

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 2022 to 31 December 2022



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 2022 to 31 December 2022, which comprise the separate statement of comprehensive income, the separate statement of financial position as of 31 December 2022, the separate statement of changes in equity and the separate statement of cash flows prepared respectively as of 31 December 2022 and for the financial year then ended and related notes including accounting principles (policies) and other notes and explanatory information to the separate financial statements.

The financial statements have been prepared in an electronic format as a file entitled *TSG_JSF_2022-12-31_pl.xhtml* and have been signed with electronic signatures by the Management Board of the Company on 28 March 2023.

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 2022, 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, hereinafter referred to as the "Accounting Act", IFRS EU 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 2022, and the Act of 11 May 2017 on Statutory Auditors, Audit Firms and the Public Oversight, 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 with the International Code of Ethics of Professional Accountants (including the International Independence Standards, hereinafter referred to as the "IESBA 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 IESBA 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,



- 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.

Key audit matter/Material risk: Revenue from in-application purchase 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 491,017 thousand in 2022 and accounted for 98,2% 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>The Company's management makes an estimate of the Company's performance obligations for game users' use of virtual durable goods throughout the entire period of using the game. These liabilities are accounted for over the estimated average playing period of the paying users.</p> <p>The estimated contract liabilities as at the end of 2021 presented in position <i>Contract liabilities</i> amounted to PLN 67,286 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 3 <i>Description of the adopted accounting principles (policy)</i> and in subsections 3.1 <i>Revenue and operating costs</i> and 3.16 <i>Significant values based on professional judgment and estimates</i>.</p> <p>Detailed information on this revenue is presented in point 1 <i>Sale revenue</i> of Additional notes and explanations to the separate financial statements.</p>	<p>We have gained an understanding of the accounting principles applicable in the Company in the scope of recognition and method of measurement of revenues and we have confirmed the continuity of their application.</p> <p>We have evaluated whether the revenue recognition policy is compliant with IFRS 15.</p> <p>We gained an understanding of the game scenarios offering micropayments and the process of recognizing sales revenues.</p> <p>We got familiarized with the terms of cooperation with payment aggregators, mobile stores and licensees (intermediaries) resulting from the general terms and conditions or signed contracts, 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 obligations arising from in-application purchases of virtual items and we have confirmed their continued use.</p> <p>We have analyzed and assessed the assumptions and methodologies adopted by the Company to estimate contractual obligations with customers. We confirmed the batch data in the model and its completeness.</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 we evaluated whether they are adequate in light of requirements of IFRS 15.</p>

Key audit matter: Impairment of intangible assets not yet available for use



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>As at 31 December 2022, the value of intangible assets relating to games not yet available for use presented in the annual separate statement of financial position as intangible assets under construction amounts to PLN 21,606 thousand.</p> <p>In accordance with IAS 36 'Impairment of Assets', at the end of each reporting period, the Company's management performs impairment tests on these assets, regardless of whether there are indications of impairment.</p> <p>The impairment tests involve elements of estimation and judgement, in particular regarding assumptions about the development of future cash flows and the calculation of the discount rate included in the discounted cash flow models underlying the impairment charges.</p> <p>Given the risk of uncertainty associated with the significant judgements and estimates made by Management and the material value of the balance sheet items, we considered this to be a key audit matter for us.</p> <p>Detailed figures for intangible assets under construction and the disclosures and assumptions for impairment testing are presented in section 9 <i>Intangible assets</i> of the notes to the separate statement of financial position.</p>	<p>We familiarised ourselves with the applicable accounting rules for the valuation of intangible assets under construction and the rules for testing them for impairment and we assessed their compliance with the relevant financial reporting standards.</p> <p>We obtained an understanding of the process for preparing impairment tests, including in particular the internal controls in place at the Company in relation to them and the methodology for selecting comparable intangible assets as the basis for the assumptions used to prepare the forecasts.</p> <p>We assessed whether the assumptions used in the valuation model for intangible assets under construction as at 31 December 2022 are reasonable and based on macroeconomic and comparable market data. In particular, we assessed the financial projection assumptions adopted by the Company's Management Board with respect to revenue, costs and cash flows and the calculation of the weighted average cost of capital.</p> <p>We verified the mathematical correctness of the discounted cash flow model.</p> <p>We assessed the adequacy of the disclosures regarding the impairment testing of intangible assets under construction in the annual separate financial statements.</p>

Key audit matter: Correctness of income tax calculation and recognition

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>Ten Square Games S.A. as a company that conducts research and development activities and derives income from qualified property rights, is entitled to apply a preferential income tax rate and benefit from the IP-BOX relief.</p> <p>In order to benefit from the IP BOX relief, the Company divides its tax income into income from qualified property rights and other sources and calculates the nexus ratio in accordance with the rules set out in the Corporate Income Tax Act.</p> <p>From 2022 onwards, the Company changed the qualification of costs for the nexus ratio and thus expanded the use of the relief and increased the value of income taxed at the preferential 5% rate. As a result of these actions, corrections to the CIT tax returns for 2019-2021 were filed. The Head of Customs and Taxation initiated a tax audit for 2020, which is related to the filed correction. Following the principle of prudence, the Company did not disclose income tax receivables for 2019-2021 in the annual separate statement of financial position.</p> <p>Given the risk of uncertainty of the resolution of the customs and tax audit related to the change in the Parent Company's approach to accounting for income tax and the possible material impact on the consolidated financial statements, we considered this issue to be a key audit matter.</p> <p>The principles relating to the calculation of income tax and the uncertainties associated therewith are described in section 3</p>	<p>We have reviewed the Company's accounting policies for the recognition and calculation of income tax.</p> <p>We have reviewed the Management Board's rationale for the wider application of the relief, including the Company's tax opinion and tax interpretations, which in the Management Board's opinion support the approach taken.</p> <p>We performed a detailed analysis of the calculation of the IP BOX and R&D relief for 2022, including in particular the split of income between qualified property rights income and other sources and the correctness of the calculation of the nexus ratio.</p> <p>We assessed the adequacy of the disclosures regarding the approach to income tax calculations and the recognition of assets arising from complex CIT adjustments for 2019-2021 in relation to the wider application of the relief in the annual separate financial statements.</p>



Description of accounting policies adopted in subsection 3.3 Income taxes of the consolidated financial statements.

Detailed numerical information on current tax and disclosures in respect of the changes in the Parent Company's approach are presented in section 5 *Income tax and deferred tax* in the notes to the consolidated 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 report on the management report for the year ended on 31 December 2022 along with the corporate governance statement referred to in Article 49(2a) of the Accounting Act.

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 nothing to report with this regard.

We had been provided with the report on the management report 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 *TSG_SDZ_2022-12-31_pl.xhtml* signed with electronic

signatures by the Management Board of the Company on 28 March 2023.

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 2022:

- 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 to audit the annual financial statements of the Company under a resolution of Supervisory Board of Ten Square Games S.A. dated 18 May 2022. We have been engaged to audit financial statements of the Company, as a public interest entity, including previous renewals and reappointments, for a period of 4 subsequent years.

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.

Other Information

The key statutory auditor countersigned the audited financial statements referred to in the "Report on the Audit of the Financial Statements" section. This audit report relates only to the financial statements and the management report provided with such countersignature.

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

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Wrocław, date 28 March 2023

