,188**	**2,311**	**4,499**
of which:			
Deferred tax assets at tax rate of 5%	1,236	(390)	**846**
Deferred tax assets at tax rate of 19%	952	2,701	**3,653**

Deferred tax liabilities:

Temporary differences	Balance at beginning of period	Change in period: profit or loss	Net exchange differences on translation	**Balance at end of period**
As at 31 Dec 2023				
Assets:				
Intangible assets	45	2,046	-	**2,091**
Property, plant and equipment	1,735	(497)	(109)	**1,129**
Right of use	2,542	(435)	-	**2,107**
Trade receivables	-	(26)	-	**(26)**
Contract assets	1,664	(118)	-	**1,546**
Other assets	535	(114)	(36)	**385**
Liabilities:				
Trade payables	45	2	-	**47**
Total	**6,566**	**858**	**(145)**	**7,279**
of which:				
Deferred tax liability at tax rate of 5%	1,644	(1,080)	-	**564**
Deferred tax liability at tax rate of 19%	4,922	1,938	(145)	**6,715**

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

9. Contract assets and liabilities

Contract assets

Where a game is developed by the producer (developer) in cooperation with the publisher, the rules of cooperation between the parties are laid down in a development and publishing agreement. Under these agreements, the Parent undertakes to develop a game and deliver it to the publisher in accordance with the agreed-upon milestone schedule. The scope of a game development project carried out by the Parent comprises all work necessary to create a finished product which is ready for sale by the publisher. The development and publishing agreements are framework agreements, which:

- are supplemented, in keeping with the progress of game development work, with specific contracts between the parties in the form of content riders (also referred to as schedules). Each content rider defines the parties' rights and obligations with respect to a specific contracted game development milestone or group of such milestones; or
- define the milestone schedule for the game production.

The parties' rights and obligations concern, without limitation, deliverables and their completion dates and the amount and form of the consideration payable to the developer by the publisher. As a rule, consideration is not paid until a particular milestone is achieved and accepted by the publisher. Upon receipt of a milestone acceptance notice from the publisher, the Group may invoice the publisher for the milestone.

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

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

Contract assets

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

Short-term receivables

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

Contract liabilities

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

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

	31 Dec 2023	31 Dec 2022
Gross contract assets	8,611	30,451
Impairment of contract assets	-	-
Contract assets	**8,611**	**30,451**
Contract liabilities	**3,863**	**2,792**

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

The estimated amount of expected credit loss allowance for contract assets as at 31 December 2023 and as at 31 December 2022 was immaterial.

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

	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Contract assets:		
Contract assets at beginning of period	30,451	35,293
Revenue taken to contract assets in period	23,713	117,127
Reclassification to trade receivables	(45,545)	(121,969)
Net exchange differences on translation	(8)	-
Contract assets at end of period	**8,611**	**30,451**
Contract liabilities:		
Contract liabilities at beginning of period	2,792	2,030
Performance obligations recognised in reporting period as contract liabilities	2,422	762
Recognition of revenue included in contract liabilities at beginning of period	(1,212)	-
Net exchange differences on translation	(139)	-
Contract liabilities at end of period	**3,863**	**2,792**

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

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

10. Trade and other receivables

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

	31 Dec 2023	31 Dec 2022
Financial assets (IFRS 9):		
Trade receivables	38,387	11,500
Net trade receivables	**38,387**	**11,500**
Retentions (security deposits) under contracts	1,660	1,439
Other security deposits paid	380	188
Other receivables	18,193	10,229
Impairment loss on other financial receivables	-	(99)
Other net financial receivables	**20,233**	**11,757**
Financial receivables	**58,620**	**23,257**
Non-financial assets (non-IFRS 9):		
Taxes, social security and other receivables	1,173	191
Other non-financial receivables	57	-
Non-financial receivables	**1,230**	**191**

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Total short-term receivables	**59,850**	**23,448**

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

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

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

For trade receivables, the Group applies a practical expedient and measures the allowance for expected credit losses at an amount equal to the expected credit losses over the life of the instrument. In estimating expected credit losses over the life of the instrument, the Group uses historical data and current information to determine the amount of the expected losses. In the opinion of the Group, the counterparties with whom it engages are considered low-risk, and therefore, the risk of credit losses is also deemed to be minimal. As at 31 December 2023 and 31 December 2022, the Group did not recognise an expected credit loss allowance for receivables as its estimated amount was immaterial.

11. Prepayments and accrued income

Prepayments comprise costs that the Group paid in advance.

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

	Current prepayments and accrued income		Non-current prepayments and accrued income	
	31 Dec 2023	31 Dec 2022	**31 Dec 2023**	31 Dec 2022
Prepayments	2,623	1,022	57	277
Assets – prepayments and accrued income	**2,623**	**1,022**	**57**	**277**
Liabilities – accrued expenses and deferred income				
Grants	1,659	-	2,544	-
Advance payments received for project execution	-	-	-	7,477
Deferred income	18,064	203	3,631	2,340
Liabilities – total accrued expenses and deferred income	**19,723**	**203**	**6,175**	**9,817**

12. Cash and cash equivalents

	31 Dec 2023	31 Dec 2022
Cash at bank in PLN-denominated accounts	37,122	12,637
Cash at bank in foreign currency accounts	86,894	55,346
Total cash and cash equivalents	**124,016**	**67,983**

As of 31 December 2023, the Group did not have any restricted cash (31 December 2022: restricted cash in the Parent's VAT account was PLN 91 thousand). As at 31 December 2023 and 31 December 2022, the Group had no cash equivalents.

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13. Financial assets and liabilities

Categories of financial instruments in accordance with IFRS 9	Financial assets at amortised cost	Non-IFRS 9	**Total**
As at 31 Dec 2023			
Receivables and loans advanced	117	-	**117**
Current assets:			
Current tax assets	-	1,173	**1,173**
Trade and other receivables	58,620	57	**58,677**
Other current financial assets*	35,397	-	**35,397**
Cash and cash equivalents	124,016	-	**124,016**
Total financial assets	**218,150**	**1,230**	**219,380**

Categories of financial instruments in accordance with IFRS 9	Financial assets at amortised cost	Non-IFRS 9	**Total**
As at 31 Dec 2022			
Non-current assets:			
Current assets:			
Trade and other receivables	23,257	191	**23,448**
Cash and cash equivalents	67,983	-	**67,983**
Total financial assets	**91,240**	**191**	**91,431**

* commercial paper

Financial assets at amortised cost (IFRS 9.4.1.2.)

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

Categories of financial instruments in accordance with IFRS 9	Financial liabilities at amortised cost	Non-IFRS 9	**Total**
As at 31 Dec 2023			
Non-current liabilities:			
Borrowings, other debt instruments	1,637	-	**1,637**
Leases	-	23,598	**23,598**
Current liabilities:			
Current tax liabilities	-	7,147	**7,147**
Trade and other payables	12,692	548	**13,240**
Borrowings, other debt instruments	1,490	-	**1,490**
Leases	-	5,988	**5,988**
Total financial liabilities	**15,819**	**37,281**	**53,100**

Categories of financial instruments in accordance with IFRS 9	Financial liabilities at amortised cost	Non-IFRS 9	**Total**
As at 31 Dec 2022			
Non-current liabilities:			
Borrowings, other debt instruments	3,490	-	**3,490**
Leases	14,972	12,850	**27,822**
Current liabilities:			
Current tax liabilities	-	7,591	**7,591**

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Trade and other payables	11,167	-	**11,167**
Borrowings, other debt instruments	2,089	-	**2,089**
Leases	1,035	3,163	**4,198**
Total financial liabilities	**32,753**	**23,604**	**56,357**

Financial liabilities measured at amortised cost (IFRS 9.4.2.1)

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

Other information on financial instruments

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

	31 Dec 2023		31 Dec 2022	
Class of financial instrument	Fair value	Carrying amount	Fair value	Carrying amount
Assets:				
Trade and other receivables	58,794	58,794	23,448	23,448
Other classes of financial assets*	35,397	35,397	-	-
Cash and cash equivalents	124,016	124,016	67,983	67,983
Liabilities:				
Borrowings, other debt instruments	3,127	3,127	5,579	5,579
Leases	29,586	29,586	32,020	32,020
Trade and other payables	13,240	13,240	11,167	11,167

* commercial paper

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 31 December 2023 and 31 December 2022, the carrying amount of the Group's financial instruments was equal to their fair value due to the short maturities of those instruments, their cash nature, variable interest rate or immaterial difference between the original effective interest rates and the actual market rates.

