

Auditor's report

passion

teamwork



quality

clarity

Independent Auditor's report

on the annual
separate financial statements of Ten Square Games S.A.
with its registered office in Wrocław
for the financial year
from 1 January of 2020 to 31 December of 2020



This document is a free translation of the independent auditors' report issued in Polish in electronic format. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation to enhance understanding. The binding Polish original should be referred to in matters of interpretation.

INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL FINANCIAL STATEMENTS

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

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the accompanying annual separate financial statements of Ten Square Games S.A. with its registered office in Wrocław (50-416) at Traugutta Street 45, hereinafter referred to as the "Company", for the financial year from 1 January 2020 to 31 December 2020, which comprise the separate statement of comprehensive income, the separate statement of financial position, the separate statement of changes in equity, the separate statement of cash flows as at and for the financial year ended 31 December 2020, 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 *jednostkowe_sprawozdanie_finansowe.html*, and have been signed with electronic signatures by the Management Board of the Company on 22 March 2021.

The annual 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 financial statements of Ten Square Games S.A:

- give true and fair view of the financial position of the Company as of 31 December 2020, 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 Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (OJ L 143 of 29 May 2019, p. 1), 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 respectively as

well as with provisions of the Company's memorandum that affect its content.

- have been prepared, in all material respects, based on the properly kept accounting records in accordance with the provisions of Chapter 2 of the Accounting Act.

Basis for Opinion

We conducted our audit of the 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 2020, and the Act of 11 May 2017 on Statutory Auditors, Audit Firms and the Public Oversight (Dz.U. [Journal of Laws] of 2020, item 1415, 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 Financial Statements" section of our report.

We are independent of the Company in accordance the International Code of Ethics of Professional Accountants (including the International Independence Standards, 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 (issues), including material risks of misstatement 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 financial statements of the current period. They are determined from:

- areas of higher assessed risk of material misstatement,
- significant risks,
- significant auditor judgments relating to areas in the financial statements that involved significant management judgments,
- 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.

Key audit matter: Revenue from in-application purchases of virtual items

Was the key audit matter a most significant assessed risks of material misstatements: YES

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 banknotes and pearls), virtual goods (durables e.g. fishing rods and baits) and consumable goods (e.g. amplifiers). These goods are made available to the user upon transfer of payment.</p> <p>The above revenue, presented as revenues from micropayments and licences, totalled PLN 574,244 thousand in 2020 and accounted for 99.99% of sales revenue.</p> <p>In accordance with the International Financial Reporting Standard 15 "Revenue from Contracts with Customers", hereinafter IFRS 15, revenue is recognized 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>In 2020, as a result of the changes made to IT systems, the Company's Management Board applied for the first time the model of estimating contract liabilities for performance obligation related to virtual goods utilised by users during the entire period of use of the game. These liabilities are measured based on the estimated average period of use of the game by paying users.</p> <p>The Company applied the change in accounting principles (policy) prospectively i.e. without adjusting comparatives due to the fact that the Management Board assessed that it is impracticable to apply the new accounting principles (policy) for prior periods.</p> <p>The estimated contract liabilities as at the end of 2020 presented in position <i>Liabilities due to contracts with customers</i> amounted to PLN 43,171 thousand.</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 of preparation and accounting policies for the separate financial statements in point 2 <i>Changes</i></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 and its changes in 2020 are 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 analyzed the assumptions and methodology adopted by the Company to estimate contract liabilities.</p> <p>We have conducted a benchmarking analysis of the accounting policies used by similar developers of free-to-play games. We compared the valuation methodology applied and the amounts of contract liabilities.</p> <p>We have checked the mathematical correctness of the model for estimating contract liabilities and we have reconciled the amounts presented in the financial statements with the amounts resulting from this model.</p> <p>We have performed 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 revenues.</p> <p>We have analyzed sales trend to identify the reasons why revenue changed month-to-month.</p> <p>We have reviewed disclosures relating to revenue from in - application purchases of virtual items and to prospective application of the changes in accounting policy, and we evaluated whether they are adequate in light of requirements of IFRS 15 and IAS 8 "Accounting policies, changes in accounting estimates and errors".</p>



in accounting principles (policy) and in subsections 3.1 Revenue and operating costs and 3.15 Significant values based on professional judgment and estimates.

