

Auditor's report

passion

teamwork



quality

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Accountants &
business advisers

Independent Auditor's report

on annual consolidated financial statements
of the Ten Square Games S.A Capital Group
for the financial year
from 1 January 2019 to 31 December 2019



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INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

To General Shareholders' Meeting of Ten Square Games S.A.

Report on the audit of the consolidated financial statements

Opinion on the annual consolidated financial statements

We have audited the accompanying annual consolidated financial statements of Ten Square Game S.A Capital Group, hereinafter referred to as the "Group", where the parent company is Ten Square Games S.A with its registered office in Wrocław (50-416) at ul. Traugutta 45, hereinafter referred to as the "Parent Company", for the financial year from 1 January 2019 to 31 December 2019, which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows as at and for the financial year ended 31 December 2019, respectively, and notes containing general information, basis of preparation and accounting policy and additional notes and explanations.

The financial statements have been prepared in an electronic format as a file entitled *TSG SSF 2019.pdf*, and have been signed with electronic signatures by the Management Board of the Parent Company on 23 March 2020.

The annual consolidated financial statements have been prepared in accordance with applicable financial reporting framework of International Accounting Standards, International Financial Reporting Standards and related interpretations published as a Commission Regulation, hereinafter referred to as "IFRS EU".

In our opinion, the accompanying annual consolidated financial statements of Ten Square Game S.A Capital Group:

- give true and fair view of the financial position of the Group as of 31 December 2019, and of its financial performance and its cash flows for the financial year then ended in accordance with IFRS EU and applied accounting principles (policies),
- comply, in all material respects, as to the form and content, with the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information to be published by issuers of securities and conditions for recognizing as equivalent the information required by laws of non-EU member states (Dz.U. [Journal of Laws] of 2018, item 757 as amended), hereinafter referred to as the "Regulation on Current and Periodic Information", the Accounting Act of 29 September 1994 (Dz.U. [Journal of

Laws] of 2019, item 351 as amended), hereinafter referred to as the "Accounting Act", IFRS EU as well as with provisions of the Parent Company's memorandum that affect its content.

Basis for Opinion

We conducted our audit of the annual consolidated financial statements in accordance with the National Standards on Auditing being International Standards on Auditing as adopted in Poland by the National Chamber of Statutory Auditors, hereinafter referred to as "National Standards on Auditing", applicable to audit of financial statements prepared for the periods ended on 31 December 2019, and the Act of 11 May 2017 on Statutory Auditors, Audit Firms and the Public Oversight (Dz.U. [Journal of Laws] of 2019, item 1421, as amended), hereinafter referred to as the "Act on Statutory Auditors", and also Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (OJ L 158 of 27 May 2014, p. 77 and OJ L 170, of 11 June 2014, p. 66), hereinafter referred to as "Regulation 537/2014".

Our responsibilities under those standards are further described in the "Statutory Auditor's Responsibilities for the Audit of the Annual Consolidated Financial Statements" section of our report.

We are independent of the Group in accordance with the Code of Ethics of Professional Accountants of the International Federation of Accountants, hereinafter referred to as the "IFAC Code", adopted by a resolution of the National Chamber of Statutory Auditors and the requirements of independence specified in the Act on Statutory Auditors and Regulation 537/2014. We have also fulfilled our other ethical responsibilities required by the Act on Statutory Auditors, Regulation 537/2014 and IFAC Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key audit matters, including most significant assessed risks of material misstatements presented in accordance with the requirements of Regulation 537/2014

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual consolidated financial statements of the current period. They are determined from:

- a) areas of higher assessed risk of material misstatement,
- b) significant risks,
- c) significant auditor judgments relating to areas in the financial statements that involved significant management judgments,
- d) the effect on the audit of significant events and transactions that occurred during the period.

At the same time, under Regulation 537/2014, we are required to present in the audit report most significant assessed risks of

material misstatements, including those which we did not assess as the key audit matter. Significant risks of material misstatement are identified and assessed risks of material misstatement that, in the auditor's judgment, require special audit consideration.

The key audit matters presented below comprise all most significant assessed risks of material misstatement referred to in Regulation 537/2014 as well as other matters determined as key audit matters.