The subsidy described in Note 15 is disclosed in the line item 'Borrowings and other debt instruments'. The subsidy agreement, part of the government's support programme for entrepreneurs affected by the COVID-19 pandemic, was established under preferential terms that deviate from standard market terms. Nevertheless, this fact does not have a significant impact on the fair value measurement of the subsidy. In 2023, the liabilities were settled.

14. Equity

Share capital

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

	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Shares issued and paid up:		
Number of shares at beginning of period	29,950,226	29,950,226
Issue of Series E shares	136,104	-
Issue of Series F shares	3,343,037	-
Issue of Series G shares	2,510,904	-
Number of shares at end of period	**35,940,271**	**29,950,226**

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

Shareholding structure

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

	Number of shares	Number of voting rights	Total par value (PLN '000)	Ownership interest
As at 31 Dec 2023				
Sebastian Wojciechowski	14,989,480	14,989,480	300	41.71%
Other shareholders	20,950,791	20,950,791	419	58.29%
Total	**35,940,271**	**35,940,271**	**719**	**100.00%**

	Number of shares	Number of voting rights	Total par value (PLN '000)	Ownership interest
As at 31 Dec 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%**

Share premium

	31 Dec 2023	31 Dec 2022
Share premium on Series B shares	100,246	100,246
Costs of issue of Series B shares	(3,119)	(3,119)
Costs of issue of Series C shares/ warrants	(14)	-
Share premium on Series D shares	25,135	25,135
Costs of issue of Series D shares	(393)	(393)
Share premium on Series E shares	5,663	-
Costs of issue of Series E shares recognised as reduction of statutory reserve funds	(19)	-
Statutory reserve funds created from share premium – Series F shares	134,323	-
Costs of issue of Series F shares recognised as reduction of statutory reserve funds	(2,324)	-
Statutory reserve funds created from share premium – Series G shares	100,888	-
Costs of issue of Series G shares recognised as reduction of statutory reserve funds	(2,732)	-
Total	**357,654**	**121,869**

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Other components of equity

	31 Dec 2023	31 Dec 2022
Other components of equity created prior to transition to IAS	37,246	37,246
Other components of equity – incentive scheme	10,416	10,207
Measurement of subscription warrants due to publisher Square Enix Limited	2,694	2,694
Changes in Group structure (transactions with non-controlling shareholders)	(4,297)	-
Exchange differences on translation of foreign operations	(474)	4,841
Total	**45,585**	**54,988**

Non-controlling interests

	31 Dec 2023	31 Dec 2022
Incuvo S.A.	5,124	5,323
Total	**5,124**	**5,323**

	31 Dec 2023	31 Dec 2022
As at beginning of period	5,323	2,081
Change in structure of the group – Incuvo S.A.	(1,341)	-
Share in net profit/(loss) – Incuvo S.A.	1,142	3,458
Deconsolidation – Spectral Applications Sp. z o.o. w likwidacji (in liquidation)	-	(216)
As at end of period	**5,124**	**5,323**

15. Borrowings

The Group's debt instruments as at 31 December 2023 are described below.

- **Credit facility agreement between Game On Creative Inc. and Royal Bank of Canada**
  The purpose of the loan was to finance management buyout associated with the Parent's acquisition of Game On Creative Inc. ('Game On'). Game On repays the facility in equal monthly instalments of approximately CAD 42 thousand. As at 31 December 2023, the balance outstanding under the facility was CAD 1,052 thousand.
- **Credit facility agreement between People Can Fly Canada Inc. and the Bank of Montreal**
  The credit agreement pertains to demand revolving facilities: (1) a credit facility of up to CAD 1,200 thousand, intended to finance working capital and general corporate needs of People Can Fly Canada Inc. ('PCF Canada'), and (2) a credit facility of up to CAD 8,000 thousand, intended to prefinance future tax credits in Canada.
  The security package, governed by Canadian law, includes: (1) the Parent's guarantee, (2) First Ranking General Security Agreement over all movable assets of PCF Canada (i.e., a variable pool of movables and property rights), (3) First Ranking Hypothec of CAD 11,040 thousand over all movable assets of PCF Canada, (4) subordination of corporate loans advanced by the Parent, and (5) identification of the bank as an additional insured in PCF Canada's insurance policies.

On 24 May 2023, the Parent issued an unsecured guarantee to the bank for up to CAD 9,200 thousand to secure the bank's claims against PCF Canada under the agreement and the security provided. Both credit facilities are repayable on demand and can be renewed annually on terms agreed by the parties. The interest rate on the credit facilities for each interest period is an annual interest rate being the sum of an agreed margin and the base rate (based on the Canadian Prime Rate).

The fee for granting the credit facilities was determined on standard arm's length terms applied for financial instruments of this kind.

The agreement includes standard covenants, such as restrictions on changing the principal business and conditions under which new debt financing may be incurred.

In the event of any breach of the agreement, the bank retains standard rights, including but not limited to the right to terminate the agreement or suspend the funding.

As at 31 December 2023, the balance outstanding under the facility was CAD 0 thousand.

- **Credit facility agreement between PCF Group S.A. and Bank Polska Kasa Opieki S.A.**

  On 12 October 2023, the Parent, as the borrower, and Bank Polska Kasa Opieki S.A. ('Bank Pekao'), as the lender, executed: (1) a revolving credit facility agreement of up to PLN 30 million, and (2) a revolving credit facility agreement of up to EUR 4,426,444 (collectively the 'Credit Facility Agreements'), intended to finance costs related to work-for-hire development of video games (collectively the 'Credit Facilities'). The term of the revolving lines of credit and the final repayment date of both Credit Facilities is three years from the date of execution of the Credit Facility Agreements.

  The interest rate on the Credit Facilities for each interest period is an annual rate being the sum of an agreed fixed margin and the variable benchmark rates (WIBOR) (facility (1)) or EURIBOR (facility (2)). The fee for the provision of the Credit Facilities, as well as the fee for the provision of guarantees by Bank Gospodarstwa Krajowego, were determined on standard market terms applied for financial instruments of this kind.

  The security package with respect to the Credit Facilities includes: (1) financial pledges and registered pledges over the Parent's entire shareholding in Incuvo S.A. of Katowice, (2) financial pledges and registered pledges over bank accounts maintained for the Parent by Bank Pekao, (3) a statement made pursuant to Art. 777 of the Code of Civil Procedure whereby the Parent will submit to enforcement with respect to the obligation to pay any amounts due under the Credit Facility Agreements to Bank Pekao up to 150% of the amount of the Credit Facilities, (4) guarantees provided by Bank Gospodarstwa Krajowego up to 80% of the amount of the Credit Facilities, which will be secured with blank promissory notes together with promissory note declarations issued by the Parent to Bank Gospodarstwa Krajowego.

  The Credit Facilities will be disbursed subject to the fulfilment of typical conditions precedent to the disbursement of funds in such transactions.

  The Credit Facility Agreements also provide for standard covenants to be complied with by the Parent, such as restrictions on a change of its principal business and terms on which it may incur new debt financing. In the event of any breach of the Credit Facility Agreements, Bank Pekao has standard rights, including but not limited to the right to terminate the agreement or suspend the funding.

  Until the date of authorisation for issue of these consolidated financial statements, the Parent did not apply for disbursement of the Facilities.

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	Current liabilities		Non-current liabilities	
	31 Dec 2023	31 Dec 2022	**31 Dec 2023**	31 Dec 2022
Financial liabilities measured at amortised cost				
Borrowings and subsidies	1,490	2,089	1,637	3,490
Financial liabilities measured at amortised cost	**1,490**	**2,089**	**1,637**	**3,490**
Total borrowings, other debt instruments	**1,490**	**2,089**	**1,637**	**3,490**

16. Leases

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

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

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

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

	Buildings and structures	Machinery and equipment	Other property, plant and equipment	**Total**
As at 31 Dec 2023				
Non-current liabilities:	23,515	83	-	**23,598**
Current liabilities:	5,439	302	247	**5,988**
As at 31 Dec 2022				
Non-current liabilities:	27,131	430	261	**27,822**
Current liabilities:	3,643	347	208	**4,198**

For information on interest on lease liabilities for 2023, see Note 20.

For an analysis of the maturity dates of lease liabilities as at 31 December 2023, see Note 27.