Detailed information on this revenue is presented in point 2 Sale revenue of Additional notes and explanations to the separate financial statements.

Other information included in the annual report

Other information comprises the financial and non-financial information included in the annual report, other than the financial statements or the audit report thereon. Other information comprises inter alia the management report for the year ended on 31 December 2020 along with the corporate governance statement referred to in Article 49(2a) of the Accounting Act, which is separate parts of the management report.

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

Our opinion on the 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 the character of our assurance are exclusively as we have described.

In connection with the audit of the financial statements, in accordance with the National Standards on Auditing, we are obliged to read other information while conducting the audit, examine whether the other information is not materially inconsistent with the 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 been provided with the management report and the corporate governance statement before the date of this audit report and the annual report will be available after this date. If we find any material misstatement in the annual report, we are obliged to notify thereof the Company's Supervisory Board.

Responsibilities of the Management Board and the Supervisory Board for the financial statements

The Management Board of the Company is responsible for the preparation of the annual financial statements that give true and fair view in accordance with IFRS EU, their compliance with applicable laws and regulations and the Company's memorandum, as well as for keeping the accounting records in accordance with the Accounting Act.

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

In preparing financial statements, the Management Board is responsible for assessing the Company'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 the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board members are responsible for overseeing the financial reporting process.

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

Statutory Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance as to whether the 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 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 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 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 Company's internal control;
- evaluate the appropriateness of accounting principles (policies) used and the reasonableness of accounting estimates and related disclosures made by the Company's Management Board;
- conclude on the appropriateness of use by the 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 Company'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 financial statements or, if such disclosures are inadequate, to modify our opinion about the 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 Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events accurately.

We communicate with the Supervisory Board and the Audit Committee 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 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 Company nor the efficiency nor effectiveness with which the Company's Management Board has conducted or will conduct the affairs of the Company.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the 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 financial statements comply, as to their form and content, with applicable laws as well as the Company's memorandum and whether they have been prepared based on the properly kept accounting records. We report on these matters based on the work undertaken in the course of the audit.

Report on Other Legal and Regulatory Requirements

The management report

The management report and the consolidated management report have been prepared as a single document in electronic format as a file entitled *sprawozdanie_zarzadu_z_dzialalnosci.xhtml*, signed

with electronic signatures by the Management Board of the Company on 22 March 2021.

Responsibilities of the Management Board and the Supervisory Board

The Management Board of the Company is responsible for preparation of the management report in compliance with the law. The Management Board of the Company and members of the Supervisory Board are required to ensure that the management report complies 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 management report has been prepared in accordance with the Accounting Act and whether it is consistent with the information included in the annual financial statements.

Furthermore, we are also required to state, whether, in the light of the knowledge of the Company and its environment obtained during the course of the audit, we have not identified material misstatements in the 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 management report, includes certain information enlisted in the Regulation on Current and Periodic Information, and with reference to certain information enlisted in this Regulation, whether it complies with applicable law and the information included in the annual financial statements.

We have read the 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 financial statements. With reference to certain information included in the corporate governance statement, we have examined whether it complies with the law. Reading the management report we also considered whether, in the light of our knowledge and understanding of the Company and its environment, it does not include material misstatements.

Opinion on the management report

In our opinion, based on the work undertaken in the course of the audit of the annual financial statements, the accompanying management report of Ten Square Games S.A. for the financial year ended on 31 December 2020:

- has been 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 the information in the audited financial statements.

In the light of the knowledge of the Company and its environment obtained during the course of the audit, we have not identified material misstatements in the management report.



Opinion on the Corporate Governance Statement

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

Other information and statements required under Regulation 537/2014

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

Our opinion on the annual 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 financial statements of the Company as the 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 separate financial statements for 2020 is the second-year audit for the purpose of determining the period of total uninterrupted engagement as defined by Article 17 of Regulation 537/2014.

We also audited annual 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.) dated 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 which are prohibited under the provisions of Article 5(1) of Regulation 537/2014 during the periods indicated therein.

Digitally signed on the Polish original

Jolanta Sękowska
Statutory auditor no. 12749

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

ul. Orzycka 6 lok. 1B
02-695 Warszawa
Wrocław Branch

Wrocław, date 22 March 2021