The key audit matters and material misstatement risks were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<i>Key audit matter: Revenue from in-application purchases of virtual items</i>	
<i>Was the key audit matter the most significant assessed risks of material misstatements: YES</i>	
Description of the key audit matter	How the matter was addressed in the audit
<p>Users can purchase virtual items within downloaded free-to-play games. These include virtual currencies (like pearls) and virtual goods (e.g. baits). These goods are made available to the user upon transfer of payment.</p> <p>The above revenue, presented as revenue from micropayments and licences, totalled PLN 230.997 thousand in 2019 and accounted for 95,79% of sales revenue.</p> <p>In accordance with the International Financial Reporting Standard 15 "Revenue from Contracts with Customers", hereinafter IFRS 15, revenue is recognised when or as performance obligation is satisfied by transferring a promised good or service. A good or service is transferred to a customer when they obtain control of the same.</p> <p>Judgment is required to determine the nature of the obligation to a game user and whether this obligation is satisfied over time or at a point in time.</p> <p>We have determined revenue from in-application purchases of virtual items to be the key audit matter due to its significance to our audit and significant management judgements involved in the revenue recognition.</p> <p>The revenue recognition for in-application virtual goods is described in section Basis for Preparation and the Accounting Policy in items 3.1 <i>Revenue and operating costs</i> 3.15 <i>Significant values based on professional judgement and estimates</i>.</p> <p>Detailed information on this revenue is presented in Note 1 of Notes to the Financial Statement.</p>	<p>We have gained an understanding of game scripts for micropayments and the revenue recognition process.</p> <p>We have evaluated whether the revenue recognition policy is compliant with IFRS 15.</p> <p>We have reviewed the terms and conditions of payment aggregators, mobile stores and licensees (hereinafter referred to as intermediaries) under relevant by-laws or agreements, with a special focus on any changes introduced in the audited period.</p> <p>We have evaluated the reasonableness of the Management Board's judgments on the nature of the performance obligation arising from in-application purchases of virtual items and a contract liability.</p> <p>We have analysed the assumptions and methodology adopted by the Company in determining and estimating its revenue.</p> <p>We have conducted test of details which included reconciliation of revenue with the reports of in-application purchases received from intermediaries and checking the number of transactions to confirm the completeness, accuracy and the timing of revenue recognition.</p> <p>We have analysed sales trend against marketing activities to identify the reasons why revenue changed month-to-month.</p> <p>We have performed a month-to-month analysis of revenue for selected users (TOP 10) to identify unusual results, trends and IP addresses.</p> <p>We have reviewed disclosures relating to revenue from in - application purchases of virtual items and evaluated whether they are adequate in light of IFRS 15 requirements.</p>

Other information included in the annual consolidated report

Other information comprises the financial and non-financial information included in the annual consolidated report, other than the annual consolidated financial statements or the audit report thereon. Other information comprises *inter alia* the consolidated management report for the year ended on 31 December 2019 along with the corporate governance statement

referred to in Article 49(2a) of the Accounting Act of the Accounting Act, for the year then ended.

The Management Board and members of the Supervisory Board of the Parent Company respectively are responsible for the preparation of other information.



Our opinion on the annual consolidated financial statements does not cover the other information and, unless this is clearly stated in the "Report on Other Legal and Regulatory Requirements" section, we do not express any form of assurance conclusion thereon. Additionally, the scope of our work and our assurance are exclusively as we have described.

In connection with the audit of the annual consolidated financial statements, in accordance with the National Standards on Auditing, we are required to read other information while conducting the audit, examine whether the other information is not materially inconsistent with the annual consolidated financial statements or our knowledge gained during the audit or if it does not otherwise seem to be materially misstated.

If based on the work that we performed on the other information we obtained prior to the date of this audit report, we conclude that there is a material misstatement of this other information, we are required to report the fact. We have nothing to report with this regard.

We have been provided with the consolidated management report before the date of this audit report and the consolidated annual report will be available after this date. If we find any material misstatement in the consolidated annual report, we are required to notify thereof the Parent Company's Supervisory Board.

[Responsibilities of the Management Board and the Supervisory Board of the Parent Company for the annual consolidated financial statements](#)

The Management Board of the Parent Company is responsible for the preparation of the annual consolidated financial statements that give true and fair view in accordance with IFRS EU, their compliance with applicable to the Group laws and regulations and the Parent Company's memorandum.

The Management Board of the Parent Company is also responsible for such internal control as management determines is necessary to enable the preparation of the annual consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing consolidated financial statements, the Management Board of the Parent Company is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management wither intends to liquidate or to cease operations, or has no realistic alternative but to do so

The members of the Parent Company's Supervisory Board are responsible for overseeing the financial reporting process of the Group.

Under the Accounting Act, the Management Board and members of the Supervisory Board of the Parent Company are obliged to ensure that the annual consolidated financial statements meet the requirements of the Accounting Act.

[Statutory Auditor's Responsibilities for the Audit of the Annual Consolidated Financial Statements](#)

Our objectives are to obtain reasonable assurance as to whether the annual consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in

accordance with the above mentioned standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual consolidated financial statements.

While carrying out the audit, in compliance with the National Standards on Auditing:

- we exercise professional judgment and maintain professional skepticism and
- identify and assess the risks of material misstatement of the annual consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may relate to any area of law and regulations, not only the one that directly impacts the annual consolidated financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting principles (policies) used and the reasonableness of accounting estimates and related disclosures made by the Parent Company's Management Board;
- conclude on the appropriateness of use by the Parent Company's Management Board of the going concern basis while applying the adopted accounting principles (policies) and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the annual consolidated financial statements or, if such disclosures are inadequate, to modify our opinion about the annual consolidated financial statements. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the annual consolidated financial statements, including the disclosures, and whether the annual consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain audit evidence that is sufficient and appropriate with respect to the financial information of entities and business activities within the Group to express our opinion on the annual consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the annual consolidated financial statements and remain solely responsible for our audit opinion.