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17. Trade and other payables

	31 Dec 2023	31 Dec 2022
Financial liabilities (IFRS 9):		
Trade payables	12,315	8,813
Purchase of non-current assets	119	92
Other financial liabilities	258	2,262
Financial liabilities	**12,692**	**11,167**
Non-financial liabilities (non-IFRS 9):		
Taxes, social security and other payables	548	-
Non-financial liabilities	**548**	**-**
Total current liabilities	**13,240**	**11,167**

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

PCF GROUP SPÓŁKA AKCYJNA

GROUP

FULL-YEAR CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED DECEMBER 31ST 2023

PCF GROUP SPÓŁKA AKCYJNA GROUP Full-year consolidated financial statements for the financial year ended 31 December 2023 (all amounts in PLN thousand, unless stated otherwise)

18. Employee benefits

Salaries, wages and other employee benefits

	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Salaries and wages	131,292	94,728
Social security	38,026	21,767
Training costs and other employee benefits	1,211	1,021
Future employee benefits (provisions for accrued holiday entitlements)	478	94
Total employee benefits expense	**171,007**	**117,610**

Employee benefit obligations and provisions

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

	31 Dec 2023	31 Dec 2022
Short-term employee benefits:		
Salaries and wages payable	497	734
Social security contributions payable	410	635
Provisions for accrued holiday entitlements	826	348
Short-term employee benefits	**1,733**	**1,717**
Total employee benefit obligations and provisions	**1,733**	**1,717**

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

19. Operating income and expenses

Costs by nature of expense

	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Amortisation and depreciation expense	22,626	17,910
Employee benefits	171,007	117,610
Raw materials and consumables used	1,843	3,085
Services	103,817	98,993
Taxes and charges	259	230
Other	2,193	1,751
Total costs by nature of expense	**301,745**	**239,579**
Capitalised development expenditure	(136,099)	(98,939)
Costs by nature of expense recognised in profit or loss	**165,646**	**140,640**
Cost of services sold	98,005	85,202
General and administrative expenses	67,641	55,438
Total	**165,646**	**140,640**

Costs by nature of expense include mainly salaries and wages of the Group's employees and independent contractors involved in game development and back office functions, lease of office space and services not related to game development. The year-on-year increase in general and administrative expenses in the 12 months ended 31 December 2023 was mainly attributable to:

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- overall increase in costs related to increased scale of operations, which translated into the need to expand the Group's development and back office resources;
- development of publishing structures in connection with the Group's plans to publish games on its own in the self-publishing segment.

Services

	1 Jan–31 Dec 2023	1 Jan–31 Dec 2021
Costs of services provided by third parties	67,474	66,263
Professional, legal and accounting services	21,056	19,182
Telecommunications, IT services, lease	4,428	5,531
Office maintenance costs	1,658	3,267
Other activities	9,201	4,750
Total	**103,817**	**98,993**

Other income

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

	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Gain on disposal of non-financial non-current assets	-	13
Grants	98	-
Other income	1,004	1,128
Total other income	**1,102**	**1,141**

Other expenses

Other expenses include the cost of recognised impairment losses on intangible assets related to three projects carried out by the Parent, as described in more detail in Note 4, as well as costs of purchase of medical services and other benefits for entities cooperating with the Group.

	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Impairment losses on property, plant and equipment and intangible assets	69,377	-
Impairment losses on financial receivables	-	118
Impairment losses on non-financial receivables	-	4
Other	2,655	786
Total other expenses	**72,032**	**908**

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

Losses on expected credit losses

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

Finance income

	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Interest income calculated using the effective interest rate:		
Cash and cash equivalents (deposits)	483	1,361
Loans and receivables	43	-
Financial assets measured at amortised cost	805	-
Interest income calculated using the effective interest rate	**1,331**	**1,361**
Gains on measurement and settlement of financial instruments other than at fair value through profit or loss:		
Shares in non-listed companies	-	558
Gains on measurement and settlement of financial instruments at fair value through profit or loss	**-**	**558**
Foreign exchange gains (losses):		
Cash and cash equivalents	655	-
Loans and receivables	132	-
Financial liabilities at amortised cost	84	(148)
Foreign exchange gains (losses)	**871**	**(148)**
Other finance income	46	-
Total finance income	**2,248**	**1,771**

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

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Finance costs

	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Interest expense on financial liabilities other than at fair value through profit or loss:		
Lease liabilities	1,441	1,362
Credit facilities	554	205
Non-bank borrowings	214	-
Trade and other payables	18	-
Interest expense on financial liabilities other than at fair value through profit or loss	**2,227**	**1,567**
Foreign exchange gains (losses) (+/-):		
Cash and cash equivalents	3,900	81
Loans and receivables	1,488	27
Financial liabilities at amortised cost	(663)	739
Foreign exchange gains (losses) (+/-)	**4,725**	**847**
Other finance costs	80	-
Total finance costs	**7,032**	**2,414**

The increase in lease interest expense was due to rising interest rates affecting the value of lease liabilities (described in more detail in Note 16).

21. Income tax

	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Current tax:		
Tax for reporting period	7,475	9,204
Adjustments to tax expense for previous periods	114	-
Current tax	**7,589**	**9,204**
Deferred tax:		
Origination and reversal of temporary differences	(23,250)	(753)
Deferred tax	**(23,250)**	**(753)**
Total income tax	**(15,661)**	**8,451**

On 30 April 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 2019-2023, the Parent utilised the IP Box tax relief in accordance with the ruling, thereby applying a preferential corporate income tax rate of 5% to qualifying income from eligible intellectual property rights as defined by the IP Box regulations. Accordingly, the current portion of the Parent's corporate income tax was

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calculated at the rate of 19% for taxable income from other sources and at the rate of 5% for the taxable income from eligible intellectual property rights (IP Box).

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

	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Profit or loss before tax	**(91,236)**	**30,435**
Income tax at 5%	1,182	3,093
Income tax at 19%	1,302	(4,973)
Reconciliation of income tax due to:		
Application of different tax rates to profit or loss of Group companies	182	3,197
Non-taxable income	(927)	(614)
Expenses which are permanently non-deductible	717	629
Use of previously unrecognised tax losses	(2,406)	(1,270)
Unrecognised deferred tax asset on tax losses	-	2,295
Taxable income not qualifying as accounting income	5,634	7,196
Technical settlement between 5% and 19% tax rates	(21,364)	(1,102)
Adjustments to tax expense for previous periods	19	-
Income tax	**(15,661)**	**8,451**
Average tax rate applied	**17.2%**	**27.8%**

22. Notes to the consolidated statement of cash flows

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

Item in statement of cash flows	Change in statement of financial position/statement of profit or loss	Change disclosed	**Difference**	Reason
Change in receivables	(35,346)	(17,418)	(17,928)	elimination of change in receivables related to prefinancing of future tax credits in Canada
Change in liabilities	2,073	1,819	254	elimination of change in liabilities on purchase of property, plant and equipment and intangible assets
Depreciation of property, plant and equipment	6,464	4,079	2,385	Depreciation capitalised under development work in progress
Amortisation of intangible assets	12,548	10,686	1,862	Depreciation capitalised under development work in progress
Depreciation of right-of-use asset	5,015	4,919	96	Depreciation capitalised under development work in progress

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23. Share-based payments

	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Warrant issue costs – Incuvo S.A.	209	-
Warrant issue costs – Square Enix	-	1,543

Warrant issue costs – Incuvo S.A.

The valuation of warrant issue costs of PLN 209 thousand recognised in the consolidated statement of profit or loss relates to the incentive scheme for key employees and independent contractors of the subsidiary Incuvo S.A. introduced in 2022. The scheme covers the years 2023-2025 and is measured as at the reporting date at the fair value of the granted equity instruments.

Warrant issue costs – Square Enix

On 29 August 2021, the Parent signed an investment agreement with Square Enix Limited defining the rights and obligations of the parties in connection with the issue of subscription warrants by the Parent under Resolution No. 5 of the Extraordinary General Meeting of the parent of 26 June 2020 on the issue of subscription warrants, conditional increase in the share capital through the issue of Series C ordinary shares, full waiver of the existing shareholders' pre-emptive rights to acquire all subscription warrants and pre-emptive rights to acquire all Series C shares, the seeking of admission and introduction of Series C shares to trading on the regulated market operated by the Warsaw Stock Exchange, conversion of Series C shares into book-entry form, authorisation to enter into an agreement on registration of Series C shares in the securities depository and amendment to the parent's Articles of Association. For details of the investment agreement, see Current Report No. 40/2021 of 29 August 2021.

In the performance of the investment agreement, on 17 November 2021, Square Enix Limited accepted the Parent's offer dated 11 October 2021 to acquire, at no cost, 90,000 Series A registered subscription warrants (Tranche A1 warrants) and 90,000 Series A registered subscription warrants (Tranche A2 warrants) issued by the Parent. Each warrant grants the right to subscribe for one Series C ordinary bearer share in the Parent, with a par value of PLN 0.02 per share, at an issue price of PLN 50 per share. Subsequently, on 10 December 2021, 6 June 2022, 7 October 2022, and 28 March 2023, the Parent's Management Board submitted further offers to the publisher to subscribe, at no cost, for 90,000 Series A registered subscription warrants for each of the following tranches: Tranche A3, Tranche A4, Tranche A5, and Tranche A6 (the final tranche). All the offers were accepted by the publisher on 18 January 2022, 30 June 2022, 1 November 2022 and 18 April 2023, respectively. Square Enix Limited acquired the right to subscribe for Series C shares upon subscription for the fourth tranche of the warrants. As at the date of authorisation of these consolidated financial statements, the Parent estimated that the maximum number of Series C shares that could be subscribed for by Square Enix Limited in connection with accepting all offers would represent approximately 1.5% of the Parent's share capital.

In 2021, due to the occurrence of the Grant Date, the subscription warrants were measured and recorded on 29 August 2021 in accordance with IFRS 2. The estimated value of warrants payable to Square Enix Limited, proportionate to the stage of service completion, has been assessed at approximately PLN 2,694 thousand.

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

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	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Balance of warrants granted since launch of incentive scheme as at 1 January	450,000	180,000
Number of warrants granted in period	90,000	270,000
Balance of warrants granted since launch of incentive scheme as at 31 December	**540,000**	**450,000**

The issue of warrants was accounted for in accordance with IFRS 2 *Share-based Payment*, and the Management Board of the Parent made the necessary estimates for the measurement and recognition of the issue. The Parent 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	30 Sep 2024	3.83	30.6%	0.5%
Tranche 2	30 Sep 2024	3.83	30.6%	0.5%
Tranche 3	30 Sep 2024	3.83	30.6%	0.5%
Tranche 4	30 Sep 2024	3.83	30.6%	0.5%
Tranche 5	30 Sep 2024	6.72	36.6%	0.7%
Tranche 6	30 Sep 2024	7.90	34.3%	1.0%

24. Earnings per share and dividends paid

Earnings per share

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

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

	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Number of shares used as denominator in the formula		
Weighted average number of ordinary shares	32,698,050	29,950,226
Dilutive effect of options convertible into shares	540,000	450,000
Diluted weighted average number of ordinary shares	33,238,050	30,400,226
Continuing operations		
Net profit (loss) from continuing operations	(75,575)	21,984
Basic earnings (loss) per share (PLN)	(2.31)	0.73
Diluted earnings (loss) per share (PLN)	(2.27)	0.72

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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)	(75,575)	21,984
Basic earnings (loss) per share (PLN)	(2.31)	0.73
Diluted earnings (loss) per share (PLN)	(2.27)	0.72

Dividends

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

25. Related-party transactions

Ultimate parent

The ultimate parent is Mr Sebastian Wojciechowski, By virtue of his being a major shareholder of the Parent, holding, as at the date of issue of these consolidated financial statements, 41.71% of the Parent shares, which confer 41.71% of total voting rights at the General Meeting of the Parent, as well as a special personal right to appoint and remove President of the Management Board. In addition, together with three other shareholders of the Parent, Sebastian Wojciechowski forms the Group of Qualifying Shareholders, vested with a special personal right to appoint a majority of the Supervisory Board members. Mr Wojciechowski is a natural person and does not prepare financial statements for public disclosure (International Accounting Standard 24 *Related Party Disclosures* ('IAS 24'), section 24.13).

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

Transactions with shareholders

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

12 months ended 31 Dec 2023	Sale	Purchase	Dividends
Shareholders of the Parent	4	4,481	-

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

As at 31 Dec 2023	Receivables	Liabilities	Borrowings

Shareholders of the Parent	-	228	-

As at 31 Dec 2022	Receivables	Liabilities	Borrowings
Shareholders of the Parent	-	-	-

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

26. Financial guarantees, contingent assets and liabilities

On 24 May 2023, the Parent's subsidiary People Can Fly Canada Inc. of Montreal, Canada ('PCF Canada') as the borrower, and the Bank of Montreal, as the lender, signed a credit facility agreement to grant PCF Canada two demand revolving facilities comprising: (1) a credit facility of up to CAD 1,200 thousand, intended to finance working capital and general corporate needs of PCF Canada, and (2) a credit facility of up to CAD 8,000 thousand, intended to finance future tax credits in Canada.

On 24 May 2023, the Parent issued an unsecured guarantee to the Bank of Montreal for up to CAD 9,200 thousand to secure the bank's claims against PCF Canada under the credit facility agreement and security provided under that agreement; for more details, see Note 15.

Apart from the performance bond agreement described above, as at 31 December 2023 the Group did not have any other financial guarantees or contingent assets or liabilities.

27. Risk related to financial instruments

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

The Group is exposed to the following risks:

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

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

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

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

Currency risks

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

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

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The table below presents the Group's primary currency exposures and the potential foreign exchange gains or losses that could result from a hypothetical 10% appreciation or depreciation of the złoty against the specified currencies.

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

	Amount in foreign currency:				
	EUR	USD	GBP	CAD	**Amount translated into PLN**
As at 31 Dec 2023					
Financial assets:					
Trade and other receivables	4,158	1,548	-	9,402	**52,092**
Cash and cash equivalents	8,794	8,474	1,794	2,966	**89,359**
Financial liabilities:					
Borrowings, other debt instruments	-	-	-	(1,052)	**(3,124)**
Leases	-	-	(72)	(5,622)	**(17,056)**
Trade and other payables	(1,146)	(2,830)	(22)	(2,472)	**(23,570)**
Total exposure to currency risk	**11,806**	**7,192**	**1,700**	**3,222**	**97,701**
As at 31 Dec 2022					
Financial assets:					
Trade and other receivables	247	1,155	-	3,287	**16,921**
Cash and cash equivalents	7,734	3,509	63	1,014	**55,345**
Financial liabilities:					
Borrowings, other debt instruments	-	-	-	(1,560)	**(5,068)**
Leases	-	-	-	(4,928)	**(16,009)**
Trade and other payables	(63)	(69)	(704)	(1,500)	**(9,200)**
Total exposure to currency risk	**7,918**	**4,595**	**(641)**	**(3,687)**	**41,989**

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

	Exchange rate movements	Effect on profit or loss / equity: EUR	USD	GBP	CAD	**Total**
As at 31 Dec 2023						
Increase in exchange rate	10%	5,133	2,830	850	957	**9,770**
Decrease in exchange rate	-10%	(5,133)	(2,830)	(850)	(957)	**(9,770)**
As at 31 Dec 2022						
Increase in exchange rate	10%	3,713	2,023	(339)	(1,198)	**4,199**
Decrease in exchange rate	-10%	(3,713)	(2,023)	339	1,198	**(4,199)**

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 31 December 2023, the Group was exposed to the risk of changes in interest on lease liabilities. In the reporting period, the Group did not take any specific measures to hedge against the interest rate risk. For detailed information on the Group's non-bank borrowings, see Note 15.

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

Credit risks

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

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

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

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Gross carrying amounts of and impairment losses on individual groups of receivables as at 31 December 2023 and 31 December 2022 are presented below.

			Past due trade receivables			
As at 31 Dec 2023	Contract assets	not past due	0 – 30 days	31 – 90 days	over 90 days	**Total**
Impairment loss rate	0%	0%	0%	0%	0%	
Gross carrying amount	8,611	58,677	-	-	-	**67,288**

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

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

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

Liquidity risk

The Group is exposed to liquidity risk, i.e., the risk of losing ability to timely meet its financial liabilities. The Group manages the liquidity risk by monitoring payment dates and cash requirements for short-term payments (current transactions monitored weekly) and long-term cash requirements based on cash-flow forecasts updated on a monthly basis. The cash requirement is compared with the available cash sources and the Group's placements of free cash. Furthermore, in accordance with the loan documentation executed with Bank Pekao on 12 October 2023, the Parent has access to revolving credit lines of up to PLN 30 million and EUR 4,426 thousand to finance costs associated with contracted game production. Additionally, in accordance with the credit documentation executed with the Bank of Montreal on 24 May 2023, the subsidiary of the Parent, People Can Fly Canada Inc., has access to two demand revolving credit facilities: (1) a credit facility of up to CAD 1,200 thousand, intended to finance working capital and general corporate needs of People Can Fly Canada Inc., and (2) a credit facility of up to CAD 8,000 thousand, intended to prefinance future tax credits in Canada. For a detailed description of the terms of financing provided to the Group by the banks, see Note 15.

As at the date of authorisation for issue of these consolidated financial statements, the Group had not utilised these instruments or any derivative instruments. The Group manages liquidity by forecasting the production schedule and timelines of delivery for individual milestones to the publisher, for which it will receive payments.