We communicate with the Supervisory Board and the Audit Committee of the Parent Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have submitted to the Audit Committee of the Parent Company a statement that we have complied with the relevant ethical requirements regarding independence and have communicated with the Committee all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our audit does not involve any assurance on the future viability of the Group nor the efficiency nor effectiveness with which the Parent Company's Management Board has conducted or will conduct the affairs of the Group.

From the matters communicated with the Supervisory Board of the Parent Company, we determine those matters that were of most significance in the audit of the annual consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our audit report in the "Key audit matters (issues) and material risks of misstatement presented in accordance with Regulation 537/2014" section, with the exception of matters in case of which law or regulation preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Under the Act on Statutory Auditors, we are also required to express in the audit report an opinion on whether the annual consolidated financial statements comply, at to their form and content, with the provisions of law applicable to the Group as well as the Parent Company's memorandum. We report on these matters based on the work undertaken in the course of the audit.

Report on Other Legal and Regulatory Requirements

Report on the consolidated management report

The management report and the consolidated management report have been prepared as a single document in electronic format as a file entitled *TSG SDZ 2019.pdf*, signed with electronic signatures by the Management Board of the Company on 23 March 2020.

Responsibilities of the Management Board and the Supervisory Board of the Parent Company

The Management Board of the Parent Company is responsible for preparation of the consolidated management report in compliance with the law. The Management Board and members of the Supervisory Board of the Parent Company are required to ensure that the report on the Group's operations comply with the Accounting Act.

Responsibilities of the Statutory Auditor

Under the Act on Statutory Auditors and the Regulation on Current and Periodic Information, we are required to express an opinion on whether the consolidated management report has been prepared in accordance with this regulation and the

Accounting Act and whether it is consistent with the information included in the annual consolidated financial statements.

Furthermore, we are also required to state, whether, in the light of the knowledge of the Group and its environment obtained during the course of the audit, we have not identified material misstatements in the consolidated management report, and report on these misstatements if noted.

We are also required to express an opinion on whether the corporate governance statement, constituting a separate part of the consolidated financial report, includes certain information enumerated in the Regulation on Current and Periodic Information, and with reference to certain information enumerated in this Regulation, whether it complies with applicable law and the information included in the annual consolidated financial statements.

We have read the consolidated management report, including the corporate governance statement. We considered whether it discloses the information required by these laws and whether the information included therein is consistent with the information included in the annual consolidated financial statements. With reference to certain information included in the corporate governance statement, we have examined whether it complies with the law. Reading the consolidated management report we also considered whether, in the light of our knowledge of the Group and its environment, it does not include material misstatements.

Opinion on the consolidated management report

In our opinion, based on the work undertaken in the course of the audit of the annual consolidated financial statements, the accompanying consolidated management report of Ten Square Games S.A. Capital Group for the financial year ended on 31 December 2019:

- was prepared in accordance with Article 49 of the Accounting Act and section 70 of the Regulation on Current and Periodic Information,
- the information presented therein is consistent with information in the audited annual consolidated financial statements.

In the light of the knowledge of the Group and its environment obtained during the course of the audit, we have not identified material misstatements in the report on the Group's operations.

Opinion on the Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit of the annual consolidated financial statements:

- the corporate governance statement includes, the information specified in section 70(6)(5) of the Regulation on Current and Periodic Information,
- the information specified in section 70(6)(5) c)-f), h) and i) of this Regulation and included in the statement is consistent with applicable law and the information in the audited annual financial statements.



Other information and findings required under Regulation 537/2014

Consistency of the opinion on the annual consolidated financial statements with the additional report to the audit committee

Our opinion on the annual consolidated financial statements is consistent with the additional report to the Audit Committee referred to in Regulation 537/2014.

Appointment of the audit firm and the period of total uninterrupted engagement

We were appointed for the first time to audit the annual consolidated financial statements of the Group as a public interest entity under a resolution of Supervisory Board of Ten Square Games S.A. dated 17 May 2019.

The audit of the Company's annual consolidated financial statements for 2019 is the first-year audit for the purpose of determining the period of total uninterrupted engagement as defined by Article 17 of Regulation 537/2014.

We have also audited annual consolidated financial statements for 2017 and 2018 based on resolution of the Extraordinary General Meeting of Ten Square Games Sp. z o.o. (the legal predecessor of Ten Square Games S.A.) of 21 August 2017.

Non-audit services

To the best of our knowledge and belief, we declare that we did not provide any non-audit services prohibited by Article 5(1) of Regulation 537/2014 during the periods indicated therein.

Digitally signed on the Polish original

Rafał Barycki
Statutory auditor no. 10744

Key Statutory Auditor conducting the audit
on behalf of PKF Consult Spółka z ograniczoną
odpowiedzialnością Sp. k.
the audit firm number 477

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Wrocław, date 23 March 2020