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

	Current:		Non-current:		
	up to 3 months	from 3 to 12 months	from 12 months to 60 months	over 60 months	**Total**
As at 31 Dec 2023					
Non-bank borrowings	349	1,141	1,637	-	**3,127**
Leases	1,493	4,495	15,704	7,894	**29,586**
Trade and other payables	13,240	-	-	-	**13,240**
Total exposure to liquidity risk	**15,082**	**5,636**	**17,341**	**7,894**	**45,953**
As at 31 Dec 2022					
Non-bank borrowings	609	1,480	3,490	-	**5,579**
Leases	1,046	3,152	17,752	10,070	**32,020**
Trade and other payables	11,167	-	-	-	**11,167**
Total exposure to liquidity risk	**12,822**	**4,632**	**21,242**	**10,070**	**48,766**

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

	Trade and other payables + leases (current portion)	Cash and cash equivalents	**Free cash**
As at 31 Dec 2023	19,228	124,016	**104,788**
As at 31 Dec 2022	15,365	67,983	**52,618**

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28. Capital management

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

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

	31 Dec 2023	31 Dec 2022
Capital:		
Equity	427,880	277,629
Capital	**427,880**	**277,629**
Total sources of funding:		
Equity	427,880	277,629
Borrowings, other debt instruments	3,127	5,579
Leases	29,586	32,020
Total sources of funding:	**460,593**	**315,228**
Equity to total sources of funding	**0.93**	**0.88**
EBITDA		
Operating profit (loss)	(86,452)	31,078
Amortisation and impairment losses	89,061	17,118
EBITDA*	**2,609**	**48,196**
Debt:		
Borrowings, other debt instruments	3,127	5,579
Leases	29,586	32,020
Debt	**32,713**	**37,599**
Debt to EBITDA	**12.54**	**0.78**
Cash	124,016	67,983
Current liabilities	53,260	29,757
Cash ratio**	**2.33**	**2.28**

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

As of the date of the credit facility agreement with Bank Pekao on 12 October 2023, the Parent is subject to external capital requirements during the financing period, including the obligation to maintain the minimum equity level as specified in the financing documents. For a detailed description of the terms of financing provided to the Parent by Bank Pekao, see Note 15.

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

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

	At the Parent:		At subsidiaries:	
	remuneration	other benefits	remuneration	**Total**
1 Jan–31 Dec 2023				
President of the Management Board – Sebastian Wojciechowski	48	1,251	696	**1,995**
Supervisory Board members	138	-	-	**138**
Total	**186**	**1,251**	**696**	**2,133**
1 Jan–31 Dec 2022				
President of the Management Board – Sebastian Wojciechowski	48	959	708	**1,715**
Supervisory Board members	134	-	-	**134**
Total	**182**	**959**	**708**	**1,849**

On 11 January 2023, the Extraordinary General Meeting of the Parent adopted resolutions regarding changes in the remuneration of members of the Supervisory Board and the Audit Committee of the Parent, specifying:

1. remuneration of members of the Supervisory Board: a) remuneration of the Chairman of the Supervisory Board at PLN 3,000 per month; b) remuneration of other Supervisory Board members at PLN 2,500 per month. In addition, each member of the Supervisory Board will receive a meeting attendance fee of PLN 1,500 for each attended meeting of the Supervisory Board;

2. additional remuneration of members of the Audit Committee: a) remuneration of the Chairman of the Audit Committee at PLN 2,000 per month; b) remuneration of the member of the Audit Committee with expertise in accounting or financial reporting at PLN 2,000 per month. However, if such member also serves as the Chairman of the Audit Committee, they will only receive the remuneration specified in item a) above; c) remuneration of other members of the Audit Committee at PLN 1,500 per month. In addition, each member of the Audit Committee will receive a meeting attendance fee of PLN 2,500 for each attended meeting of the Audit Committee.

The revised remunerations became effective from 1 January 2024.

The remuneration for members of the Supervisory Board and the Audit Committee was initially set in June 2020 and remained unchanged since then, despite the dynamic development of the Parent and its group in terms of both structure and operations. Moreover, following the enactment of amendments to the Commercial Companies Code on 13 October 2022, there has been an enhancement in the role of supervisory boards in joint-stock companies, as well as an expansion in the powers and responsibilities of supervisory board members. The increase in remuneration for members of the Parent's Supervisory Board, including a monetary allowance for participation in each board meeting, is intended to reflect the increased workload and the broader scope of duties and responsibilities as part of the continuous oversight exercised by the Supervisory Board members over the Parent's operations across all areas of its activity. The monetary allowance for participation in board meetings also aims to incentivise attendance.

Management Board

In 2023, the Group made purchases from entities controlled by the Management Board for a total amount of PLN 1,251 thousand (2022: PLN 959 thousand). As of the respective reporting dates, the balance of liabilities under such transactions was PLN 228 thousand on 31 December 2023 and nil on 31 December 2022.

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In 2023, the Group did not make any sales to entities controlled by the Management Board (there were also no sales in 2022). The balance of receivables under such transactions was nil as at 31 December 2023 and PLN 0 thousand as at 31 December 2022.

Supervisory Board

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

30. Auditor's fees

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

By Resolution no. 22/2023 dated 22 June 2023, the Supervisory Board selected Grant Thornton Polska Prosta Spółka Akcyjna of Poznań as the audit firm to audit the financial statements of the Parent and the consolidated financial statements of the Group for the periods from 1 January 2023 to 31 December 2023 and from 1 January 2024 to 31 December 2024, and to review the interim financial statements of the Parent and the consolidated interim financial statements of the Group for the periods from 1 January 2023 to 30 June 2023 and from 1 January 2024 to 30 June 2024.

Grant Thornton Polska P.S.A. 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. 4055. Grant Thornton Polska P.S.A. meets the independence requirements under the laws and standards applicable to audit firms and auditors. Grant Thornton Polska P.S.A. has no interest in the Parent; in particular, as at the date of authorisation of these consolidated financial statements for issue it did not hold any equity instruments of the Parent, including shares or subscription warrants issued by the Parent.

	1 Jan–31 Dec 2023		1 Jan–31 Dec 2022	
	Remuneration paid to the network	**Including fees paid to the Auditor**	Remuneration paid to the network	Including fees paid to the Auditor
Audit of full-year financial statements	376	376	217	217
Review of financial statements	145	145	57	57
Other assurance services	9	9	9	9
Total	**530**	**530**	**283**	**283**

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31. Employees and independent contractors

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

	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Beginning of period	612	495
New hires/new independent contractors in period	262	254
Employee/contractor terminations	(118)	(137)
End of period	**756**	**612**

32. Significant events and transactions

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

- **Registration of subscription warrants with CSDP**

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

- **Strategy update**

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

  The Strategy is focused on the following areas:

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

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

  – adoption of various game monetisation models;

  – further expansion of development teams and talent development;

  – investment in new segments of the entertainment industry.

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

  In order to cover expenditures related to the Strategy, the Management Board raised some PLN 235 million by issuing new shares of the Parent, with the financing level having been assumed at PLN 205 million to 295 million (see below for a description of the share capital increase through the issue of Series F and Series G ordinary bearer shares carried out to secure financing for the Strategy). All proceeds from the new share issues are allocated towards expanding the production teams to meet the project requirements for the various development stages of games such as Project Dagger, Bifrost, and Victoria. This allocation is subject to adjustments based on the decision to reduce the scope of Project Dagger, as outlined in Current Report no. 59/2023 dated 28 November 2023. The proceeds from the new issuances of Parent shares, combined with (i) the Parent's own cash, (ii) operating cash flows, and (iii) other non-dilutive financing sources, were intended to facilitate complete delivery of the Strategy.

For details of the Strategy, see Current Report No. 3/2023 of 31 January 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 10 February 2023, the Management Board of the Parent passed a resolution to, among other things, increase the Parent's share capital within the limits of the authorised capital through the issue of 136,104 Series E ordinary bearer shares ('Series E Shares'), representing collectively approximately 0.45% of the Parent's share capital as at the date of the resolution and the same proportion of total voting rights at the Parent's General Meeting (the 'Series E Shares Issue Resolution').

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

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

  On 17 February 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 15 February 2023 between the Parent and Andrzej Wychowaniec, and between the Parent and Radomir Kucharski, the Parent acquired approximately 12.25% of shares and voting rights in Incuvo S.A. As a result of the transaction, the Parent holds approximately 62.25% of shares in Incuvo S.A.'s share capital and the same proportion of voting rights.

  The increase in the Parent's share capital, carried out pursuant to the Series E Shares Issue Resolution, was registered by the competent registry court on 3 March 2023. As a result, the Parent's share capital was PLN 601,726.60 and comprised 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 28 February 2023, the Extraordinary General Meeting of the Parent passed a resolution to, among others, increase the Parent's share capital through the issue of up to 5,853,941 Series F ordinary bearer shares ("**Series F Shares**"), representing jointly approximately 19.55% of the Parent's share capital as at the date of the resolution and the same proportion of total voting rights at the Parent's General Meeting (the "**Series F Shares Issue Resolution**").

  Adoption of the Series F Shares Issue Resolution was related to the Parent's intention to raise funds on the capital market through a public offering of Series F Shares to finance the implementation of objectives set out in the Strategy.

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

  On 28 February 2023, the Extraordinary General Meeting of the Parent passed a resolution to amend the Parent's Articles of Association by repealing the provisions concerning authorised capital. The Parent's intention was to ensure that the shareholders' equity interests are not diluted any further (after the increase in the Parent'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 Parent's share capital within the limits of the authorised capital, subject to the transaction to increase the Parent's equity interest in Incuvo S.A. as referred to above.

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

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

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

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

  In addition, the Key Shareholder granted the Investor the right to prevent dilution, the right of first refusal to acquire shares and the tag-along right (corresponding to the Key Shareholder's drag-along right). Both the Investor and the Key Shareholder submitted standard lock-up declarations regarding their shares in the Parent, effective until 28 March 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.

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

  As a result of the public offering of Series F Shares, described in detail below, the Investor subscribed for 3,342,937 Series F Shares in the performance of the Investment Agreement. The shares represented 10.00% of all shares in the Parent after registration by the competent registry court of the increase in the Parent's share capital by way of issue of Series F Shares.

- **Submission of an offer to Square Enix Limited to take up subscription warrants**

  On 28 March 2023, the Management Board of the Parent extended an offer to the publisher, Square Enix Limited, to subscribe, at no cost, for 90,000 Series A registered subscription warrants of tranche A6. This tranche represents the final segment of Series A subscription warrants available under the terms of the investment agreement detailed in Current Report No. 40/2021 dated 29 August 2021. The publisher accepted this offer on 18 April 2023. The offer to subscribe for the sixth tranche of the subscription warrants was made by the Parent, because the Parent's revenue from agreements with Square Enix Limited exceeded PLN 270 million.

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

- **Execution by the subsidiary People Can Fly Canada Inc. of a credit facility agreement and related security documents**

  On 24 May 2023, the Parent's subsidiary People Can Fly Canada Inc. of Montreal, Canada ("**PCF Canada**") as the borrower, and the Bank of Montreal, as the lender, signed a credit facility agreement (Offer of Financing) to grant PCF Canada two demand revolving facilities comprising: (1) a credit facility of up to CAD 1,200 thousand, intended to finance working capital and general corporate needs of PCF Canada, and (2) a credit facility of up to CAD 8,000 thousand, intended to prefinance future tax credits in Canada. Both credit facilities are repayable on demand and can be renewed annually on terms agreed by the parties.

  The security package, governed by Canadian law, includes: (1) the Parent's guarantee of up to CAD 9,200 thousand, (2) First Ranking General Security Agreement over all movable assets of PCF Canada (i.e., a variable pool of movables and property rights), (3) First Ranking Hypothec of CAD 11,040 thousand over all movable assets of PCF Canada, (4) subordination of corporate loans advanced by the Parent, and (5) identification of the bank as an additional insured in PCF Canada's insurance policies.

  The interest rate on the credit facilities for each interest period is an annual interest rate being the sum of an agreed margin and the base rate (based on the Canadian Prime Rate). The fee for granting the credit facilities was determined on standard arm's length terms applied for financial instruments of this kind.

  The agreement includes standard covenants, such as restrictions on changing the principal business and conditions under which new debt financing may be incurred. In the event of any breach of the agreement, the bank retains standard rights, including but not limited to the right to terminate the agreement or suspend the funding.

- **Execution of a development and publishing agreement with Microsoft Corporation**

  On 13 June 2023, the Parent and Microsoft Corporation of Redmond, Washington, USA, as the publisher (the '**Publisher**'), entered into a development and publishing agreement (the '**Agreement**') for the development and delivery by the Parent to the Publisher of an AAA game under code name Project Maverick (the '**Game**'), in accordance with a content rider concluded by the parties for the Agreement (the '**Product Appendix**'), setting out the milestone schedule for the Game development.

  The Game is being developed by the Parent in the work-for-hire model, based on the intellectual property rights of the Publisher. Its production is fully financed by the Publisher as the Parent completes successive Game development milestones.

  The total budget allocated by the Publisher for the development of the Game by the Parent is USD 30–50 million.

The Agreement does not contain any specific conditions that would differ from those commonly used in this type of agreements.

The execution of the Agreement fits in with the revised Strategy for the Parent and the Group announced on 31 January 2023, whereby the Parent intends to capture attractive opportunities for cooperation with reputable partners in the work-for-hire model if such opportunities arise.

- **Public offering of Series F Shares**

  From 29 May 2023 to 1 June 2023, the Parent carried out a bookbuilding process for an offering of Series F ordinary bearer shares with a par value of PLN 0.02 per share (‘**Series F Shares**’), as a result of which it decided to offer a total of 3,343,037 Series F Shares, of which 3,342,937 Series F Shares were offered to Krafton Inc. in accordance with the investment agreement described in detail above, and 100 Series F Shares were offered to another investor. The Series F shares were offered by way of a private placement, within the meaning of the Commercial Companies Code, as part of a public offering. The issue price for one Series F Share was PLN 40.20, and the total value of the public offering was PLN 134,390,087.40. The process of executing subscription agreements for the Series F Shares was completed on 6 June 2023.

  All proceeds from the public offering of Series F Shares are allocated towards expanding the production teams to meet the project requirements for the various development stages of games such as Project Dagger, Project Bifrost, and Project Victoria. This allocation is subject to adjustments based on the decision to limit the scope of Project Dagger, as outlined in Current Report no. 59/2023 dated 28 November 2023.

- **Execution of a side letter for the investment agreement on acquisition by Krafton, Inc. of shares in the increased share capital of the Parent**

  On 14 June 2023, the Parent and Sebastian Wojciechowski as the Parent’s key shareholder and President of the Management Board executed a side letter (the ‘**Side Letter**’) for the investment agreement of 28 March 2023 (the ‘**Investment Agreement**’) with Krafton, Inc. (the ‘**Investor**’). In the Side Letter, the parties agreed, inter alia, that if:

  (i) the General Meeting of the Parent passes a resolution(s) to increase the Parent's share capital by issuing up to 2,510,904 new shares (the ‘**New Issue Shares**’), and the share capital increase is carried out (i.e., the New Issue Shares are subscribed and paid for) no later than on 31 December 2023 (the ‘**Issue Resolution**’); and

  (ii) the Issue Resolution gives priority to subscribe for New Issue Shares to shareholders of the Parent that hold shares conferring the right to 0,25% or more of total voting rights in the Parent as at the end of the Issue Resolution date; and

  (iii) the Investor submits a declaration of subscription for a number of New Issue Shares which, when aggregated with Series F shares held by the Investor, will represent 10.00% of the Parent's share capital and total voting rights in the Parent on the date of registration of the New Issue Shares in the Business Register of the National Court Register by the registry court, then the Parent:

  a) irrespective of the number of New Issue Shares to be allotted to other investors participating in the offering and regardless of the issue price of the New Issue Shares that will be set for other investors participating in the offering – will allot such number of New Issue Shares to the Investor, with priority before other investors participating in the offering, which, when aggregated with Series F shares held by the Investor, will represent 10.00% of the Parent's share capital and total voting rights in the Parent on the date of registration of the New Issue Shares in the Business Register of the National Court Register by the registry court; and

  b) will enter into an agreement with the Investor, whereby the Investor will subscribe for New Issue Shares at the issue price of PLN 40.20 per New Issue Share.

As a result of the public offering of Series G shares, described in detail below, the Investor subscribed for 251,091 Series G shares in the performance of the Side Letter. The shares, when aggregated with the 3,342,937 Series F shares subscribed for by the Investor, represent 10.00% of all shares in the Parent after registration by the competent registry court of the increase in the Parent's share capital by way of issue of Series G shares.

- **Registration of a share capital increase and amendments to the Articles of Association of PCF Group S.A.**

  On 22 June 2023, the District Court for the Capital City of Warsaw, 13th Commercial Division of the National Court Register, registered amendments to the Parent’s Articles of Association adopted by way of Resolution No. 4/02/2023 of the Extraordinary General Meeting held on 28 February 2023 to increase the Parent’s share capital through the issue of Series F ordinary shares, to waive the existing shareholders’ pre-emptive rights with respect to all Series F shares, to seek admission and introduction of Series F shares and allotment certificates for Series F shares to trading on the regulated market operated by the Warsaw Stock Exchange, to convert Series F shares and allotment certificates for Series F shares into book-entry form, to authorise the execution of an agreement to register Series F shares and allotment certificates for Series F shares in the depository for securities, and to amend the Parent’s Articles of Association.

  Following the court registration of amendments to the Articles of Association of the Parent, the share capital was increased from PLN 601,726.60 to PLN 668,587.34 through the issue of 3,343,037 Series F ordinary bearer shares, with a par value of PLN 0.02 per share.

- **Notification under Art. 69 of the Public Offering Act**

  On 28 June 2023, the Parent received a notification from Krafton Inc. to the effect that the notifying party had exceeded 10% of total voting rights in the Parent, submitted pursuant to Art. 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of 29 July 2005.

  According to the notification, as of the date thereof, Krafton Inc. held 3,342,937 shares in the Parent, representing approximately 10% of the Parent’s share capital. This shareholding conferred 3,342,937 voting rights at the Parent's General Meeting, which also constitutes roughly 10% of the total voting rights in the Parent.

- **Settlement with OÜ Blite Fund**

  On 21 August 2023, the Parent entered into a settlement with OÜ Blite Fund, an Estonian limited liability company of Tallinn, Estonia (the ‘**Settlement**’, the ‘**Blite Fund**’), whereby the Parent agreed to pay PLN 2,050 thousand to Blite Fund on account of an increase in the purchase price for 7,143,900 shares in Incuvo S.A. (the ‘**Additional Payment**’) acquired by the Parent under a share purchase agreement concluded between the Parent and Blite Fund on 13 December 2021 (the ‘**Share Purchase Agreement**’). The Additional Payment made by the Parent fully settles the parties’ mutual claims under or in connection with the execution and performance of the Share Purchase Agreement. The Additional Payment was made on 31 August 2023.

- **Registration of Series E and Series F shares with CSDP and their admission and introduction to trading on the WSE**

  Following registration of Series E and Series F shares in the Central Securities Depository of Poland on 19 July 2023, the shares were introduced to trading on the main market of the Warsaw Stock Exchange as of that date.

  Series E and Series F shares of the Parent were assigned code ISIN PLPCFGR00010.

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

  On 7 August 2023, the Parent's Extraordinary General Meeting passed a resolution to, among others, increase the Parent's share capital through the issue of up to 2,510,904 Series G ordinary bearer shares ('**Series G Shares**'), representing jointly approximately 7.51% of the Parent's share capital as at the date of the resolution and the same proportion of total voting rights at the Parent's General Meeting (the '**Series G Shares Issue Resolution**').

  The Series G Shares Issue Resolution was adopted in connection with the intention to conduct a public offering of Series G Shares in addition to the public offering of Series F shares carried out at the end of May and at the beginning June 2023, as described above.

- **Public offering of Series G shares**

  From 9 August 2023 to 10 August 2023, the Parent carried out a bookbuilding process for an offering of Series G ordinary bearer shares with a par value of PLN 0.02 per share ('**Series G Shares**'), as a result of which it decided to offer a total of 2,510,904 Series G Shares to forty investors, of which 251,091 Series G Shares were offered to Krafton Inc. in accordance with the side letter to the investment agreement, described in detail above. The Series G shares were offered by way of a private placement, within the meaning of the Commercial Companies Code, as part of a public offering. The issue price for one Series G Share was PLN 40.20, and the total value of the public offering was PLN 100,938,340.80. The process of executing subscription agreements for the Series G Shares was completed on 18 August 2023.

  All proceeds from the public offering of Series G shares, together with proceeds from the public offering of Series F shares, as described above, are allocated towards expanding the production teams to meet the project requirements for the various development stages of games such as Project Dagger, Project Bifrost, and Project Victoria. This allocation is subject to adjustments based on the decision to limit the scope of Project Dagger, as outlined in Current Report no. 59/2023 dated 28 November 2023.

- **Registration of a share capital increase and amendments to the Articles of Association**

  On 28 August 2023, the District Court for the Capital City of Warsaw, 13th Commercial Division of the National Court Register, registered amendments to the Parent's Articles of Association adopted by way of Resolution No. 4/08/2023 of the Extraordinary General Meeting held on 7 August 2023 to increase the Parent's share capital through the issue of Series G ordinary shares, to waive the existing shareholders' pre-emptive rights with respect to all Series G shares, to seek admission and introduction of Series G shares and allotment certificates for Series G shares to trading on the regulated market operated by the Warsaw Stock Exchange, to convert Series G shares and allotment certificates for Series G shares into book-entry form, to authorise the execution of an agreement to register Series G shares and allotment certificates for Series F shares in the depository for securities, and to amend the Parent's Articles of Association.

  Following the court registration of amendments to the Articles of Association of the Parent, the share capital was increased from PLN 668,587.34 to PLN 718,805.42 through the issue of 2,510,904 Series G ordinary bearer shares, with a par value of PLN 0.02 per share.

- **Notification under Art. 69 of the Public Offering Act**

  On 30 August 2023, the Parent received a notification from Nationale-Nederlanden Otwarty Fundusz Emerytalny to the effect that the notifying party had exceeded 5% of total voting rights in the Parent, submitted pursuant to Art. 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of 29 July 2005.

  According to the notification, as at the date thereof, Nationale-Nederlanden Otwarty Fundusz Emerytalny held 2,368,599 shares in the Parent, representing 6.59% of the Parent's share capital and conferring 2,368,599 voting rights at the Parent's General Meeting, or 6.59% of total voting rights in the Parent.

- **Registration of subscription warrants with CSDP**

  On 4 September 2023, in response to the Parent's application of 9 August 2023, the Central Securities Depository of Poland issued a statement to the effect that on 5 September 2023 it would enter into an agreement with the Parent to register 90,000 Series A registered subscription warrants (tranche A6), issued for no consideration and with no par value, under ISIN PLPCFGR00077.

  Tranche A6 is the last tranche of Series A subscription warrants offered by the Parent to Square Enix Limited under an investment agreement, the terms of which are described in detail in the Parent's Current Report No. 40/2021 of 29 August 2021.

- **Registration of Series G shares with CSDP and their admission and introduction to trading on the WSE**

  Following registration of Series G shares of the Parent in the Central Securities Depository of Poland on 11 September 2023, the shares were introduced to trading on the main market of the Warsaw Stock Exchange as of that date.

  Series G shares of the Parent were assigned code ISIN PLPCFGR00010.

- **Suspended negotiations of a development agreement**

  On 22 September 2023, the Parent announced that its negotiations of a development and publishing agreement conducted with a reputable US-based entertainment company based on a non-binding letter of intent between the parties of 17 June 2023 had been suspended.

  The negotiations concerned the terms on which the Parent would develop for publishing a virtual reality (VR) video game of the VR Action/Combat genre codenamed Dolphin.

  The reason for suspending the negotiations was a notice received from the publisher to the effect that it had decided to suspend work on the project indefinitely. The Parent found out through informal talks that the publisher's decision had been prompted by the strike of the US entertainment industry and the resulting uncertainty as to the industry's future situation.

- **Execution of credit documents with Bank Polska Kasa Opieki S.A.**

  On 12 October 2023, the Parent, as the borrower, and Bank Polska Kasa Opieki S.A. ('Bank Pekao'), as the lender, executed: (1) a revolving credit facility agreement of up to PLN 30 million, and (2) a revolving credit facility agreement of up to EUR 4,426,444 (collectively the 'Credit Facility Agreements'), intended to finance costs related to work-for-hire development of video games (collectively the 'Credit Facilities').

  The term of the revolving lines of credit and the final repayment date of both Credit Facilities is three years from the date of execution of the Credit Facility Agreements.

  The interest rate on the Credit Facilities for each interest period is an annual rate being the sum of an agreed fixed margin and the variable benchmark rate (WIBOR). The fee for the provision of the Credit Facilities, as well as the fee for the provision of guarantees by Bank Gospodarstwa Krajowego, were determined on standard market terms applied for financial instruments of this kind.

  The security package with respect to the Credit Facilities includes: (1) financial pledges and registered pledges over the Parent's entire shareholding in Incuvo S.A. of Katowice, (2) financial pledges and registered pledges over bank accounts maintained for the Parent by Bank Pekao, (3) a statement made pursuant to Art. 777 of the Code of Civil Procedure whereby the Parent will submit to enforcement with respect to the obligation to pay any amounts due under the Credit Facility Agreements to Bank Pekao up to 150% of the amount of the Credit Facilities, (4) guarantees provided by Bank Gospodarstwa Krajowego up to 80% of the amount of the Credit Facilities, which will be secured with blank promissory notes together with promissory note declarations issued by the Parent to Bank Gospodarstwa Krajowego.

The Credit Facilities will be disbursed subject to the fulfilment of typical conditions precedent to the disbursement of funds in such transactions.

The Credit Facility Agreements also provide for standard covenants to be complied with by the Parent, such as restrictions on a change of its principal business and terms on which it may incur new debt financing. In the event of any breach of the Credit Facility Agreements, Bank Pekao has standard rights, including but not limited to the right to terminate the agreement or suspend the funding.

- **Execution of an agreement for the new project codenamed Bison**

On 12 November 2023, the Parent concluded an agreement with Incuvo S.A., its subsidiary, whereby Incuvo S.A. would provide game development services for the Parent to produce a new video game under the code name Bison, planned for release in 2024–2025.

Project Bison involves the development of a survival adventure game based on intellectual property rights of People Can Fly, designed for the most popular VR hardware platforms of the present and future generations.

The VR game development will be financed entirely by the Parent. As part of the development process, the Parent, as an entity possessing the relevant experience, capabilities and infrastructure, will be responsible for bringing the final product (VR game) to a stage where it is fit for use by players and for its commercialisation, including market launch.

The VR game will be developed using the Unity graphics engine.

- **Entry into strategic discussions on Project Gemini and review of development plans for the Group's projects**

On 24 November 2023, the Management Board of the Parent announced that it had entered into strategic discussions with the long-standing publisher, Square Enix Limited, regarding the development and terms of collaboration on Project Gemini. The project, undertaken by the Group in Europe under a work-for-hire arrangement for Square Enix Limited, continues on the terms specified in the agreement between the parties. However, based on its discussions with the publisher, the Parent's Management Board believes it is highly likely that Project Gemini will not continue on the current commercial terms in the future.

- **Decision to curtail Project Dagger**

On 28 November 2023, the Parent's Management Board announced that – following delivery of a key milestone of Project Dagger and review of the creative game concept – and in the light of analyses of the impact of potential strategic scenarios discussed with the publisher of Project Gemini, i.e., Square Enix Limited, on the development plans for projects carried out by the Group under its updated strategy, it had decided to temporarily curtail Project Dagger carried out by the Parent under the self-publishing model using its own funds by:

- entrusting an experienced team of about 10 with the task of redefining the development direction for the game and developing it to a pre-production version that would address the feedback and suggestions obtained through external evaluation of Project Dagger, which means that plans to release the title as an AAA game in 2025-2026 would be suspended, and

- extending offers to the majority of the development team members to work on Projects Maverick, Bifrost and Victoria.

33. Events after the reporting date

The following events, whose disclosure in these consolidated financial statements was not required, occurred after 31 December 2023.

- **Execution of short-term content rider for the development and publishing agreement for the Gemini Project**

  On 30 January 2024, the Management Board of the Parent announced that, following the expiration of the existing content rider to the development and publishing agreement for Project Gemini on 29 January 2024, the Parent entered into a short-term content rider with Square Enix Limited on 30 January 2024. The rider facilitates the continuation of development work on Project Gemini, enabling the parties to conclude strategic discussions regarding the project's framework and cooperation terms. In this context, the parties have been developing a plan for Project Gemini, which required modifications in certain areas and a refocused approach.

  Consequently, the Management Board of the Parent decided to reduce the number of the development team dedicated to Project Gemini by

  - offering some team members opportunities to work on other projects managed by the Parent;

  - reducing the number of employees within the Project Gemini team, affecting over 30 individuals.

- **Execution of credit documentation and related security documentation by Game On Creative Inc.**

  On 6 March 2024, Game On Creative Inc., a subsidiary of the Parent based in Montreal, Canada (‘Game On’), as the borrower, and the Bank of Montreal as the lender, entered into a credit agreement (Offer of Financing) covering five facilities: (1) a demand revolving credit facility up to a maximum of CAD 650 thousand, intended to finance Game On's working capital and general corporate needs, (2) two non-revolving credit facilities, each up to a maximum of CAD 187 thousand, designated for pre-financing future tax credits in Canada, (3) a non-revolving credit facility up to a maximum of CAD 1,065 thousand, aimed at refinancing a term facility previously extended to Game On by the Royal Bank of Canada, and (4) a demand revolving facility in the form of a corporate credit card limit up to a maximum of CAD 32 thousand, intended for financing general corporate needs of Game On.

  The credit facility described in item (1) above is repayable on demand and is annually renewed on the terms agreed upon by the parties. The facilities described in item (2) above are repayable on demand, but in any case no later than 31 December 2024 and 31 December 2025, respectively, unless the lender agrees to extend the repayment term at the borrower's request. The credit facility described in item (3) above is repayable in equal monthly instalments of CAD 17,750 over an amortisation period of 5 years (or 60 months). The credit facility described in item (4) above is repayable on demand, but in any case no later than the repayment date of the facility described in item (1) or on a date determined in accordance with the terms of the agreement with the credit card issuer, whichever occurs earlier.

  The interest rate for the facilities described in items (1) to (3) above, for each interest period, is the annual interest rate composed of an agreed margin plus a base rate (based on the Canadian Prime Rate). The facility described in paragraph (4) above bears interest in accordance with the terms of the agreement with the credit card issuer.

  The security interests, governed by Canadian law, include: (1) a first-ranking hypothec on the entirety of Game On's movable assets of CAD 2,545,200, (2) subordination of the repayment of corporate loans provided by the Parent, (3) a power of attorney authorising the Bank of Montreal to collect amounts due under tax reliefs on behalf of Game On, and (4) designation of the bank as an additional insured under Game On's insurance policies.

  The commission for the provision of the credit facilities has been set at market rates typical for such financial instruments.

The agreement includes standard covenants, such as restrictions on changing the principal business and conditions under which new debt financing may be incurred. In the event of any breach of the agreement, the bank retains standard rights, including but not limited to the right to terminate the agreement or suspend the funding.

- **Settlement of the production costs for Bulletstorm VR and mutual termination of the development and publishing agreement for this game**

  In reference to Current Reports no. 46/2021 dated 13 December 2021, no. 42/2023 dated 22 August 2023, and no. 56/2023 dated 17 November 2023, the Management Board of the Parent announces that on 15 March 2024, it entered into an agreement with Incuvo S.A. concerning the settlement of the remaining key production milestones of the game Bulletstorm VR game, covering the period up to the game's release on 18 January 2024. As part of the settlement, based on the terms of the development and publishing agreement, the Parent, as the publisher, charged Incuvo S.A. with the cost of development work and quality control tasks carried out by the Parent on behalf of Incuvo S.A., amounting to PLN 871 thousand.

  In light of the unsatisfactory launch of Bulletstorm VR, the Company and Incuvo S.A. agreed to terminate the development and publishing agreement for the production of the game, effective as of 19 January 2024. It was also agreed that Incuvo S.A. would not be entitled to any royalties from the game's sales. Any subsequent development activities related to Bulletstorm VR will be carried out through a production process in which the Parent is responsible for creating the final product and managing its commercialisation, including the market launch. The Management Board of the Parent has permitted the use of Incuvo S.A.'s resources to carry out the development activities.

- **Decision to discontinue work on Project Dagger**

  With reference to Current Reports No. 22/2022 dated 1 October 2022, No. 3/2023 dated 31 January 2023, No. 58/2023 dated 24 November 2023, and current report No. 59/2023 dated 28 November 2023, the Management Board of the Parent announces that on 5 April 2024, it resolved to discontinue further development of Project Dagger (‘the Project’).

  The decision follows a reassessment of the development plans of the PCF Group S.A. Group (‘the Group’) and adjustments to these plans due to the unsatisfactory evaluation of the Project's scope and commercial potential after the refocus of the game's development efforts, as detailed in Current Report No. 59/2023.

  As a consequence, impairment losses amounting to 100% of the expenditures incurred on the Project will be recognised as of 31 December 2023, and the expenditures incurred will be written off on the date the decision was made.

  The recognition of impairment losses will reduce the consolidated financial result for 2023, and will also reduce the carrying amount of non-current assets presented in the consolidated statement of financial position of the Group as of 31 December 2023 by PLN 68.3 million.

  It is a one-off and non-monetary event, and does not affect the value of the separate and consolidated EBITDA.

34. Authorisation for issue

These consolidated financial statements were authorised for issue by the Parent's Management Board on 29 April 2024.

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	Marcin Żydziak	Head of Reporting and Accounting	

PCF GROUP S.A.

AL. SOLIDARNOŚCI 171,
00-877 WARSZAWA, POLSKA

Tel +48 22 887 34 30

@ IR@PEOPLECANFLY.COM

FULL-YEAR CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED DECEMBER 31ST 2023